CEOE Empresas Españolas

Monitoring report on Next Generation funds in Spain

Current situation and recommendations from a corporate viewpoint

Second report
April 2022

European Projects Office

Contents

This report is based on data updated to 15 April 2022

Preliminary considerations

The **publication of this second monitoring report on the implementation of Next Generation EU funds in Spain** further consolidates the commitment of CEOE to help maximise their impact via the following **lines of action:**

- Providing **an employer's perspective of the current situation as regards investments and reforms under the** España Puede ["Spain Can"] Plan.
- Providing a **shared vision** of the priorities for investment and reform and the use of funds in **other countries.**
- Passing on **suggestions to the Spanish government on areas of improvement** to help ensure that funds are managed and incorporated into the fabric of production more effectively and smoothly (**large corporations, SMEs and the self-employed**).

To that end, the following preliminary considerations have been taken into account in drawing up this report:

1. CEOE has used a wide range of information sources, though there is a shortage of integrated official data on implementation.

This report has been drawn up using a **wide range of sources** (public, private, Spanish and EU) as listed in the Annex.

As also pointed out by the AIReF, the Bank of Spain and FEDEA, there is as yet **no centralised official source containing integrated, detailed data on the inflow of earmarked funding into the fabric of production,** as set up elsewhere (e.g. in Sweden, France and Portugal). As a result, intense analysis work has been required.

The data used are updated **to 15 April 2022**, so some may be out of date by the time the report is read.

2. Once again, the report takes an approach that is closely aligned with the actual situation of businesses and the operational vision of the funding, over and above the banner headlines of the Plan.

In this second report CEOE has sought to maintain the same approach of **alignment with the actual situation of businesses (large corporations, SMEs and the self-employed),** so that it will be a **truly useful tool** for improving the management of EU funds and thus increasing its impact on the economy.

As a result, it provides not only a detailed snapshot of a wide range of operational aspects of implementation (calls, deadlines, co-financing, etc.) but also a **catalogue of recommendations for the public sector**, drawn from ongoing interaction with sectoral and territorial employers' associations and businesses. In general, the guidelines given are consistent with those in the January 2022 report.

3. From this second report onwards, a specific analysis of the sectors with most significance for the Spanish economy is included. Here, the management and implementation of funding for tourism is addressed.

Tourism has been selected as the subject of the first sector-specific study. This sector has been chosen because of its importance to the Spanish economy and because of the way in which it has been incorporated into the España Puede Plan and into Generation funds.

Data from the National Institute for Employment (INE) indicate that **before the pandemic** tourism accounted for **12.4%** of Spain's GDP. With the onset of Covid-19 that figure dropped to **5.5%** in 2020.

It must be remembered that according to WTO data, **in 2019 Spain was ranked second in the world in numbers of incoming tourists (82.7 million)** .

However, under the España Puede Plan tourism is not treated with the importance that might have been expected in view of its traditional weight in the country's GDP.

For instance, **it has no specific PERTE (Strategic Project for Economic Recovery and Transformation)** and the **private sector** has been of little importance in the calls arranged in the sector to date.

4. Investments are carrying more and more weight in milestones and targets. This calls for greater flexibility in publishing calls to ensure that they all meet the relevant requirements and can therefore receive periodic payouts of EU funds.

At the outset of the implementation of funding in Spain, **reforms had a far greater part to play** than investments: of the **92 milestones and targets committed to for 2020 and 2021,** 79 involved reforms **(86%)** and only 13 investments **(14%).**

But in 2022 **investments** account for almost three times as much of the total at **39%** (34 out of 87).

All this must be borne in mind, as it is the fact that the milestones have been met to date, with reforms playing a greater role, that has enabled the second payout from the EU to take place.

However, **meeting investment targets calls for the inflow of large amounts of funding into the real economy,** and that is something that has not yet happened.

1

Key Messages

The excessive fragmentation of calls and the limited focus on innovation in their design are two major areas for improvement

Investments

1. The excessive fragmentation of calls is the main obstacle encountered by businesses in accessing funding.

A large proportion of the calls for subsidy is published to date are **highly fragmented**. In other words, they address highly specific targets, so firms that seek overall subsidies for a single project are obliged to **break it down into different lines and submit each line to a different call.**

This entails two major difficulties:

- On the one hand **businesses**, especially **SMEs and the self-employed**, find it **hard to define the various parts of their projects** and **have to take part in several different application processes** for aid (which means that they need to keep abreast of publication dates, draw up technical reports, etc.).
- On the other hand **the public sector** has to deal with more calls, and the consequent need to draw up **a greater number of administrative procedures.**

It would be preferable to set up **broader calls** to facilitate the participation of businesses and save work for those businesses and also for public administrations.

2. Continuity in regard to previous calls plays too great a part in subsidies. The Digital Toolkit should serve as a reference for the rest.

Within the broad range of calls arranged in recent months there is too much continuity, with **little room left for innovative or pioneering subsidies of types never awarded before.**

One of the instruments likely to involve most innovation in its calls is the PERTE. It is true to say that **some already include innovative calls** and offer new opportunities in key sectors of Spain's economy (particularly the PERTE for electric and connected vehicles, the PERTE for renewable energy, green hydrogen and storage and the PERTE for the new language economy), but in general there is **too much continuity and inertia from past calls** associated with this tool (the MOVES III Plan, the Sustainable Automotive Technology Plan, etc.).

As in the Digital Toolkit, it is important **not to miss out on the chance to secure Next Generation funding to launch calls aimed at projects that seek mainly to address the challenges currently facing Spain**, rather than at continuing or recurrent schemes set up in previous years.

Only 1 of every 4 euros from Brussels has reached businesses. This limits the impact of EU funds on the economic recovery. Moreover, the relevant official information has not been updated since August 2021

3. Funds need to reach business (large corporations, SMEs and the self-employed) more quickly.

After receiving the first 19 billion euros in 2021 from Next Generation EU funds, **Spain expects to receive its second payout in the very near future.** This payout corresponds to the milestones and targets met in December 2021, and the total involved is **12 billion euros.**

This means that within a few weeks Spain will have received a total of **31 billion euros**. However, this substantial amount of funding received **is not reaching the real economy at the same rate**.

In the absence of official information on earmarked spending, the latest data published by the IGAE (General State Comptroller) shows total payouts by the state under Next Generation EU funds of **11 billion euros in 2021.** This is well below the total of 19 billion received by Spain in that period.

It is also important to realise that **a substantial proportion of those payouts took the form of transfers to other public administrations** so that they in turn could publish their own calls and pay out funds to the fabric of production. This is not therefore **funding that reaches businesses directly.**

Current calculations put the actual implementation of funds (i.e. the funding that has reached the fabric of production) at **805 million out of the total of almost 3 billion handled directly by the state** (27% of the overall total, i.e. **just 1 euro out of every 4 received from Brussels).**

Given the slow rate of transfer of funding to other public administrations (under the payouts mentioned above, which the central government considers as implemented), that figure is an optimistic estimate based on overall implementation in the Spanish public sector as a whole.

It must be recalled that the government **has not published the figure for earmarked spending corresponding to funds that have reached businesses since August 2021** (when it was just 104 million out of the commitment of 5 billion, i.e. 2%). This has been pointed out recently by **the AIReF, the bank of Spain and FEDEA.**

Red tape and problems understanding the requirements of the relevant calls are the main obstacles faced by businesses.

4. The design of calls makes it hard for SMEs and the self-employed to access funding

Ease of access (less red tape, rules and regulations, channels, etc.) to funding continues to be an unresolved issue for the public sector.

It is especially important for **red tape to be minimal** and for **the deadlines set for submitting projects to calls to be reasonable and realistic. In some cases** the deadlines given **are as short as 10 days.**

A recent study conducted jointly by KPMG and the CEOE found that **72%** of businesses considered **red tape** to be a major obstacle and **44%** also reported **difficulties in understanding the requirements** for participation.

Moreover, the inflexibility of the requirements for accessing calls needs to be eased, especially for SMEs and the self-employed. For instance the **MOVES Flotas plan** required applicants to have at least **25 light vehicles**.

This is an additional hindrance for SMEs and the self-employed. It is consistent with the latest report by CEPYME, which found that **65% of SMEs did not expect to receive aid** from EU funds.

The administration therefore needs to draw inspiration from programmes that seek to act as **facilitators, such as the Digital Toolkit**. Thanks to efforts to **automate databases and assure interoperability between public administrations and other actors,** this programme has greatly reduced red tape for applicants, thus encouraging the maximum number of applications.

5. PERTEs need to be not just approved but also implemented more quickly

Although **nine PERTEs have now been formally approved**, the call for the main line of the PERTE FOR VEC was finally published in the second half of March along with various calls under the PERTE for ERHA, **the focus needs to be shifted to the actual implementation of all PERTEs.**

Most of the PERTEs already approved **have yet to be materialised in the form of actual calls** (circular economy, shipbuilding, digitisation of water, etc.).

