BUSINESSEUROPE

REFORM BAROMETER 2021

ENSURING NATIONAL RECOVERY AND RESILIENCE PLANS DELIVER INVESTMENT AND REFORM

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WHO ARE WE?

BusinessEurope is the leading advocate for growth and competitiveness at the European level, standing up for companies across the continent and campaigning on the issues that most influence their performance.

A recognised social partner, we speak for around 20 million enterprises of all sizes in 35 European countries whose national business federations are our direct members.

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FOREWORD

The last 12 months have seen societies across the globe face unprecedented challenges as the COVID-19 virus has unleashed its deadly force. Whilst our thoughts are with the millions of people who have lost loved ones, we are also taking pride in the response of millions of firms and their workers across the EU who have adapted to the pandemic in many ways; from the re-engineering of manufacturing facilities to produce ventilators and protective equipment, to the switch to online delivery models, as well as the rapid development and deployment of life-saving vaccines.

Policymakers have also shown their ability to innovate and adapt during this challenging time. At Member State level we have seen the rapid provision of loans and support schemes to ensure viable businesses can survive the crisis with the millions of jobs they provide safeguarded. And at EU level, leaders came together in July 2021 to agree the historic €750 billion NextGenerationEU recovery instrument, based on common borrowing, to ensure all Member States have the means to rebuild and restructure their economies after this unprecedented crisis.

It is imperative that the EU now makes the most out of this once-in-a-generation opportunity afforded by the NextGenerationEU instrument to transform our economies by boosting productivity, growth, competitiveness and the green and digital transitions.

This report draws on the expertise of our network of leading national business federations across Europe to analyse the National Recovery and Resilience plans prepared by Member States, setting out how they plan to invest the €672.5 billion in grants and loans available directly through the recovery instrument. The message from our members is clear: the Member States' plans have many positive aspects, but if we are to fully exploit the potential of the funds, there must be a greater focus on investments that can drive long-term competitiveness, particularly research and innovation, as well as more ambitious growth-enhancing reforms.

In the coming weeks the European Commission, Council and Parliament will all have the opportunity to comment on, and improve the plans, before final approval is sought, and the plans are hopefully put into action in the summer. We encourage policymakers to take up the detailed recommendations set out in this report to help ensure we make the most of this unique opportunity.

As social partners, our members have been available to help Member States prepare the national plans, offering our recommendations and advice on which projects and reforms can be most effective in strengthening our economy. Whilst the need to develop plans as rapidly as possible has meant that governments have not always been able to engage with social partners as deeply as we would have hoped, as we move to the implementation of the plans, our members can play a central role in providing the guidance that will be essential to making a success of the plans and helping develop a more prosperous EU economy.

Pierre Gattaz
President

Markus J. Beyrer
Director General

EXECUTIVE SUMMARY

THE EU ECONOMY OVER THE LAST 12 MONTHS

- The EU economy has undergone the deepest fall in economic output since the Great Depression due to the COVID-19 pandemic, with the impact even more severe than in other large economies. In particular, the EU economy fell by 6.3% in 2020, compared to 3.5% in the US and an increase of 2.3 % in China, and is set to bounce back more slowly.

- Our member federations are generally positive about the supportive measures taken at national level and EU level, but they believe stronger and faster EU action was required to preserve the effective operation of the single market, regarding the free flow of goods, people and services.

- There is a risk that Europe will fall behind economically as a result of the pandemic. As the overall macro-economic response across the EU is likely to have been somewhat smaller than that of the US, it will be crucial that we ensure that every euro of the national recovery and resilience plans is used effectively by Member States to leverage reform and higher long-term investment.

KEY FINDINGS: MEMBER FEDERATIONS' ASSESSMENT OF NATIONAL RECOVERY AND RESILIENCE PLANS

- The majority of federations believe their countries' national recovery and resilience plans will have at least a positive impact on long-term growth and job creation, but only 11% of member federations consider that this impact will be either large or very large.

- More than half of the federations consider that their countries' national recovery and resilience plans put insufficient focus on business competitiveness and particularly research, development and innovation.

- Members are more positive about the prospects of governments using the funds to drive investment than to boost growth-enhancing reforms, with many members (47%) feeling that their countries' national recovery and resilience plans lack ambition or commitment regarding reforms.

- A large majority of federations (71%) consider that their involvement in the design of their countries' national recovery and resilience plans was somewhat insufficient to even extremely limited.

KEY POLICY RECOMMENDATIONS

- It is essential that a **premature unwinding of supportive measures to businesses and workers is avoided.**

- Lessons should be drawn from the COVID-19 crisis to ensure that sufficient safeguards are designed and implemented now to permanently **guarantee the free flow of goods, people and services** in the future.

- Increased long-term growth and employment in the EU is dependent upon proper implementation of a wide range of structural reforms. It is essential the EU institutions ensure the national recovery and resilience plans are sufficiently linked to the **implementation of structural country-specific reforms,** as designated under the European Semester.

- Member States should work with the Commission to identify additional reform and investment projects that could further **enhance long-term competitiveness.** There should be in particular a greater focus within the national recovery and resilience plans on **Research, Development and Innovation.**

- In areas where the final national recovery and resilience plans have a limited focus, such as those with a **cross-border dimension,** or where there has not been enough capacity to include promising projects, Member States should ensure they make full use of other EU and national financing instruments to take projects forward.

- Member States should ensure **a closer involvement of social partners** when further designing and implementing the reform plans.

INTRODUCTION

This is a challenging time for European businesses and workers. In 2020, the EU economy underwent the largest drop in economic activity since the Great Depression. While the roll-out of vaccines means we can finally begin to see a way back towards normal times, economic activity remains heavily suppressed as a result of lockdowns and disruptions to value chains.

Getting our economies back on track requires policymakers to fully support the recovery. A key part of this policy response in the EU is the 'NextGenerationEU' recovery instrument with, as its centrepiece, the National Recovery and Resilience Facility, potentially opening up €672.5 billion for grants and loans to Member States.

In order to use the recovery funding allocated to them, each Member State has prepared a national recovery and resilience plan (NRRP) describing how they intend to use the funds and how it complies with the legal requirements (see box 1 for further details on the fund). The submitted NRRPs are thus fundamental to ensuring the recovery funding is well spent on projects that will help boost growth, productivity and competitiveness, and the green and digital transitions.

This report offers the view of European business on the NRRPs, and lays out the recommendations for policymakers to better ensure we seize the full opportunity awarded by the historic recovery plan.

- In the first chapter of this report, we first analyse the impact on the economy of the past 12 months and, as in the spirit of our previous reform barometers, we consider how the EU economy has responded to such challenges in comparison to other major economies.

- In the second chapter, we present the views of our network of leading business federations across Europe, assessing both the policy response to the pandemic and the draft NRRPs that Member States have presented to the Commission for assessment and ultimately approval by the Council.

Based on this analysis, we put forward our policy recommendations for decision-makers. In particular, we focus on how to improve the draft NRRPs during the present assessment period by the EU institutions, before the plans are approved by the Council.

01 ECONOMIC RECOVERY FROM THE COVID-19 PANDEMIC: THE IMPORTANCE OF THE NATIONAL RECOVERY AND RESILIENCE PLANS

THE EU ECONOMY WAS RELATIVELY STRONGLY HIT BY THE PANDEMIC

The EU economy has in 2020 undergone the deepest falls in economic output since the Great Depression due to the COVID-19 pandemic. Whilst this has truly been a global pandemic, as shown in table 1, **the impact on the EU economy of the COVID-19 pandemic has been considerably more severe than for other large economies.** In particular, the EU economy fell by 6.3% in 2020, compared to 3.5% in the US and an increase of 2.3 % in China, and is set to bounce back much slower with only 4.2% growth expected this year in the EU, as opposed to 6.4% in the US and 8.4% in China.

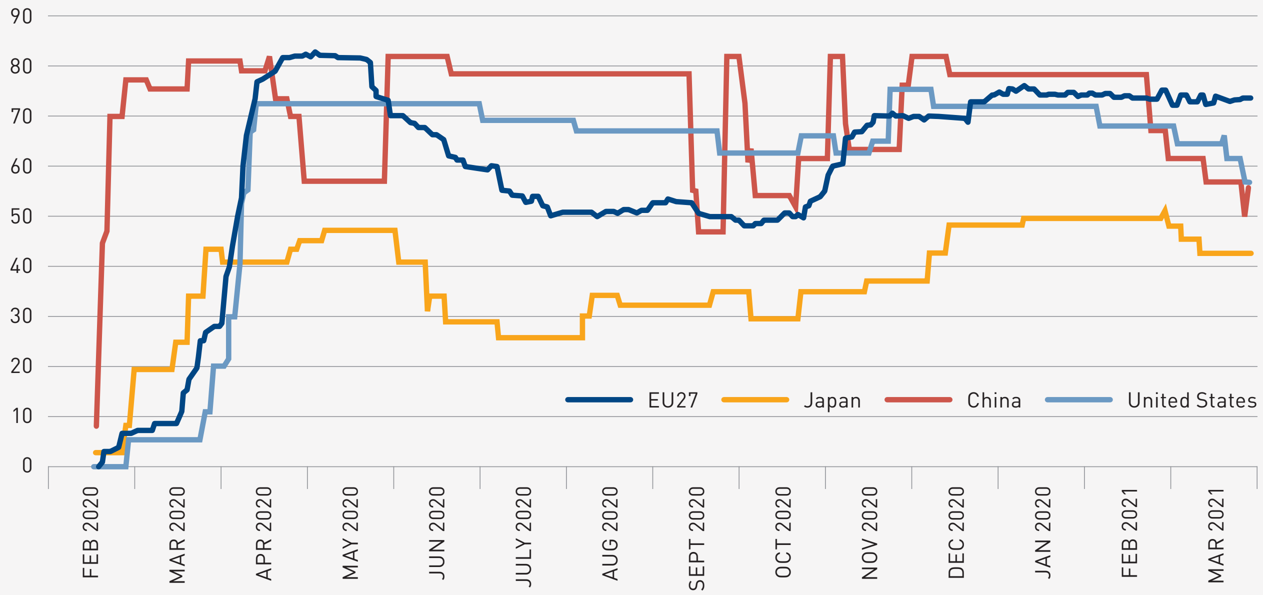
TABLE 1 Real GDP growth

	2020	2021f	2022f
China	2.3%	8.4%	5.6%
Japan	-4.8%	3.3%	2.5%
United States	-3.5%	6.4%	3.5%
EU	-6.3%	4.2%	4.4%

IMF and European Commission, f: forecast, note EU forecasts do not fully capture the Recovery and Resilience Facility spending

This divergence represents a number of factors, in particular non-economic variables relating to the pandemic itself, including the strictness of the measures implemented to stop the spread of the virus and how soon vaccinations allow for gradual easing of lockdowns. As graph 1 shows, **whilst China and the US have begun easing several months ago, the EU Member States have only recently followed suit, putting us further behind economically.**

GRAPH 1 Strictness of COVID-19 restrictions



Own calculations based on Oxford. GDP weighted for EU

BOTH TRADE OUTSIDE THE EU AND WITHIN THE EU WAS DISRUPTED BY THE PANDEMIC

The EU is a very open economic bloc and was severely affected when supply chain disruptions and a global drop in demand caused world trade to contract last year. Following a 9% drop in 2020, total EU exports are expected to remain 1% below the pre-covid level this year.