Thus, **there is a need to speed up the launch of *ex novo* calls that can truly drive the spirit underlying the figure of the PERTEs.**

It is also important to specify the modus operandi of the **State Register of entities with an interest in PERTEs (known as the "REPERTE")**, set up by the Ministry of the Treasury and Civil Service and published on 10 March.

To date, **no Ministry has published its list of entities with an interest in implementing PERTEs.**

6. Investment priorities need to be reconsidered and areas of improvement identified to set up the addendum to the Plan

In the wake of the Spanish government's announcement that it intends to request the segment of loans, **it is essential that the second part of the current "España Puede" plan be defined within the coming months.**

The addendum in question involves the roadmap for channelling investments and reforms linked to the almost **€70 billion in loans** between 2024 and 2026.

This is a **unique opportunity** to provide public resources to address the **major challenges** currently affecting the overall political and economic outlook, especially the problems arising from Russia's invasion of Ukraine, the rise in the prices of energy and supplies and the discontent in rural areas.

Moreover, this "Phase 2.0" provides a **second chance** for the "España Puede" Plan **to have the desired effects (especially in regard to investments) and ensure that it does not become a second "Plan E".** The bottlenecks that currently make it so card for firms funding to reach businesses need to be decreased or eliminated.

Tax cuts and tax incentives would help businesses and households to combat spiralling inflation, which currently stands at close to double digits

Reforms

7. Now is the time to cut taxes, promote tax incentives and reduce the amount but increase the efficiency of public spending

The economic situation in Spain, with a **national debt** of close to **120% of GDP**, an **inflation rate of 9.8%** and a **slower recovery rate** than in other EU countries, should prompt the country to introduce **tax cuts and tax incentives** for households and businesses, and to implement **cuts and increased efficiency in public spending.** This would also help to make the economy more stable and thus facilitate the bargaining processes currently ongoing in the realm of business.

Specifically, **tax cuts** and the introduction of **tax incentives charged to EU funds** should be a priority for Spain in the current context, as a way of **combating the effects of rising inflation on households and businesses.**

It is noteworthy that as early as **September 2020 the CEOE** asked for tax incentives to be factored into the plan then being designed for access to EU funds. Indeed, this request was included in the "*Framework document for the recovery, transformation and resilience of the Spanish economy*", published by the CEOE at that time.

Countries such as **France, Portugal, Denmark, Italy, Austria and Sweden** have incorporated **tax cuts or tax incentives** into their national plans. These are far more immediate and efficient than aid, **as applying them requires no bureaucratic procedures.**

We have a great opportunity to do this with the additional amount of approximately **€4 billion that is to be received in the form of non-refundable transfers**as a result of the Russian invasion of Ukraine, with the funding not yet implemented and with the imminent application for loans to the tune of €70 billion.

Spain also needs urgently to implement a **firm commitment to efficiency in public spending,** so that government accounts can be consolidated **with no need for tax increases.**

A **recent report by the IEE (Institute for Economic Studies)** calculates that Spain could **cut its public spending by 14%,** equivalent to **around €60 billion**, **without reducing the standard of the services provided** via improvements in efficiency. The group of experts on tax reform from the Treasury Ministry itself mention the importance of taking this issue into account.

Agreements and reforms already approved must be respected in full, with no unilateral changes after the fact and no incorporation of additional issues far removed from their goals

8. The contents of reform milestones need to be upheld, with no changes being made after the fact

First of all, it is noteworthy that all the milestones set for 2021 were met in full, enabling Spain to be the first country to receive its first payout.

Specifically, there is particular interest in setting in motion **certain highly important reforms aligned with the European Semester, such as labour reforms, the RED mechanism and the first part of the reform of the pension system,** the approval process for which was carried out with the utmost **respect for social dialogue** and with full assurances in regard to the principles required by the Commission in the operational contract, with the balance between security and flexibility in labour-related matters as a stand-out aspect.

In regard to the latest reforms set in motion, the **Framework Act [*Ley Orgánica*] for the structuring and integration of vocational training** has been welcomed by the CEOE because, among other reasons, it places businesses at the heart of VT.

However, **we are concerned at the changes made after the fact in reforms already approved** (linked to milestones agreed with Brussels) without consensus, thus undermining the commitments entered into. A case in point is the **labour reform**, via Royal Decree Law 6/2022 of 29 March on urgent measures under the framework of the National Plan in response to the war in Ukraine.

Similarly, **issues have been incorporated into other milestones that have nothing to do with their intended purposes**, e.g. **the Bankruptcy Act**, into which an amendment has been incorporated that reforms the legislation on the Organisational Status of the Public Prosecutor's Office.

9. Social dialogue must be regarded as key for major reforms in 2022, on which there is currently no agreement. The issue of the self-employed is particularly worrying

Four of the reform milestones agreed for 2022 are particularly significant in the context of this year, but **to date an agreement based on social dialogue is far from being concluded: the self-employed, employment plans, employment legislation and tax legislation.**

In regard to the specific issue of the **self-employed,** the Toledo Pact and the pension agreement signed last year with social partners both seek to bring the contributions paid by self-employed people more into line with their actual earnings. **The government's proposals in this area contravene key principles of the Social Security system, including its contribution-based, progressive nature.**

2

Monitoring of Investments

2.1. Calls for subsidies

2.2. Bids for public procurement contracts

Monitoring of Investments

Calls for subsidies and bids on public procurement contracts

Calls for subsidies:

1. The end of 2021 saw the publication of a large number of orders setting rules and regulations for programmes under the Recovery Plan. However, the publishing of the actual calls needs to be sped up.
2. A smoother transfer of funds to regional and local authorities would help them to speed up their own calls.
3. There is still a lack of information on how much funding has actually reached businesses, as recently pointed out by the AIReF and the Bank of Spain.
4. In general, the rate at which calls are published is slow, but it varies substantially from one thematic area to another.
5. The model implemented by certain ministries and public bodies (such as Red.es and IDAE), which have taken a more disruptive approach in their calls, needs to be followed.
6. The first few months of 2022 have seen an acceleration in the approval of PERTEs (Strategic Projects for Economic Recovery and Transformation). Those projects now need to be materialised in the form of specific actions, and difficulties in accessing them need to be eliminated.
7. For businesses, increasing the intensity of aid and broadening the range of costs eligible for subsidy are a priority.
8. There is a need to increase the proportion of private sector organisations among the recipients of subsidies.
9. Barriers to entry need to continue to be removed, with longer deadlines for submitting proposals and the elimination of excessively rigid requirements.

Bids for public procurement contracts:

1. Four times as many tenders for public procurement contracts were published in the first quarter of 2022 as in the equivalent period of the previous year.
2. The importance of public procurement tenders being directed towards transformational projects must be stressed if a second "Plan E" is to be avoided.
3. A noteworthy good practice among some administrations is the earmarking of part of the funding for the modernisation of their technical processes in terms of effectiveness, efficiency and economy, the better to implement Next Generation EU funds.
4. Along with excessive red tape, some sectors are being affected by other factors such as inflation and labour shortages, which are not taken into account in the design of bidding processes.

2.1. Calls for subsidies

The slow rate at which funds are reaching businesses is leading to frustration in the fabric of production

1. The end of 2021 saw the publication of a large number of orders setting rules and regulations for programmes under the Recovery Plan. However, the publishing of the actual calls needs to be sped up.

- In the last fortnight of 2021 there was a **substantial push** in regard to investments under the Recovery Plan. Several ministries published orders setting the rules and regulations for some of their most iconic, most eagerly-awaited subsidy lines, such as the **Digital Toolkit**, **Última Milla ["Last Mile"]** and the programme of aid for **all-round actions in the industry chain for electric and connected vehicles**.
- However, the jump forward in publishing rules and regulations **was not matched by the rate of publication of actual calls**, which in most cases remain pending.
- The slow-down in the publication of extracts from calls has left businesses interested in putting themselves forward as **potential beneficiaries of aids unable to submit their investment projects yet**.
- The latest report published by **AIReF** complains in regard to Next Generation funding about the **"low level of earmarked spending in 2021, on which no information has been published".** Along similar lines, the latest quarterly report by the **Bank of Spain** states that "**The limited information available suggests that the expenditure financed with grants under the NGEU programme in 2021 was much lower than initially forecast by the Government".**

2. A smoother transfer of funds to regional and local authorities would help them to speed up their own calls.

- As a result of the **slow rate of transfer of funds by the central government to other public administrations** (payouts by the state to other public administrations and businesses totalled €11 billion) there is particular cause for concern at the **low level of activity on the part of territorial bodies**, especially as they are expected to implement over 50% of the funding obtained.
- To date the regional autonomous communities have largely limited their actions to launching **very similar calls**. They consist mainly of subsidies whose architectures and workings are predefined by a central body (generally the IDAE), but which are **managed and implemented at regional level**.