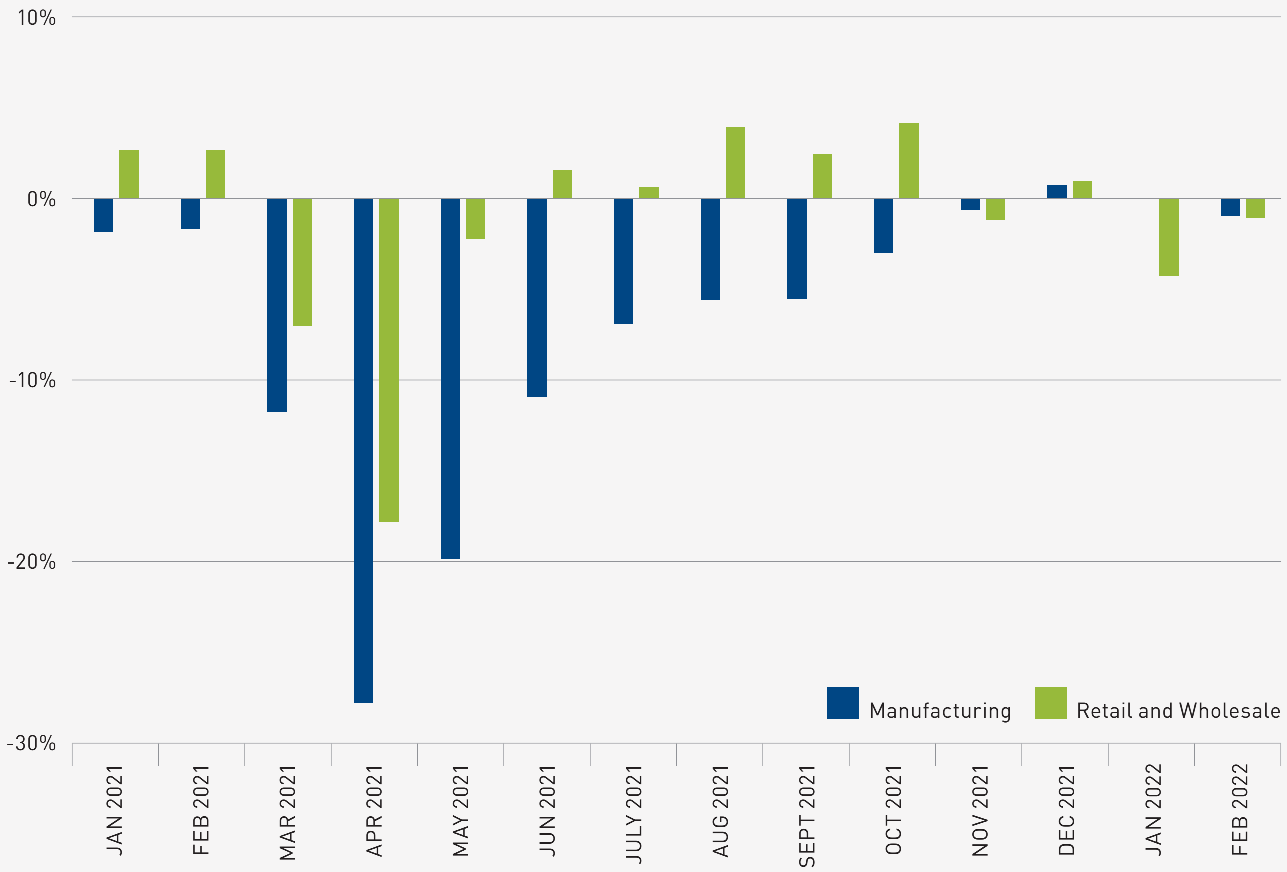
Despite a gradual resumption of world trade, with our larger trading partners recuperating faster than Europe, exports alone will not be enough to return the EU economy to pre-crisis levels.

But it is also the case that **intra-EU trade witnessed a larger decline (-12% in 2020) than extra-EU exports (-10%).** While partially reflecting composition effects (i.e. the nature of the types of goods that are traded, including how vulnerable they are to disruptions and business cycle swings), this does suggest that increased barriers and disruptions of the single market, at least at the height of the pandemic, impacted on economic activity.

EFFECTIVE IMPLEMENTATION OF THE RECOVERY AND RESILIENCE FACILITY WILL BE ESSENTIAL FOR EUROPE'S ECONOMIC RECOVERY

While the US is emerging from the pandemic with what appears to be a very strong recovery, the most recent EU manufacturing output and retail/wholesale trade data suggests that **we are still operating slightly below pre-pandemic levels** (see graph 2 below), with indications that both our industry and domestic consumption remain suppressed.

GRAPH 2 **Production in manufacturing and sales in wholesale/retail trade, % change from same month previous year**



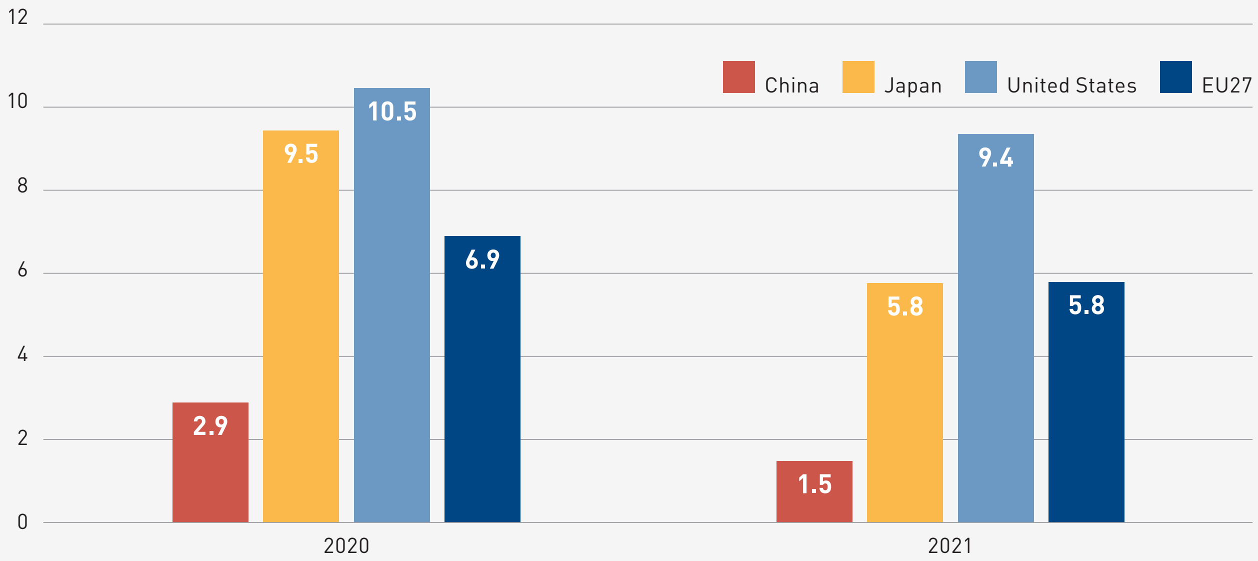
Own calculations, Eurostat

Despite having recovered in recent months, consumer confidence remains below the pre-covid level. As long as that is the case, domestic consumption will likely struggle to make a full recovery.