Main calls designed by the central state administration (AGE) but managed and implemented at regional level.

- **Energy**:
  - ✓ MOVES III
  - ✓ PREE 5000
  - ✓ Self-supply and storage in the residential and services sectors & in public administrations.
- **Circularity and the environment**:
  - ✓ Biosphere reserves
  - ✓ Construction and upgrading of collection points in municipalities with more than 5000 inhabitants to enable waste regulations to be implemented
- **Training and youth employment**:
  - ✓ Investigo programme
  - ✓ Programme for initial work experience at public administrations.
- **Other areas:**
  - ✓ Entrepreneurship: new and consolidation projects for self-employed individuals and micro-enterprises.
  - ✓ Support for women in rural and urban areas
  - ✓ Infrastructures for performing arts and music

- The calls listed above **are not targeted particularly at businesses**, but rather at entities of other kinds (public sector, academic institutions and R&D&i centres) and even at individuals. **This may limit their transformational impacts.**
- Apart from these delegated management programmes, **resulting from overcentralisation in the implementation of the Plan**, the regional autonomous communities have hardly designed and launched any Next Generation calls of their own. Some **regions have published more disruptive subsidy schemes**, but they are the exception rather than the rule.

3. There is still a lack of information on how much funding has actually reached businesses, as recently pointed out by the AIReF, the Bank of Spain and FEDEA.

- As of the date of publication of this report, **the details of the spending authorised, committed to and/or implemented in regard to Next Generation funding are still not known.**
- The latest official data are those published in the latest IGAE report **"Main indicators of the economic and financial activity of the State**" for December 2021, which put **liabilities recognised at €20.044 billion** and **payouts at €11 billion**.
- Current calculations put the actual implementation of funds (i.e. the funding that has reached the fabric of production) at **805 million out of the total of almost 3 billion handled directly by the state** (27% of the overall total, i.e. **just 1 euro out of every 4 received from Brussels).**
- However, **there is still no detailed information on the volume of Next Generation funding that has reached the fabric of production.** Indeed, it is not specified under liabilities recognised or under payouts how much has gone to other public administrations or how much has reached the real economy. These data have not been updated since August, when the figure was just €104 million.
- In this regard the latest report by the **AIReF** states that although a website has been set up for the Recovery Plan, **the government is not publishing information on the implementation of the España Puede Plan in terms of national accounts** on the said website or in the monthly statistics in budget implementation issued by IGAE. The conclusion reached is that "from the viewpoint of national accounts there is a total absence of information on the implementation of the finding".
- The **Bank of Spain** has also complained that the **absence of detailed information** hinders the monitoring of the effective extent of the implementation of the NGEU programme in 2021.

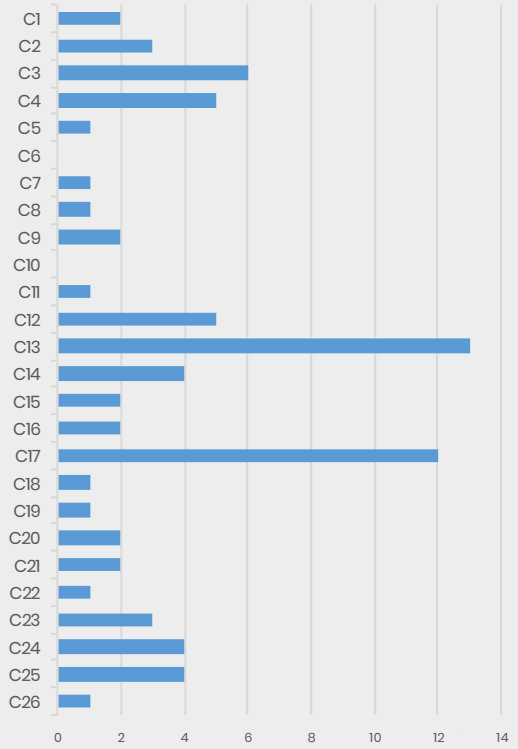
4. In general, the rate at which calls are published is slow, but it varies substantially from one thematic area to another.

- At national level, **calls for invitations for subsidies have gradually been published for most components**. However, the rest of **components 13** (*"Fostering SME growth"*) and **17** (*"Institutional reform and capacity building in the national science, technology and innovation system"*).

- The components with most calls published to date are the following:

Graph 1

Components of the PRTR found most widely in calls already made (AGE)



Source: CEOE

* Components 27, 28, 29 and 30 are not considered, as they involve only reforms and not investments

- To a lesser extent the following stand out: **components 3** (*"Green & digital transformation of the agri-food and fisheries industries"*), ***4*** (*"Ecosystem and biodiversity conservation and restoration of marine and land ecosystems"*) and **12** (*"Industrial policy in Spain 2030"*), via both regional and national calls.

- On *the other hand, the last quarter of 2022 saw the publication of calls lined to* ***component 9*** *under the PERTE for* renewable energy, renewable hydrogen and storage (ERHA).

- At **regional level** stand-out points include the publication of calls linked to **components 1** (*"Action plan for safe and connected sustainable mobility in urban and metropolitan areas"*), **2** (*"Implementation of the Spanish urban agenda: Rehabilitation and urban renewal plan"*), **7 and 8** (*"Renewable energy integration" and "Electrical infrastructures and deployment of flexibility and storage"*) and **23** (*"New public policies for a dynamic, resilient and inclusive labour market"*).

- In line with the components indicated above, most of the calls launched by the regional autonomous communities are concerned largely with **predefined programmes at centralised level,** with **little margin** for regional entities to launch **calls of their own in line with the needs of the fabric of production in each region**.

- However, there are **some stand-out examples of disruptive calls** aimed at addressing the actual situations in their areas:
  - The call for applications for aid to SMEs, self-employed persons, associations and foundations for the financing of actions to **prepare for the reuse and recycling of separately collected textile waste**, drawn up by the **Regional Government of Galicia**.
  - The call for aid for the implementation of strategic R&D projects for 2022-2025 drawn up by the **Regional Government of Navarre.**

5. The model implemented by certain ministries and public bodies (such as Red.es and IDAE), which have taken a more disruptive approach in their calls, needs to be followed.

- Over the first few months of the Recovery Plan there has been a **continuity-based trend** with a predominant part being played by new versions of existing subsidy programmes on which the public sector was already working, but **with slight modifications** in regard to:
  - The **origin of funding,** e.g. PREE-PREE5000, which was previously funded via the ERDF.
  - The **volume of budget endowments,** e.g. the CDTI's "Misiones" [Missions] programme, the endowment for which in the 2021 funding period was double that of 2019 (up from €70 million to €141.25 million).
  - Ever **tighter submission deadlines** for proposals. For instance in the AEI's "Retos Colaboración" ["Collaboration Challenges"] call for **2019** applicants were given **26 days,** but in **2021** its successor "Proyectos de colaboración público-privada" ["Public/Private Collaboration Projects"] had a deadline of just **22 calendar days**.
- On the other hand, there does seem to be a **willingness to facilitate and change things** at certain **management bodies** (such as Red.Es and IDAE). This is especially noteworthy in certain investment lines, such as:
  - The **Digital Toolkit,** designed by **Red.Es** and aimed at SMEs with 1-49 employees and a **global approach**. In setting up this programme considerable effort has been put into **eliminating red tape** and greatly reducing the often excessive burden placed on applicants (e.g. via the signing of an agreement with the General Council of Notaries).
  - The same goes for some calls for **PERTEs,** e.g. the call for all-round aid for the industry chain of electric and connected vehicles under the PERTE for VEC.

- However, there is a need for *ex novo* and more transformational calls to be approached in a more reasonable fashion, with **requirements** for businesses **that can be taken on board and met based on criteria** (especially in the case of SMEs and the self-employed).
- A case in point is the aforesaid call for the PERTE for Electric and Controlled Vehicles, which involves a **number of requirements that are very difficult to meet in full.**

Key points of the call
"Integrated actions in the industrial chain for electric and connected vehicles"

- Submission period: from 01/04/2022 to 03/05/2022
- Budget endowment for call: 2.975 billion euros (1.425 billion in loans & a further 1.550 billion in subsidies)
- Type of aid: subsidy, loan or *blending*
- Called by: MINCOTUR (Directorate General for Industry and Small and Medium Enterprises)
- Maximum aid intensity: 80% (75% in the case of regional aid)
- Consortium membership: Groups of at least 5 entities (not belonging to the same group) linked to the manufacturing of electric vehicles. At least 40% of the entities involved must be SMEs and one must be a knowledge provider.
- Each trailblazing project must comprise various primary projects (with a minimum budget endowment of 10 million euros each) and must involve at least two or more regional autonomous communities.

6. The first few months of 2022 have seen an acceleration in the approval of PERTEs (Strategic Projects for Economic Recovery and Transformation). Now they need to be implemented through specific actions.

- **2021** saw the approval of **three PERTEs** by the Cabinet:
  1. VEC (electric and connected vehicles)
  2. Cutting-edge healthcare
  3. ERHA (renewable energy, renewable hydrogen & storage)
- In **2022 the rate of formalisation of PERTEs has sped up considerably**, with projects in six more areas being approved in February and March:
  1. Agri-food chain
  2. New language economy
  3. Circular economy.
  4. Shipbuilding
  5. Aerospace sector
  6. Digitisation of water
- Moreover, in recent months the Prime Minister has announced the **approval in the near future** of two more PERTEs: one for the **social economy and care** and the other for **microchips and semiconductors.**
- This last PERTE for microchips will involve a high level of public investment to the tune of around €11 billion.

Analysis of calls to apply for subsidies with a breakdown of the three most advanced PERTEs

- However, it must be **borne in mind just what a PERTE is and how it is accessed**: in essence it is a set of investment lines (basically calls for competitive applications for subsidies) aimed at **modernising the value chain in a sector deemed strategic** by the Spanish government.
- Accordingly, the main path for accessing PERTEs is by **businesses submitting their own investment projects to the calls** published ex officio through which the relevant PERTE is formulated.
- The main aid lines of the three **PERTEs currently at the most advanced stages are the following: VEC, ERHA and Cutting-edge Healthcare:**

PERTE FOR ELECTRIC & CONNECTED VEHICLES
Public budget endowment: €4.95 Bn

- 2021 Call under the Sustainable Automotive Technology Plan (€40 M) | *Closed*
- Call for MOVES Singulares II (€100 M) | *Closed*
- Call for MOVES Flotas (€50 M) | *Closed*
- Call for all-round actions in the VEC industry chain (€2.975 Bn) | *Published*
- MOVES III (€800 M) | *Published*
- Call for sectoral data space programme (€100 M) | *Pending (1st semester of 2022)*
- Call for programme to integrate IA into heat chains to transform the fabric of the economy (€45 M) | *Pending (2nd semester of 2022)*
- Vocational training plans (€21 M) | *Pending (2nd semester of 2022)*

PERTE FOR CUTTING-EDGE HEALTHCARE
Public budget endowment: €982 M

- Personalised Precision Medicine (€29.5 M| *Closed*
- 2021 aids for R&D projects in AI and other digital technologies and their integration into value chains (€15 M) | *Closed*
- The AI Missions programme in the healthcare sector | *Closed*
- Aid for training in managing health research (€907,000) | *Closed*
- Call for Independent Clinical Research and advanced therapies (clinical testing performed by researchers) (€15 M) | *Published*
- Fund in support of investment in industrial production (€60 M) | *Published (window open throughout 2022 & 2023)*
- First and second calls for industrial innovation and sustainability projects involving processes and products in pharmaceuticals and healthcare products (€100 M) | *Pending (1st semester of 2022 & 2023)*
- 2022-2023 calls for Personalised Precision Medicine (€81.5 M) | *Pending (2nd semester of 2022)*
- Digital transformation of primary and community healthcare via tenders (€230 M) | *Pending (2nd semester of 2022, up to 2026)*
- Healthcare Data Lake between central & regional governments (€100 M) |*Pending (up to 2025)*
- Call for support for & cooperation with biotechnology businesses for the development and application of new biomarkers, diagnostic technology and predictive medicaments (€36.6 M) | *Pending (2nd semester of 2022)*
- New Science & Innovation Mission aimed at advanced therapies and emerging medicaments (€31.25 M) | *Pending (2nd semester of 2022)*
- Aid line for R&D&i projects in the field of connected industry - Active Financing (€13 M) | *Pending (2nd semester of 2022, 2nd semester of 2023)*

PERTE FOR RENEWABLE ENERGY, RENEWABLE HYDROGEN & STORAGE
Public budget endowment: €6.9 Bn

- Call for aid for innovative energy storage projects (€50 M) | *Published*
- Programme of incentives for one-off and innovation projects in renewables (€250 M) | *Published*
- First call for the "H2 PIONEROS" ["H2 Pioneers"] programme of incentives for pioneering and one-off green hydrogen projects (€150 M) | *Published*
- Call for aid for the development of biogas (€150 M) | *Pending (1st semester of 2022) - Order for rules & regulations: in process*
- Call for boosting blade recycling at wind farms (€130 M) | *Pending (2nd semester of 2022 - 1st semester of 2023)*
- Call for reinforcing production capabilities | *Pending (2nd semester of 2022)*
- Development & reinforcement of test platforms for offshore renewables (€200 M) | *Pending (1st semester of 2022)*
- Adaptation of logistics & port infrastructures via tenders (€262 M) | *Pending (2022-2023)*
- New business models in the energy transition *Pending (2022-2023)*

- Although there has been an increase in the rate at which new PERTEs are being approved, the **focus now needs to be on implementation,** via the publication of specific calls and their subsequent awarding to beneficiaries capable of implementing the work.

7. For businesses, increasing the intensity of aid and broadening the range of costs eligible for subsidy are a priority.

- The amount of the subsidy received by each beneficiary is determined by the order covering the rules and regulations on the intensity of aid. It may come as a **"bonus" or fixed amount** (as with the Digital Toolkit), or via a **co-financing rate**. The latter is the more frequent form when it comes to setting the maximum intensity of aid (fixed rate or variable percentage).
- Most calls set **different maximum co-financing rates in line with the size of the beneficiaries** (i.e. whether they are classed as small, medium or large enterprises).
- For example this system of company-size-based co-financing can be found in **most IDAE calls** (60% for small enterprises, 50% for medium and 40% for large) and in the "Última Milla" ["Last Mile"] scheme (50% for SMEs and 15% for large corporations). The average **(maximum) rate of co-financing is around 50%** of the investment involved.
- But these figures are **maximum percentages** and therefore apply only in the most optimistic scenarios. In practice, co-financing **stands at around 40%** , so we believe that the **intensity of aid should be increased**, while assuring full compliance with EU regulations on state aid.

8. There is a need to increase the proportion of private sector organisations among the recipients of subsidies.

- In its design and nature the Recovery Plan is focused on addressing **two major goals simultaneously**: to recover and transform the model of production as quickly as possible in the wake of Covid-19. This means that the private sector is of capital importance.
- However, the trend as regards investments is causing some concern among businesses, as a considerable proportion of the calls published to date **are not aimed at businesses as direct beneficiaries**, but at other actors (mainly linked to the **public sector**).
- Specifically, a large proportion of funding is going to:
  - **Local bodies** *For instance the programmes for **"Tourism Sustainability Plans at Destinations**", the **first work experience** programme at public administrations and the programme for **digital transformation and modernisation of local administrations;***
  - **Public universities** *For instance the programme of **subsidies for public universities for retraining, international mobility and the attraction of talent** to the system and the **aid for research and innovation projects for the deployment of advanced 5G and 6G technologies**.*
  - Other institutions such as **publicly owned R&D and/or knowledge centres**, etc.
- A lower proportion of direct funding for businesses, SMEs and the self-employed may mean **a more limited impact in terms of transformation.**

9. Barriers to entry need to continue to be removed, with longer deadlines for submitting proposals and the elimination of excessively rigid requirements.

- The deadlines for submitting proposals in general continue to be tight. Although the **average** submission period is between **four and eight weeks**, there are still many calls that give as little as **under two weeks**.
- The following in particular stand out:
  - **9 days** for **innovation and sustainability plans** in the field of **manufacturing industry.**
  - **11 days** for the **ACTIVA financing line** for industry.
  - **14 days** for the programme of aid for **R&D&i projects for concept testing** by AEI.
- Moreover, some calls inviting applications for aid are excluding businesses where **composition agreements with creditors have come into effect,** because such businesses are deemed to fall under the heading of "businesses in crisis". But insolvency legislation in Spain states that **the effects of a declaration of bankruptcy cease to apply when a composition takes effect** (Art. 396). Therefore **businesses in these circumstances should not be excluded.**

- **The extremely short submission periods are especially surprising when the budget endowment for programmes is particularly high**, e.g. in the case of aid for public/private partnership programmes (€375 million). In such cases there is an increased risk that a considerable proportion of the funding will go unimplemented.
- To the extent that it is possible, deadlines should be less strict. This would give **businesses interested in such calls an added advantage.**
- An example of such efforts **to be more flexible can be found in the Digital Toolkit,** where the first call (aimed at SMEs with 10-49 employees) gave businesses **six months** to submit their proposals.
- It is also important to make the **requirements** that potential beneficiaries must meet **more flexible** insofar as is possible. This is fundamental in encouraging SMEs to take part in subsidy programmes.
- The **MOVES Flotas** programme is a case in point. The programme is aimed at small, medium and large businesses, and subsidises the electrification of light vehicle fleets. However, a **fleet of at least 25 vehicles** is an *essential prerequisite* for eligibility for aid.
- Such requirements (which are often excessive) **considerably limit the opportunities of SMEs to access** funding.