Part of this more sluggish recovery clearly relates to slower initial vaccination rates. Nevertheless, there is a risk that Europe will fall behind economically as a result of the pandemic, mirroring the Great Recession where the EU Member States also experienced a more prolonged period of negative and low growth than e.g. the US.

In terms of macro-economic stimulus, comparisons are difficult and inexact, but as graph 3 suggests, there appears to have been less additional stimulus in the EU (estimated 6.9%) in 2020 compared to the US (10.5%), although the EU figures for 2021 are likely to be boosted once the full extent of the grant and loans undertaken under the Recovery and Resilience Facility (RRF) are fully known and taken into account[1].

GRAPH 3 **Size of stimulus: General government expenditure as % of GDP, Percentage points change from the pre-pandemic (i.e. 2019) level**



Own calculations based on IMF and own calculations. 2021 and 2022 figures are IMF forecasts.
Note: the figures show total general government expenditure and thus include automatic stabilizers as well as discretionary spending. EU27 figures are excluding the NextGenerationEU which will consist of €750 bn over a 2021-26 period, corresponding to potentially around 4-5% of GDP if all loans are taken up.

In conclusion, the roll-out of vaccinations is now allowing the EU to gradually ease lockdowns and resume normal economic activity. But policymakers will need to do their utmost to continue to support our economies and strengthen the economic rebound through these challenging times. With a lower overall stimulus than the US, it will be crucial that we ensure that every euro of the NRRPs is used effectively by Member States to leverage reform and higher long-term investment. Illustrating the potential that the national plans must seek to unlock, President Lagarde of the European Central Bank (ECB) has highlighted that, if used to increase productive public investments, NextGenerationEU funds could increase real output in the Euro-area by around 1.5% over the medium term[2].

1 The EU stimulus has been estimated to currently correspond to roughly half of the EU's output gap, whereas the US stimulus exceeds the output gap (output gaps are a measure of how far an economy is from utilization of its economic potential, see UniCredit February 2021 https://www.research.unicredit.eu/DocsKey/economics_docs_2021_179203.ashx?M=D&R=86563247
2 Speech by Christine Lagarde, President of the ECB, at the opening plenary session of the European Parliamentary Week 2021 in virtual format, *Frankfurt am Main, 22 February 2021*, https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210222~baf3d08a02.en.html

WHAT ARE THE NATIONAL RECOVERY AND RESILIENCE PLANS?

The European Council consisting of the EU heads of government reached a political agreement in July 2020 to establish a €750 bn recovery plan dubbed "NextGenerationEU" to mitigate the impact of the COVID-19 crisis on the European economies.

Its largest component, the Recovery and Resilience Facility, was established in an EU regulation adopted in February 2021. It consists of €312.5 bn grants allocated to Member States following an allocation key that takes into account population size, GDP and employment situation. Countries can additionally request loans, with a total of €360 bn available through the Recovery and resilience Facility.

In order to access funding from the Recovery and Resilience Facility, **Member States are required to put forward national recovery and resilience plans.** The plans must describe how the money will be spent and must correspond to the requirements of the regulation establishing the facility. The European Commission will assess the plans to ensure compliance.

The national recovery and resilience plans would "as a rule" be submitted by April 30. At this tentative deadline only half the Member States had submitted their plans, with the rest expected in May or early June. At the time of writing, 21 Member States have submitted final plans.

The regulation stipulates 11 **assessment criteria** for the national recovery and resilience plans, most notably that at least 37% must be allocated to green investments, 20% to digital investments, and "contribute to effectively addressing all or a significant subset of challenges identified in the relevant country-specific recommendations" of the European Semester (see official regulation for a full overview of criteria and the specific scoring system used).

If successfully adopted, the Commission will, if requested, pay out 13% as pre-financing within two months. The rest of the funding will be paid out stepwise in tranches, with each tranche being conditional on the Member State achieving specific milestones or targets that are established in the national recovery and resilience plans for each component.

Measures started from 1 February 2020 onwards are eligible, provided they comply with the requirements in the regulation. 70% of the total amount available should be legally committed by Member States by 31 December 2022, and 30% between January 1 2023 and 31 December 2023.

COVID-19 RESPONSE AND NEXTGENERATIONEU - ASSESSMENT BY BUSINESSEUROPE MEMBER FEDERATIONS

02

As the previous chapter of this report has demonstrated, the NextGenerationEU instrument and its main component, the Recovery and Resilience Facility (RRF), offers a once-in-a-lifetime opportunity to transform our economies, bring structural reforms forward and take important steps towards both greening and digitalising our economies.

Against that background, this chapter analyses the results of a survey of BusinessEurope's member federations on the Member States' and the EU's response to the COVID-19 pandemic, and in particular on countries' National Recovery and Resilience Plans (NRRPs)[3]. Federations were asked to comment on their respective countries' NRRPs and consider to what extent the plans will bring real additional investment, competitiveness, productivity, improvements in green and digital capacity as well as further reforms that can bring growth and support employment, long-after the funds have been spent.