2.2. Bids for public procurement contracts

The first quarter of 2022 saw a substantial increase in the number of bidding processes published for public procurement contracts with funding from Next Generation

1. Four times as many tenders for public procurement contracts were published in the first quarter of 2022 as in the equivalent period of the previous year.

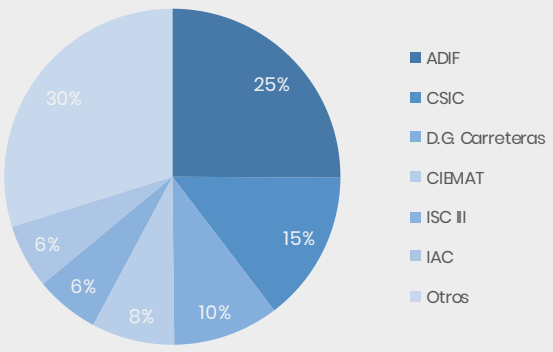
- One of the main differences between this second report and the previous one is that there has been a **significant increase in the number of tenders for public procurement contracts published** with funding from Next Generation EU.
- At the end of 2021 there were fewer than 300 such processes, but that figure has quadrupled **in just three months.**
- Specifically, the website of the Spanish government's Recovery, Transformation and Resilience Plan puts the **number of contracts tendered at around 1,150**, with 110 tenders currently open.
- Another conclusion drawn from a sample of 400 tenders published across Spain with funding from NGEU is that **a high percentage of the total budget endowment for these tenders is channelled through ADIF** (linked with Investment 1 of Component 6 in the Recovery Plan).
- A sample of almost 300 tenders organised under AGE reveals a "**top 6**" major **bidders** in regard to Next Generation funding, comprising: **ADIF** (railway infrastructure manager), **CSIC** (Spanish National Research Council), the **DGC** (General Directorate for Roads), **CIEMAT** (Centre for Energy, Environmental and Technological Research), **ISC-III** (Carlos III Institute of Health) and the **IAC** (Canary Isles Institute of Astrophysics).

2. The importance of public procurement tenders being directed towards transformational projects must be stressed if a second "Plan E" is to be avoided.

- In terms of the destination of funding, it is striking that budget endowments earmarked for tenders are sometimes being used for **actions with no real transformational nature.**
- A case in point is the contract for the **full refurbishment** of an old hospital in **Ciudad Real to convert it to an office building**, with a budget endowment of **almost €28 million**.

Graph 2

Major bidders in AGE in terms of % of budget implementation
(Sample)



Source: CEOE

Part of these investments is being destined for tenders with a somewhat static approach, the transformational effect of which may be called into question

3. A noteworthy good practice among some administrations is the earmarking of part of the funding for the modernisation of their technical processes in terms of effectiveness, efficiency and economy, the better to implement Next Generation EU funds.

- To a large extent, the **goal** of these tenders is linked to **optimising the management of the European funding** that each bidder is to implement.
- Along these lines, both the AGE and regional and local governments have been publishing **contracts intended to reinforce the management of funding,** such as:
  - The contract tendered by the Department of the Treasury and European Financing of the **Regional Government of Andalusia**, to the tune of almost €3 million, for the **auditing and rationalising of the region's public sector so as to optimise the management of Next Generation funding.**
  - The contract for the supply of a **customer assistance centre software solution** (multi-channel 060) to provide corporations, SMEs and the self-employed with a "direct interlocutor", tendered by the **General Secretariat for Digital Administration**, with a budget endowment of over €4 million.
- Tenders for contracts of this type are viewed with some degree of **optimism by businesses**, as they seek to improve the management of funding, which in turn will make resolution processes smoother and speed up the inflow of funds into the real economy.

4. Along with excessive red tape, some sectors are being affected by other factors such as inflation and labour shortages, which are not taken into account in the design of tenders.

- The **rise in inflation** has given rise to a complex situation in some sectors. A case in point is **construction**, where corporations and SMEs are having to face substantial increases in production costs.
- However the government has **left energy price rises out of the review of public procurement contracts,** in spite of their evident impact on the viability of contracts.
- This is yet another **stumbling block** for the development of the España Puede Plan, because if contracts are not updated then part of the **projects covered by EU funds could could be declared void.**
- This situation has been exacerbated by the growing energy crisis, but businesses were already denouncing it. Along these lines, at the start of this year the **CNC (National Confederation of Construction)** warned that **in 2021 around 500 projects** for public works (worth €230 million) were declared **void because their rules and regulations failed to take the impact of inflation into account**.
- The lack of price reviews in contracts, plus the **shortage of labour** in the construction industry, could jeopardise the viability of the España Puede Plan, because this sector is closely connected to the plan's most strategic goals (energy efficiency, digitisation, the creation of infrastructures to strengthen the supply chain, etc.).

3

Monitoring of reforms

There is a need to ensure that agreements on reform reached through social dialogue are monitored so that they are not subsequently modified unilaterally by the government

1. In 2021 the commitments on milestones for reforms made to the European Union were met. It is important to maintain agreements reached and not change them after the fact or modify the purposes of commitments.

- First of all, it must be **seen as positive that all the milestones set for 2021 were met in full,** enabling Spain to be the first country to receive its first payout.
- **Especially noteworthy is the setting in motion of certain highly important reforms aligned with the European Semester, such as labour reforms, the RED mechanism and the first part of the reform of the pension system,** the approval process for which was carried out with the utmost respect for social dialogue and with full assurances in regard to the principles required by the Commission in the operational contract, with the balance between security and flexibility in labour-related matters as a stand-out aspect.
- In regard to the latest reforms set in motion, the **Framework Act [Ley Orgánica] for the structuring and integration of vocational training** must also be welcomed because, among other reasons, it places businesses at the heart of VT.
- In spite of the positive direction of the reforms undertaken towards the end of 2021, **in the past few weeks some issues have arisen which are causing concern among businesses,** as a result of the **unilateral modification by the government of some of the agreements reached through social dialogue**.
- It is important not just to meet milestones for reform envisaged but also to ensure continuity over time and not to allow the government to make changes unilaterally after the fact.

  In the specific case of labour reforms, **there is no justification for introducing changes** via Royal Decree-Law 6/2022 of 29 March on urgent measures under the framework of the national plan in response to the war in Ukraine **just 3 months after the approval of the initial measures.**
- Similarly, it is important to ensure that the various regulations approved to meet the milestones in the Plan, e.g. in **bankruptcy legislation** (milestone190), **should be constrained to the goal and contents committed to with the European Commission.**

  Thus, **it does not seem reasonable** for **an amendment reforming the organisational status of the public prosecutor's office** to be added during the passage of the bill through parliament.

Agreement in social dialogue is still far from being attained in regard to the four main reforms for 2022: the framework for contributions by the self-employed, job creation plans, employment legislation and tax reforms

2. Some of the key reforms for 2022 are currently subject to disagreements in the framework of social dialogue.

- First of all, in regard to the reform of the **system of social security contributions by self-employed workers**, both the Toledo Pact and the pension agreement signed last year with social partners agreed that self-employment contributions should be brought more closely into line with actual earnings.

  However, **the government's proposals in this area contravene key principles of the Social Security system,** including its contribution-based, progressive nature.

  Moreover, **the system proposed does not enable the true economic capabilities of self-employed persons to be addressed objectively,** so it results in unjustifiable inequalities within the special regime for the self-employed.

- Secondly, the government's proposal in regard to **employment plans** is insufficient to attain the goal of encouraging works pension plans. It does not envisage the necessary tax or social security incentives and it restricts individual savings outside work-related plans.

- In regard to **employment legislation**, the government has drawn up a draft bill with which we do not agree, basically because it maintains the same approaches that have prevailed in employment policies to date and fails to draw up an integrated strategy for employment that is specific enough for it to be implemented, monitored and assessed, **and that can enable the anomalies and challenges faced by our labour market to be addressed.**

  In this sense, the draft bill addresses active employment policies and the network of administrative procedures that they entail **solely through publicly-run employment services**, **with no proper provision for cooperation between all the public and private-sector actors involved** in employment.

- Moreover, in regard to the **reform of vocational training for employment** included in the said active employment policies, **a working method capable of assuring efficient dialogue with social partners is not being followed**, so a viable agreement seems unlikely in the short or medium term.

The tax reform proposed by the government will not be an effective instrument for reducing the underground economy, which is one of our main problems

- Finally, the report that serves as the basis for the government's proposed **tax reform** is based on data from 2019, so its **conclusions are obsolete:** it takes no account of the substantial increase in revenue from 2019 to 2021 and the fall in GDP over the same period. If these data are taken into account **the difference with the EU as regards the tax burden is practically zero.**

  We agree with some of the measures proposed, e.g. the review of taxation of dividends obtained abroad, a measure which is harmful for the competitiveness of Spanish firms and is not producing the results expected in terms of revenues. The **measure stipulating a minimum rate of 15% for corporation tax has also proved to be useless.** We wholeheartedly agree with the proposal that this minimum rate should not affect deductions for R&D&i.