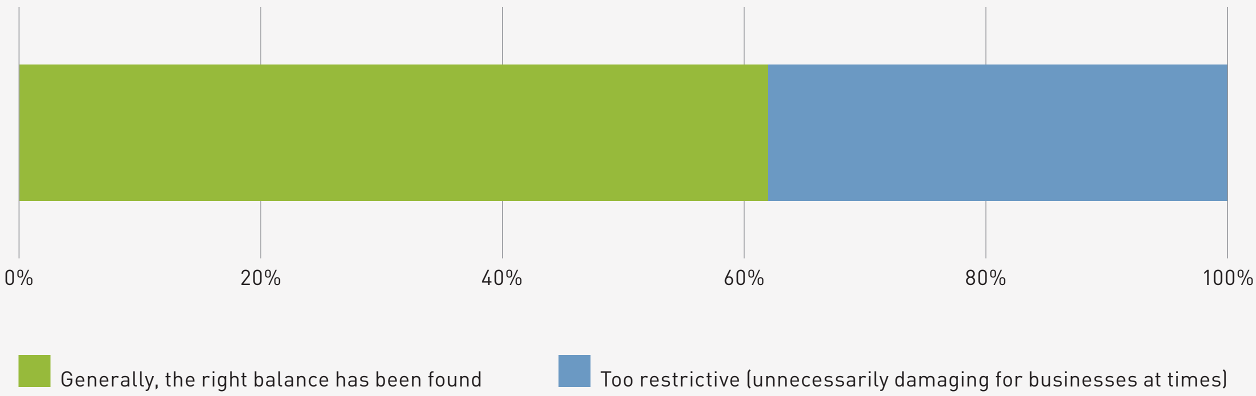
Our survey's responses on the different NRRPs cover around 90% of eligible grants from the RRF. Detailed answers by member federations on individual NRRPs can be found on BusinessEurope's website[4].

ASSESSMENT OF MEMBER STATES' RESPONSE TO THE CRISIS

Our survey first asked federations to assess their government's response to the crisis. Overall the responses from member federations show that they recognise the difficult challenges their governments faced as a result of the COVID-19 outbreak and, in controlling the virus, maintaining short-term economy activity, and supporting long-run economic capacity.

Perhaps reflecting the fact that as noted in chapter 1, restrictions in EU Member States have often been stronger than in other countries, a significant number (36%) of members felt that some of the measures to stop the spread of the pandemic had been unnecessarily restrictive on businesses at times, although the majority (64%) thought that the right balance was found.

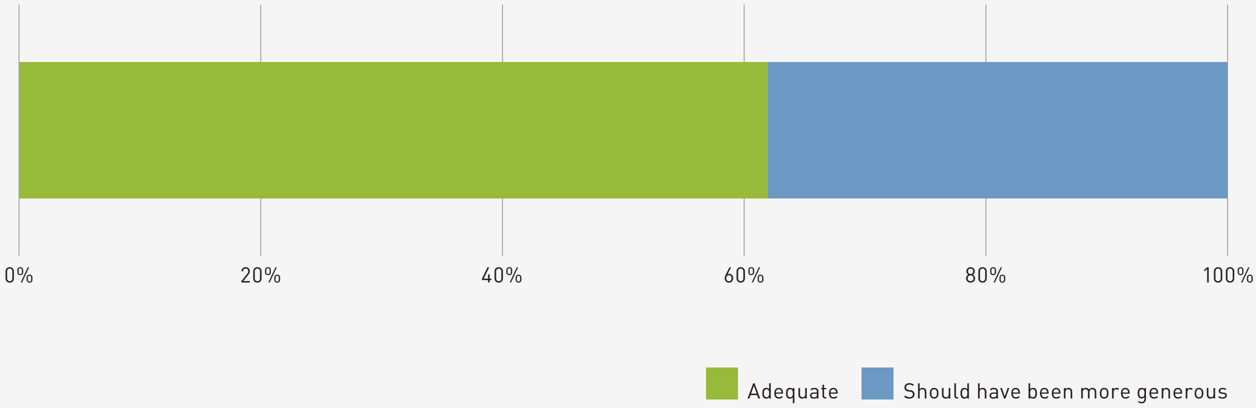
GRAPH 4 **Do you consider the restrictions on businesses to reduce the spread of the virus in your country to have been appropriate or not appropriate?**[5]



3 When Member States had not yet sent in their reform plans by mid-May, member federations' assessments were based on the last publicly available draft reform plan (this is the case for Bulgaria, Czech Republic, Estonia, Finland and Sweden).
4 https://www.businesseurope.eu/publications/businesseurope-reform-barometer-2021-ensuring-national-recovery-and-resilience-plans
5 Respondents were given multiple answer-options in the survey, all of which may not be displayed in the graphs. We only show those answers which were picked by at least one respondent, unless noted otherwise. The full questionnaire can be found on BusinessEurope's website.

A majority (62%) of federations also thought that support to viable businesses throughout the pandemic, for example through the various short-time working schemes, liquidity support and tax holidays that have been put in place, had been appropriate, although some federations believe this should have been more extensive. Nevertheless, it will be important that such support is not unwound prematurely as economic restrictions are being gradually removed.

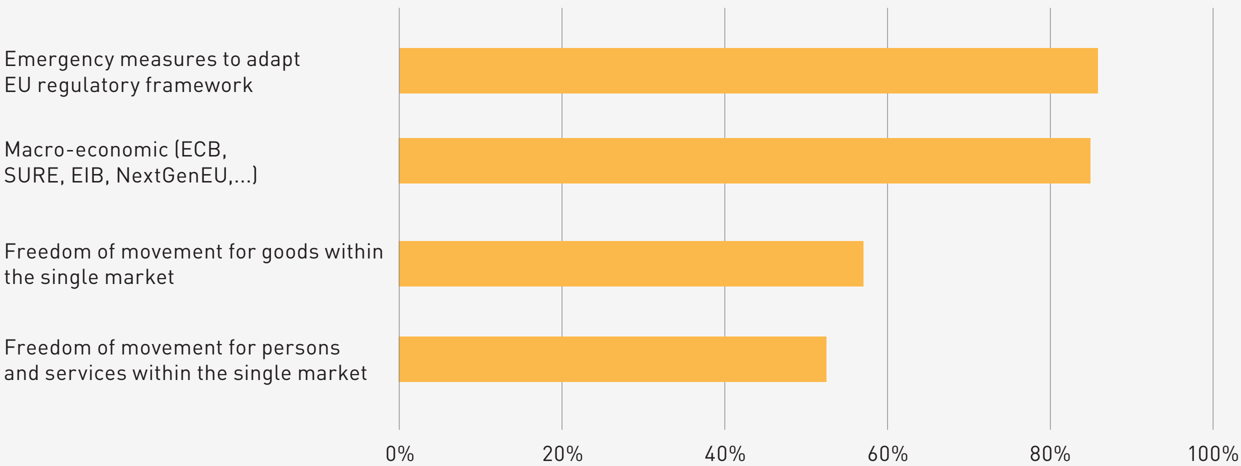
GRAPH 5 **To what extent do you think support to viable businesses from your government has been appropriate during the last 12 months?**