  By contrast, we **strongly disagree with the limiting of deductions for losses in corporation tax**, which further worsens a system that the expert report itself considers to be among the most restrictive in our area.

  Another point on which we strongly disagree is that involving **the taxing of savings: capital gains tax must be eliminated**, as it has been in most countries of the European Union, because experience in comparative law has shown that it does not work.

  Moreover, in regard to the milestones agreed for 2022, we believe that **this reform will not prove to be an effective instrument for reducing the underground economy, which is one of the main problems of our economy and the** underlying cause of much of the gap between the tax burden in Spain and the EU average.

  Accordingly, **efforts to combat fraud must entail a reduction in the underground economy**, reducing administrative burdens and enabling low-income taxpayers to pay low taxes and contributions.

4

Sectoral monographic report: tourism

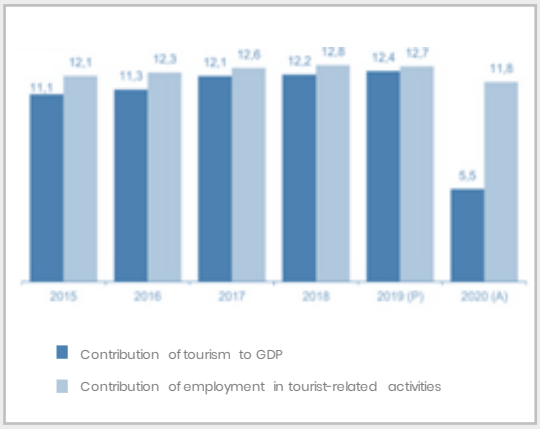
The long-standing economic weight of tourism in terms of GDP (12.4% in 2019) is not reflected in the España Puede Plan, with an endowment of less than 5% of the funding available and no specific PERTE for the sector

1. Tourism is a strategic sector in Spain, and a driver for economic growth and employment.

- Since the Spanish tourist industry first took off in the 1960s the scale of economic activity in the sector has made it one of the country's **main drivers for growth**.
- The significance of tourism in Spain is undeniable. In 2019 it accounted for **12.4% of GDP** and made a major contribution to **job creation, accounting for almost 13%** of all jobs according to the Tourism Satellite Account published by the INE (National Institute for Statistics).
- However the sector is considered to be one of those hardest hit by the pandemic. As a result in 2020 **its economic weight plummeted to below 6% of GDP.**

Graph 3

Changes over time in the contribution of the tourism sector to GDP and employment



Source:

- Although COVID-19 resulted in the loss of large numbers of jobs, its impact on GDP was less serious **thanks to furlough schemes (ERTEs).**
- In 2022 **360,105 jobs were lost at tourism-related companies,** through the number of people with no work (on furlough) was far greater at 724,532.

2. The funds earmarked for tourism under the España Puede plan fail to match the weight of the sector in the economy.

- Given the great economic weight of tourism in Spain, and in view of the fact that many believe it to be the sector hardest hit by the pandemic, the modest amount of funding allocated to the tourism sector is striking: **€3.4 Bn** via Component 14 ("*Plan for the Modernisation and Competitiveness of the Tourism Sector*").
- Bearing in mind that the total budget endowment of the España Puede Plan is **€69.528 Bn, this means that the amount earmarked for tourism is a disproportionately small 4.89%.**
- **Nor does it seem reasonable for the sector not to have a PERTE of its own** which could enable it to address the major challenges facing it in a more adequate, all-round fashion.

Only 18.4% of the funding earmarked for tourism is to go directly to the private sector. This limits the ability to transform the sector

3. Only 18.4% of the funding earmarked for tourism is to go directly to the private sector.

- A major part of the aid earmarked for tourism is not in fact going to the tourist industry but to the **ecosystem of suppliers and businesses with which the sector interacts**. However, this has no significant impact in terms of developing the structure of tourism.
- Moreover, **81.6%** of the funding allocated to the sector is in the form of **aid for destinations** (i.e. local bodies rather than business projects), and is aimed basically at developing **public-sector infrastructures**. If there is no alternative way of financing them, it is preferable to pay for such actions via Next Generation than not to implement them at all, but it must be borne in mind that they are mere management upgrades and cannot be considered as market-driving projects.
- The Plan also seeks to strengthen the role of SMEs as recipients of funding. However, many calls (Última Milla, Experiencias Turismo, etc.) require firms to apply **as a consortium** , or require projects to involve two or more regional autonomous communities. As a general rule, these requirements are added obstacles for SMEs and self-employed individuals.

4. The implementation of funding for the sector involves points that make it harder for firms to access calls.

- **There is no predefined strategy** that takes the real needs of tourist-related businesses into account. Moreover, the roadmap for investment under Component 14 is designed with a "top-down" approach. In practice, projects that seek to **make firms more competitive do not fit into the investment lines** earmarked for tourism.
- **Investments are being allocated in general based on short-term parameters**. Thus, priority is being given to allocating funds quickly via conventional calls with little potential for transformation. This trend in investments **works against other types of project** which may be more technically complex but have **actual potential as trailblazers.**
- Calls need to be designed with an awareness of the **current situation of tourist-related businesses** and oriented towards their needs. In this sense, some of the calls launched under Component 14 **are unlikely to be suited to tourist-related corporations and SMEs, e.g. "Última Milla" ["Last Mile"]**. This call is aimed at entirely untested, ground-breaking technologies, with no consideration for the fact that firms in the sector first need to consolidate their recovery.

Recommendations to help tourist-related businesses better manage funding in view of the current situation

5. Ongoing dialogue with sectoral organisations and businesses has enabled the CEOE to identify certain proposals for improvement which can be submitted to the government, focussing particularly on the tourism sector.

- **Strengthen direct private-sector involvement**, to ensure that funds constitute a turning point for the competitiveness and modernisation of firms in the Spanish tourism sector.
- Make calls **simpler**, because many of them are hard to understand, and therefore to cover. Many calls are also **far removed form the actual needs** of firms in the sector.
- **Raise the percentages of spending eligible for subsidies** for subcontracting (especially under the Última Milla programme), always in compliance with the regulations governing state aid.
- **Facilitate the redistribution** of funding if there are allocations which are not used.
- Stress the usefulness of this funding for **levelling out the different rates of development of tourist-related businesses** and thus close the competitiveness gap. There must be room on the one hand for calls aimed at large corporations, which can have a major market-driving effect on smaller firms; and on the other hand calls aimed at small businesses so that they can group together and match the speed of development of medium and large companies.
- **Duplication needs to be avoided in the design of specific calls** , as it entails a degree of inefficiency. A case in point is that of training, where there are various lines open which all pursue essentially the same ends. In this sense, the firms in the sector **can see no single strategy for covering their actual needs**.
- **Distinguish the role of recipients of aid** throughout the **tourism value chain**, as aid is often not given to the tourism industry itself **but to its suppliers**. This does not help the structure of tourism to evolve.
- **Foster more involvement on the part of employers' organisations and other bodies**, such as clusters and associations, that could play an important role in bringing together SMEs and freelancers (e.g. as presenters of projects).

5

Comparative view

5.1. Comparison with other European countries

5.2. Thematic analysis of priority measures

5.1. Comparison with other European countries

Substantial differences in implementation can be found, mainly in terms of the rate of channelling, the level of transparency and the types of instrument used

The CEOE's efforts in an EU context within **Business Europe** provide **up-to-date information** on the progress of funding elsewhere in the EU.

Below is an **in-depth comparison** of implementation in Spain with implementation in France, Portugal and Italy.

A **new section** is also included, looking at the the way in which **tax incentives** are factored into several national plans (Denmark, Sweden, Austria and Greece) and how they fit into the Recovery and Resilience Facility.

Future reports will look at other countries.

BUSINESSEUROPE

Italy

1. Italy has met its milestones as and when required in 2021 under its Italia Domani ("Italy Tomorrow") reform and investment plan.

- In the coming months **the goals pursued will be related mainly to investments** and, to a lesser extent, reforms.

2. A support service platform for local authorities has been set up to speed up the application of the goals of the Plan.

- This is a service platform to provide support for regional, provincial and municipal bodies in managing and implementing Next Generation projects, **created by financial institutions** such as Cassa Depositi e Prestiti, Invitalia and Mediocredito Centrale.
- The platform is staffed by a strong team of over **600 specialists available to** public administrations to speed up the implementation of investment plan goals.

Spain

1. Although Spain has also met all its milestones, in 2020 and 2021 86% of them have involved reforms.

- In the first half of 2022 the proportion of investments is higher at 39% but reforms continue to predominate at 61%. This makes it harder for funding to have an impact on the real economy.