EU RESPONSE TO THE CRISIS

We also surveyed members about the EU response to the crisis. **Members were most positive about the emergency measures taken by the EU,** for example, by allowing maximum flexibility in the application of fiscal rules, temporarily loosening relevant EU regulations, postponing the implementation of certain directives, increasing the flexibility of state aid rules, as well as temporary changes to VAT rules to simplify the importation of testing kits, protective equipment, etc. Such measures were important in providing businesses with added breathing space to focus on the more direct challenges of the crisis.

GRAPH 6 **Do you consider the EU's response in the following areas was sufficient / appropriate?** (% of members who answered 'Yes')

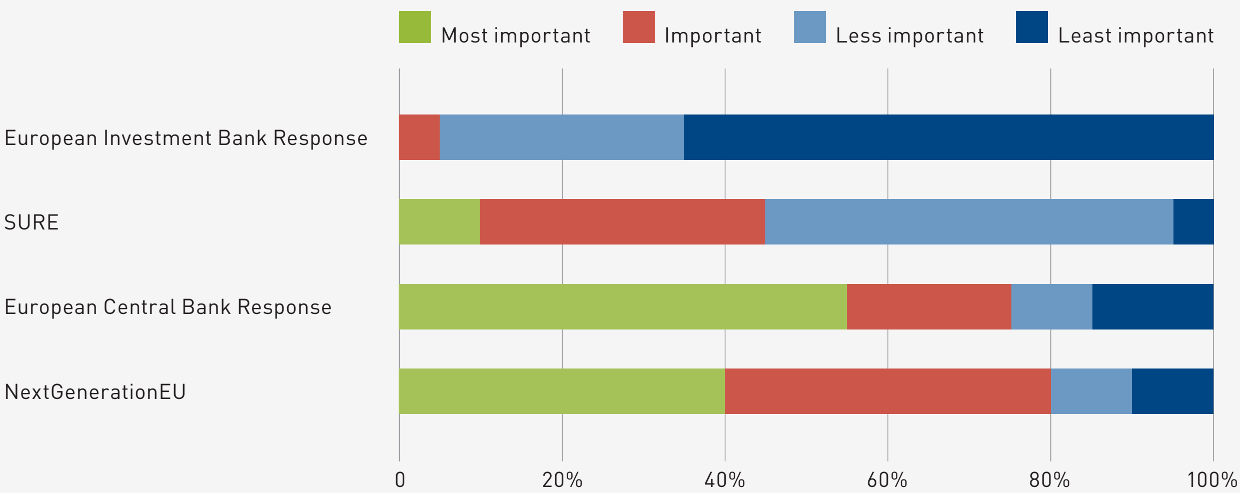


But members also believe **stronger and faster EU action was required to preserve the effective operation of the single market, regarding the free flow of goods, people and services.** As the pandemic spread throughout Europe, several Member States closed their borders or imposed strict border checks, which often led to long waiting times and serious disruptions to industries' supply chains. These border closures were often not coordinated with neighboring Member States. Although the EU adopted a system of Green Lanes to alleviate the most harmful impact, our members' responses show the EU needs to go further in safeguarding the single market in such circumstances. We have therefore welcomed in the Commission's May 2021 Industrial Strategy the idea for a Single Market Emergency Instrument to avoid disruptions to the free movement of goods and services in possible future crises.

More broadly, it will be important that the EU works with Member States to develop resilience to future pandemics, reducing both the prospect of them developing in the first place, and improving our capacity to cope with them in the event they do develop. Such work needs to draw on the innovative solutions developed through the pandemic by both businesses and governments.

Whilst as shown in chapter 1, **the overall macro-economic response across the EU** is likely to have been somewhat smaller than that of the US, a large majority of members (85%) believes that overall macro-economic response at EU level was appropriate. As shown in graph 7, members believe the ECB's actions (such as the Pandemic Emergency Purchase Programme; PEPP) and the NextGenerationEU Instrument (if implemented efficiently) have been the most important elements of the overall macro-economic response.

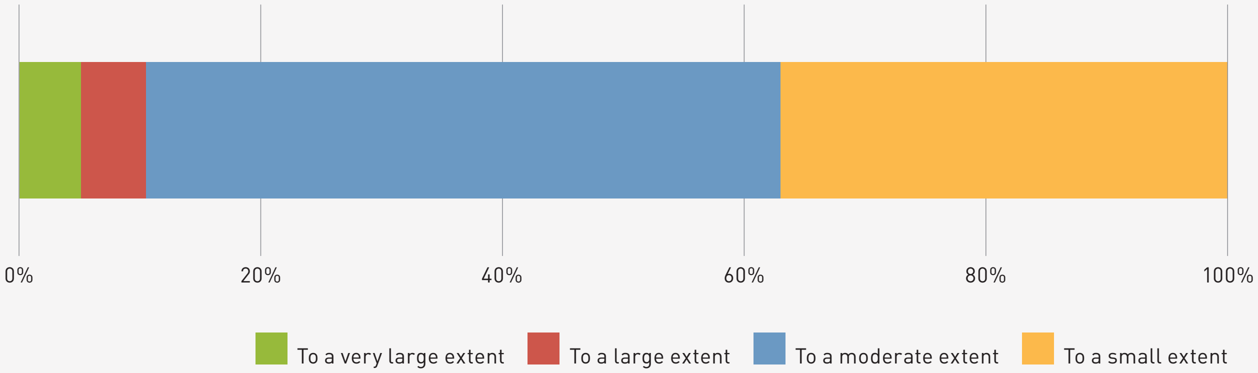
GRAPH 7 **How would you rank in order of importance to the overall EU economy the following elements of the EU's macro-economic response?**



NATIONAL RECOVERY AND RESILIENCE PLANS (NRRPS)

Members' overall assessment of the NRRPs is that they will provide an important boost to the recovery but could generally **do more to fully exploit the once-in-a-generation opportunity to boost long-term growth that the EU's fund represents.** Whilst around two-thirds of federations believe their countries' NRRPs will have at least a moderate impact on long-term growth and job creation, only 11% of member federations believe that this impact will be either large or very large.