2. To date the system intended to help management organisations manage aid is not operational in Spain.

- Uncertainty and a lack of knowledge can still be felt in regional and local organisations. The **CoFFEE (Common platform for EU funds),** the instrument drawn up by the Treasury Ministry to support and centralise information on calls and subsidies, **is not yet fully operational.**
- **Spain has not incorporated the financial sector into the core implementation of the Plan.**

Portugal stands out for its level of detail and updating of data on actual implementation, and for the progress made in major projects

Portugal

1. In just three months the volume of calls for applications for aid has doubled

- **"Recuperar Portugal" ["Recover Portugal"]** is the roadmap for channelling the **€16.6 billion in funding** (€13.3 Bn in direct aid and €2.7 Bn in loans) received there.
- The rate of implementation has accelerated in the first quarter of 2022. From last December to March resource allocation has increased from €3.438 Bn in connection with 12,237 projects to **€7.104 Bn on 21,639 applications already approved.**

2. The National Monitoring Committee (CNA) assesses smoothness of implementation and transparency.

- In its first monitoring report, the Committee acknowledges that the **administration moved quickly** in activating instruments to respond to the goals and commitments set for 2021.
- It also welcomes the decision of the Portuguese government to publish a **weekly report updating the level of implementation** with a balanced scorecard detailing how funding is reaching its ultimate beneficiaries.

3. Stand-out progress in "agendas for mobilising business innovation".

- 144 candidatures were submitted and 70 projects have already been shortlisted, representing **total investment of €10.3 Bn.**
- In essence these projects are similar to Spain's PERTEs: they seek to consolidate synergies between the fabric of business and R&D&i via consortia.

Spain

1. Lack of transparency makes it impossible to determine how much aid has been made available to businesses.

- The last data published on earmarked spending for the private sector in our country dates from August 2021, when the figure was **€104 million.**
- There is a need for **public, transparent, up-to-date information** so that the progress of the Plan can be monitored objectively.

2. Major drivers such as the PERTE projects need to begin materialising in the form of calls and specific projects.

- As of the date of this report nine strategic projects have been approved. However, calls have only been announced in connection to four of them (VEC, ERHA, the agri-food chain and the healthcare area). Even there, the number is low.
- The rest of these strategic projects only exists on paper for the moment: they have been approved in Cabinet but no lines of aid have been published which businesses in the relevant sectors can apply for.
- There is a need to speed up the materialisation of the PERTEs through calls for subsidies, and then to **report to the business community on how the private sector has welcomed the relevant schemes.**

The independent assessment committee for the plan in France has reported positively on the impact of funding, especially in reindustrialisation

France

1. The French government has increased its efforts to communicate the progress made in the France Relance ["Relaunch France"] Plan

- To ensure transparency in the application of investments under the Plan, the Ministry of Economic Affairs, Finance and Recovery publishes a **balanced scorecard** which is updated **monthly**, and which sets out the amounts already designated under the **twenty-five largest aid programmes** .
- For example, **925 beneficiaries have so far been designated for the programme to modernise the automotive and aeronautics industries**, with **overall investment of almost €2 Bn**, and more than **€5.7 Bn has been mobilised** under the programme of support for **industrial projects at territorial level.**

2. Reinforcing the competitiveness of businesses, reindustrialising French territory and speeding up the environmental transition are the three main axes of France Relance.

- The **independent assessment committee**, comprising top-ranking actors and chaired by renowned economist Benoît Coeuré, has initially **rated as positive the impact of NGEU funds in reindustrialisation**: pre-crisis levels of **activity were recovered at the end of the third quarter of 2021** and unemployment was down.
- The channelling of aid under the Plan has given a **boost to French industry**:
  - ✓ On the one hand there has been aid to delocalise and develop activities at around **10,500 companies** (one third of the total number of industrial companies in France), with investment in excess of **€14 billion.** That boost has been especially strong among SMEs.
  - ✓ On the other hand a **cut in taxes on production**, estimated at **€10 billion in 2021**, has favoured the growth of industrial companies.

Spain

1. There is still a need to know the amount of earmarked spending and the actual data on implementation

- Communication concerning general levels of implementation and specific calls needs to be improved.

2. Very few lines of aid have been launched to reinforce industry

- Aside from calls associated with PERTEs, hardly any aid for industrial firms has been published. In 2021 there were stand-out calls for "Innovative Business Groupings" and REINDUS/Industry 4.0 aid.
- Spanish industry is crying out for further calls under these programmes, this time with more flexible deadlines and conditions

The wide range of tax incentives included in national plans is striking. The application of such incentives in Spain could be of great interest in the current economic context

In view of current circumstances, the CEOE has been saying since September that it believes that it would be a good idea to apply tax incentives payable via EU funds, as permitted by the European Commission.

Below is a compilation of **examples of tax incentives** included in the national plans of other Member States:

Portugal

- Application of tax measures to benefit public transport users, such as tax deductions on VAT on monthly public transport passes.
- Assessment of tax incentives that could encourage the replacement of non-renewable natural resources by other biological resources.

France

- Tax credits for up to 30% of spending on eligible actions (such as roof & wall insulation, collective solar water heaters and heat pumps), with an upper limit of €25,000 per company. This scheme is open to spending from 1 October 2020 to 31 December 2021. These tax credits will be applied to personal income tax or corporation tax owed by the relevant taxpayers in the calendar year in which the spending eligible for subsidy is incurred (i.e. 2020 or 2021).

Italy

- Support for the tourist sector: tax credit for work to improve accommodation facilities.

Denmark

- A temporary increase in tax deductions for businesses that invest in capacity costs such as technology and IT programs, which can help increase business operations and at the same time reduce GHG emissions.
- Fast-tracked tax deductions for depreciation. Company investments in fixed assets (such as machinery, equipment & software) with acquisition prices below DKK 14,100 can be depreciated immediately. This lower limit is to be raised permanently to 30,000 DKK. The increase in the threshold amount is expected to work as a short-term stimulus, as it generates additional liquidity for firms in the first few years. Denmark trusts that this will strengthen investment in ICTs and liquidity at companies that make a profit.
- Extending the basis for depreciation and the basis for deduction on all R&D spending in the private sector by 130% in financial year 2022.

Sweden

- Elimination of calculated revenue from deferred capital gains. This measure seeks to reduce transaction costs on real estate transactions by private home owners, thus facilitating mobility in housing and labour. The measure eliminates ordinary revenue from deferred capital gains. Deferred capital gains were previously subject to standard revenue based on the interest rate set. That ordinary revenue was added to the taxable base revenue and taxed at a rate of 30%.

Austria

- Incentives for investment in climate-friendly technologies and support for extending the circular economy via preferential tax treatment for low- and zero-emission products and technologies. This tax reform is expected to be revenue-neutral, as it provides tax deductions for businesses and households via offsetting measures that have further positive social and economic effects, such as cuts in tax on labour and specific reductions based on consumption.

Greece

- Tax incentives for super-deductions on spending to reinforce investment at SMEs on equipment linked to adaptation to climate change, promoting the circular economy and digitisation.
- Tax and other incentives to encourage self-employed workers, micro-enterprises and SMEs to increase economies of scale through mergers, conversions, acquisitions and systems/platforms for cooperation such as jointly owned companies and groupings that can also foster greater productivity and increased exports.
- Tax incentives to foster the digital transformation of SMEs, such as digital advertising tools, home-working systems, AI, cyber-security, etc.

5.2. Thematic analysis of priority measures

A comparison with other national plans reveals a catalogue of good practices that it could be of interest to apply in Spain