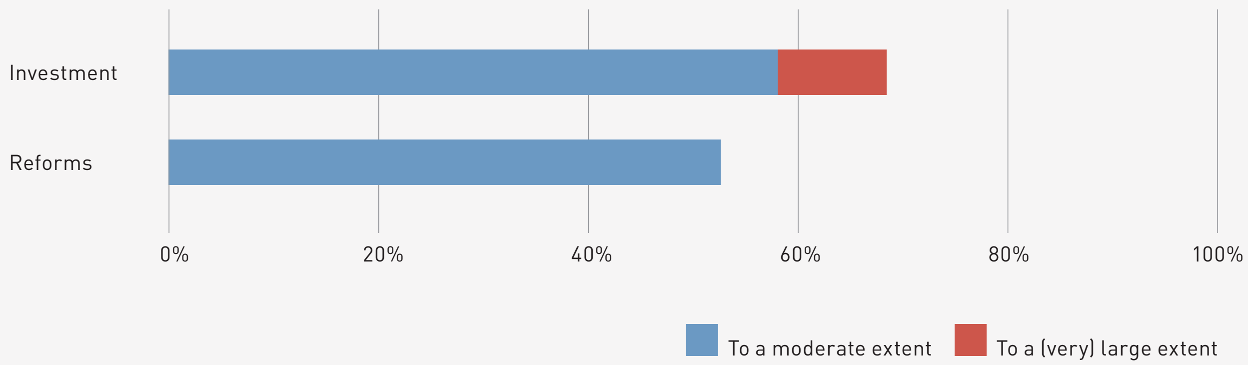
GRAPH 8 **To what extent do you believe your country's national recovery and resilience plan makes best use of the funds available to help boost the recovery and help long-term growth and job creation?**



Looking in more depth (graph 9), members are more positive about the prospects of governments using the funds to drive investment than to boost growth-enhancing reforms, with many members (47%) feeling that their countries' NRRPs lack ambition or commitment regarding reforms.

Whilst the plans will provide an important boost to investment, generating the investment needs to improve long-term growth - as well as meeting the needs of the digital and green transitions - will require the mobilisation of increased private investment. Key to this will be structural reforms to improve the flexibility of labour markets, better manage future pension burdens and improve the efficiency of the public sector. It is therefore essential that prior to approving the plans, the European Commission, the European Parliament and the Council ensure that the expenditure foreseen in the NextGenerationEU instrument is sufficiently linked to the **implementation of long-term country-specific structural reforms.**

GRAPH 9 **Do you agree that your country's national recovery and resilience plan will make the best use of funds available to deliver the following key priorities?[6]**



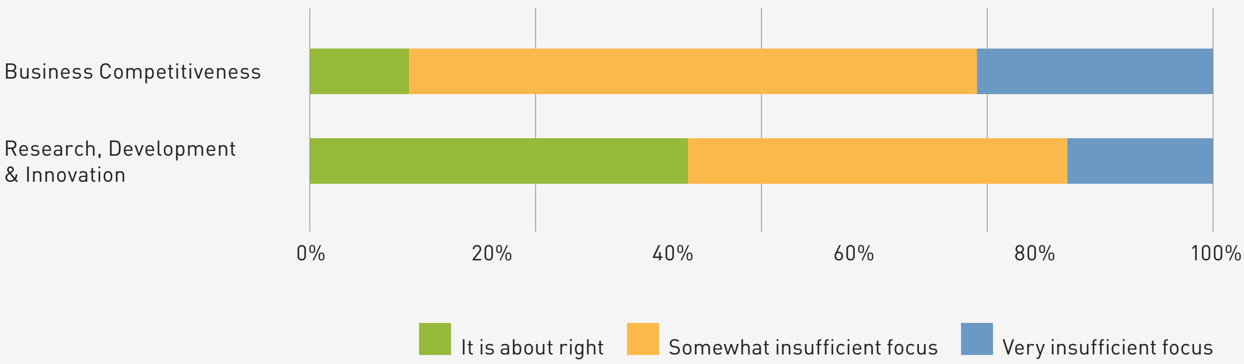
Members are very concerned with potential investment levels in Research, Development and Innovation (RD&I) and business competitiveness with the vast majority of federations wanting to see a greater focus in each of these areas.

6 The options were "To a very small extent – To a small extent - To a moderate extent – To a large extent – To a very large extent"

The apparent lack of focus on RD&I is disappointing given the clear lesson from the pandemic - and most obviously (but not exclusively) the rapid development and deployment of vaccines - on the importance of innovation, but effective RD&I will also be fundamental to reach our common goal, set out in the Green Deal, of carbon neutrality in 2050.

Members are also particularly concerned about the lack of focus on business competitiveness in the plans. In those federations where a calculation was made, it is estimated that on average only **26% of NRRPs' funding will be spent on measures that improve business competitiveness,** albeit with a wide dispersion between Member States, with country estimates ranging from 10% to 60%.

GRAPH 10 **Do you feel that country has put sufficient focus in the national recovery and resilience plan on the following priorities?**



THE NRRPS AND THEIR INTERACTION WITH OTHER PUBLIC SPENDING

In assessing the content of the plans, we recognise that the RRF is only one of a number of EU funding sources, which themselves exist alongside Member States' domestically financed investment projects. Thus, for example whilst the majority of plans, as our member federations have noted, are focussed primarily on investment in a single Member State, it will be important that other EU schemes place **additional focus on projects that carry a cross-border dimension** and have the potential to remove (physical) barriers in the single market (e.g. railway infrastructure and renewable energy grids).

Similarly, it will be important to make full use of investment possibilities for RD&I both in EU schemes and in Member States' own expenditure. Looking more broadly, where Member States have developed strong investment projects, which either through their specific nature, or overall size limitations, have not made it into the NRRP, it will be important to consider how such projects might be taken forward through other schemes such as InvestEU.

Within Member States, particularly those with large discretionary spending programmes, there will be ample scope to shift expenditure previously planned within national budget, which is compliant with RRF rule, into the NRRP, with the net overall effect that more space is created within the national budget for expenditure which is not compliant with the EU rules. It will therefore be important that the Commission continues to monitor the overall quality of Member States' public expenditure through the European Semester.

In order to ensure that the RRF makes a real contribution to improving EU competitiveness, including through investment to facilitate the green transition and digitalisation, the Commission should ensure that, in line with the principle of additionality, as noted in the RRF regulation, the funds are not used to replace either normal, recurring expenditure by Member States, or projects supported by other EU schemes.

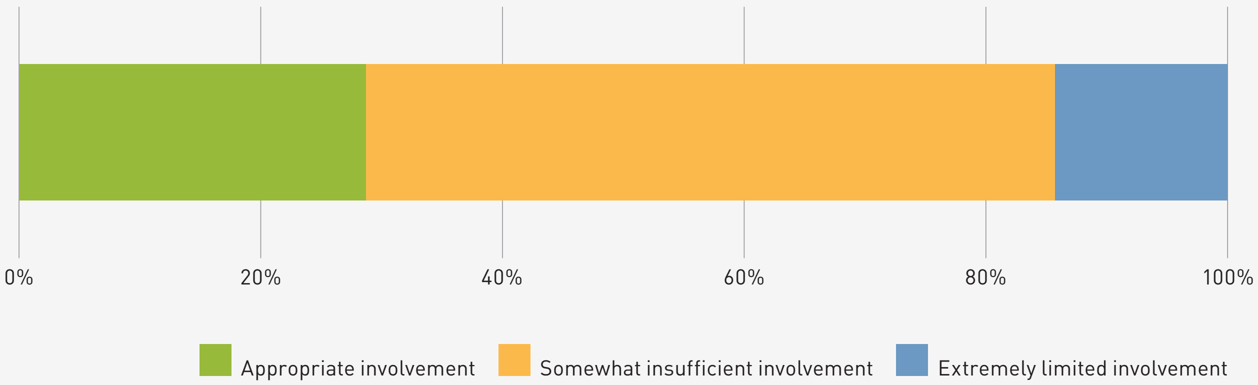
THE ROLE OF SOCIAL PARTNERS IN DESIGNING AND IMPLEMENTING THE NRRPS

Finally, there is **a very mixed picture considering the involvement of social partners in the design of the NRRPs.** Nearly thirty percent of members expressed a more positive cooperation, with some Member States launching public consultations or setting up monitoring committees for social partners to follow-up on the implementation of the NRRPs.

However, 71% of federations consider their involvement was either somewhat insufficient to even extremely limited. As well as being an important source of intelligence and consensus-building, implementation of the projects can also be made more effective by proper engagement with the social partners in the coming months. In line with this, the majority of members believe that the plans could have offered more scope for businesses to be involved in their delivery, including in areas that are not directly related to long-term business competitiveness (e.g. construction of social housing). Where projects are delivered through public institutions rather than businesses, it will be particularly important to ensure frameworks are put in place to deliver value for money.

More generally, it will be essential that the Commission ensures **a strong focus on implementation** to ensure that the projects are delivered in a way that maximises their impact on growth and competitiveness. This includes ensuring that projects are properly open for contract across the EU. We welcome the commitment by the Commission to put in place an implementation scoreboard, which if used effectively, can play a key role in improving the delivery of the plans.

GRAPH 11 **What is your view of the involvement of social partners in your country in developing the national recovery and resilience plan?**



KEY POLICY RECOMMENDATIONS

→ While the increasing deployment of vaccination in the EU is now leading to the gradual withdrawal of restrictions on economic activity, it is essential that **a premature unwinding of supportive measures to businesses and workers is avoided.**

→ Lessons should be drawn from the COVID-19 crisis to ensure that sufficient safeguards are designed and implemented now to permanently **guarantee the free flow of goods, people and services** in the future. Member States should also build up **resilience** to future pandemics, including by sharing best-practices on innovative solutions developed by businesses and governments during the pandemic.

→ Increased long-term growth and employment in the EU is dependent upon proper implementation of a wide range of structural reforms. It is essential the EU institutions ensure the NRRPs are sufficiently linked to the **implementation of structural country-specific reforms,** as designated under the European Semester.

→ Member States should work with the Commission to identify additional reform and investment projects that could further **enhance long-term competitiveness.** There should be in particular a greater focus within the NRRPs on **Research, Development and Innovation,** as well as on **projects that are key for European industries to master the twin digital-climate transition,** with **Important Projects of Common European Interest (IPCEI)** being a key European instrument in this regard.

→ In areas where final NRRPs have a limited focus, or where there has not been enough capacity to include promising projects, Member States should ensure they make full use of other EU and national financing instruments to take projects forward. This is particularly the case for **projects that carry a cross-border dimension** to enhance competitiveness by further removing (physical) barriers within the single market.

→ In order to ensure that the RRF makes a real contribution to improving the EU's competitiveness, including through investment to facilitate the green transition and digitalisation, the Commission should ensure that, in line with the principle of **additionality**, the funds are not used to replace either normal, recurring expenditure by Member States, or projects supported by other EU schemes.

→ Member States should ensure **a closer involvement of social partners** when further designing and implementing their reform plans. Social partners can act as important bridge-building actors, in particular through collectively agreed solutions, in order to ensure that the measures foreseen are both economically feasible and socially acceptable.

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