1. Support for SMEs

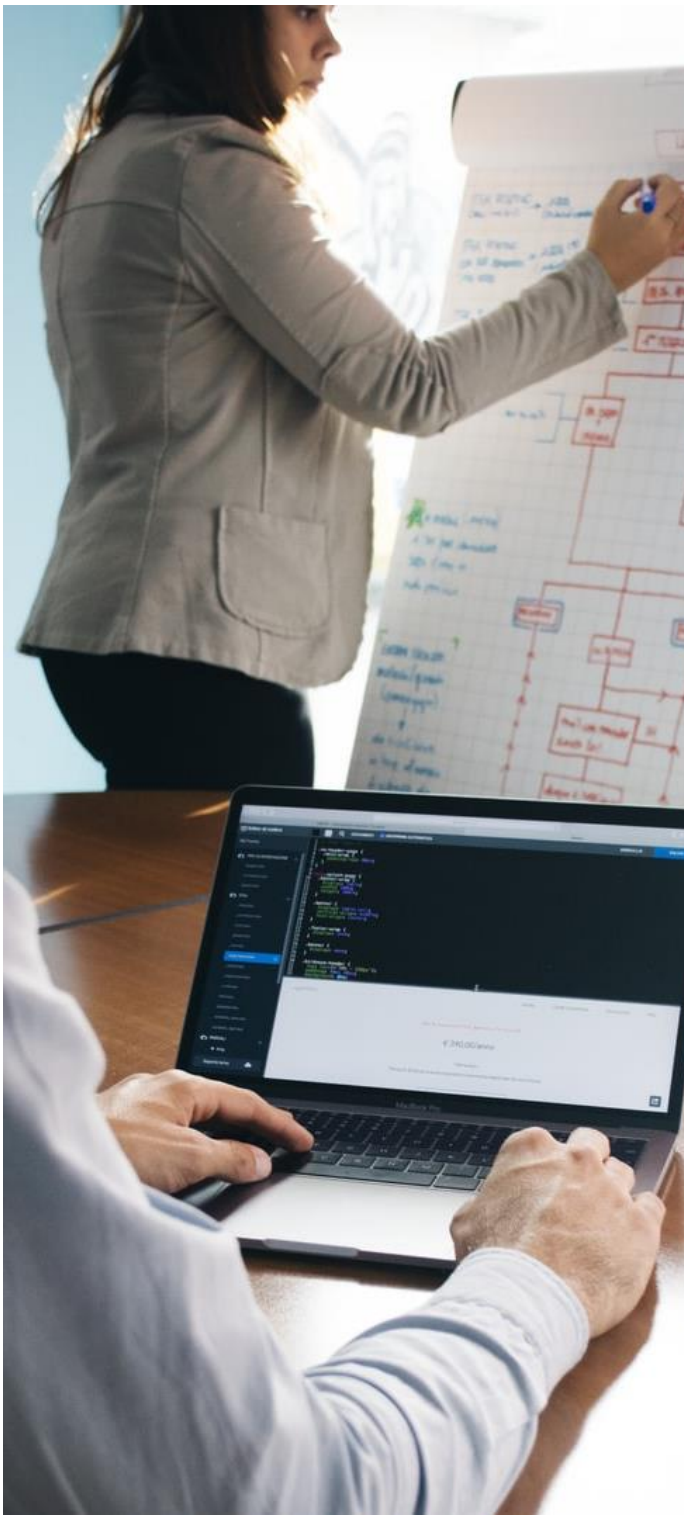
The 22 plans approved by EU institutions include significant measures for SMEs, with spending estimated at €109 Bn, i.e. around one fourth of the total investment.

- **Spain** has set up the Digital Toolkit, focussed specifically on SMEs with a workforce of up to 49 people. This is without doubt an **innovative programme and a reference point at EU level.** However other countries also have interesting, stand-out initiatives that could complement the Digital Toolkit.
- **Portugal has set up a** €450 million package to be channelled through:
    - *Vouchers for start-ups to help them make the green and digital transitions, and for business project incubators and accelerators;*
    - *Support for the setting up of 16 innovation hubs and a network of 30 test-beds for SMEs. A test-bed is a platform for experimental work on major development projects.*
- **Greece** has developed a powerful reform for eliminating red tape.
- **France** has launched a highly ambitious energy renovation programme for SMEs:
    - *A tax deduction of 30% of the spending eligible for subsidy.*
    - *A line of subsidies for rehabilitation operations, aimed at small retail businesses and the self-employed.*
- **Croatia** has activated a package worth €83 million for SMEs in the tourism sector.

2. Jobs

Member States have oriented their recovery plans mainly towards active policies for supporting job creation.

- Specifically, the goal is to modernise **publicly-run employment services** and to **integrate young people** (especially those with less qualifications and less prior work experience) **and groups that find it hardest to access new job opportunities into employment.** This includes the long-term unemployed, women, older workers, persons with disabilities and migrants.
- The European Commission highlights certain measures designed by some Member States in particular. For example, **Spain stands out for its labour reform** and the impact of that reform in **simplifying employment contracts** and fostering **indefinite contracts**.
- Other countries are highlighted for:
  - Their support systems designed to activate the long-term unemployed, e.g. **Ireland,** with its new programme of in-company work experience
  - Their incentives to encourage companies to hire young people on indefinite contracts, e.g. **Slovenia.**
  - In **Italy** there is an ambitious programme to support entrepreneurialism among women.



3. Clean energy

National recovery plans must use at least 37% of Next Generation funding for goals related to the green transition.

- To a large extent, green investment is focused on **generating renewable energy** through support for both mature and innovative technologies.
- There have also been commitments to **reforms** which are essential for the actual deployment of investments.
- One of the most highly rated reforms across the EU is **Spain's Energy Storage Strategy,** approved in February, that seeks to address the challenge of stability and grid capacity. In that context, support is to be provided for **five innovative storage projects** with a joint capacity of at least 600 MW by June 2026.
- Other stand-out reforms concerned with **energy infrastructures** include that undertaken by **Lithuania**, which focuses on supporting businesses, farmers and renewable energy communities for the installation of onshore wind and solar farms and storage facilities.
- Other countries have undertaken to implement reforms to **simplify authorisation procedures** for renewable energy facilities (**Italy**) and licences for renewables and for maritime spatial planning (**Greece**), so as to boost renewables in offshore and coastal areas and free up potential for offshore wind energy production.
- In the context of the development of **hydrogen,** and specifically of the **IPCEI** currently being promoted, measures taken by three countries stand out:

  I. **Austria** has undertaken to take actions to produce and store renewable hydrogen.

  II. **Germany** is to implement projects throughout the value chain, focused mainly on three areas: (1) production; (2) construction of German and European transport infrastructures; and (3) hydrogen storage.

  III. **Italy** is taking advantage of the fact that reforms are required in support for the deployment of renewable hydrogen in the energy, industry and transport sectors to draw up new safety regulations for the production, transportation, storage and use of hydrogen. In particular, **technical and regulatory criteria** are to be introduced for the incorporation of hydrogen into natural gas networks and for a future hydrogen pipeline network.

6

Challenges and recommendations from businesses for better fund management

6.1. Short and medium-term challenges

6.2. Recommendations for improving management

6.1. Short and medium-term challenges

The Russian invasion of Ukraine and the cost of energy and raw materials may have an impact in the short term on the funding allocated to each country

1. Factoring in the consequences of the Russian invasion of Ukraine and its impact on EU funds.

There are two major initial causes for concern in regard to the impact of Russia's invasion of Ukraine:

- Whether it has any effect on the **allocation and implementation of funding** and results in changes in the RRF or the Multi-annual Financial Framework for 2021-2027.
- Whether an **additional specific aid package** is to be approved for the sectors hardest hit by this situation.

In this sense, the forecasts for the Spanish economy are being revised downwards and the impact of the war between Russia and Ukraine on Spain's economy will depend on how long the conflict lasts and how intense it is. There are **three channels of transmission** that must be taken into account:

- The **impact on energy and other raw materials**, which increases inflation. The economic outlook report published by the CEOE in March indicates that inflation is following an upward trend, with an average annual rate of 5.9%.
- The **financial channel**, which could result in turbulence in assets considered as high-risk. In this regard, global uncertainty and instability may lead to turbulence on financial markets.
- **Confidence,** as uncertainty affects consumer spending and investment decisions by households and businesses.

2. The need to accelerate projects linked to strategic capabilities, and especially to reduce our energy dependency.

As a result of the Russian invasion, the European Commission has stressed the need to speed up all energy transition projects that can help the EU reduce its energy dependence on Russia (gas and oil).

In this regard the Spanish government has raised the budget endowment **for the PERTE for EHRA by €1 Bn**. However, to date there has been no move to speed up calls as a result of the energy crisis.

Doing so would not provide an immediate solution to the current crisis, since such engineering projects take at least a year or eighteen months to implement, but it would help to reduce the EU's energy dependency in the medium term (by 2030).

For the fabric of business it is also worrying to see that **supply chain problems continue to exist** in such important sectors for the Spanish economy as the automotive industry.

3. The importance of extending and broadening the time frame for state aid.

The time frame for state aid, scheduled to end in June, needs to be extended and there needs to be an in-depth look at the upper limits for aid. This would help Spain **accelerate the process of achieving strategic autonomy** in areas that are becoming extremely important at this time.

The addendum to the Plan submitted by Spain for the €70 Bn in loans needs to include solutions to current problems

4. The application for €70 Bn in loans that Spain is to submit in the second half of 2022 needs to address the areas for improvement identified to date.

The business sector is closely monitoring the calendar for the application for the €70 Bn in loans envisaged by Spain, and the contents of the **addendum** to the España Puede Plan.

To that end, at the CEOE we are establishing **a close dialogue with the European Commission and with the government** in this area, with a view to including certain improvements.

Specifically, we believe that the opportunity needs to be taken to solve the problems currently observed through the following main actions:

- Ensure a **balance between market-driving projects** and **specific projects for SMEs and the self-employed**.
- Work towards the **strategy autonomy** of Spain and reinforce the country's presence in **IPCEIs.**
- Foster **larger-scale, less fragmented calls**, to assure that their impact is transformational and that they can be managed smoothly.
- Incorporate **tax reductions and tax incentives.**

6.2. Recommendations for improving management

1. Incorporate tax cuts and tax incentives payable from EU funds, as done in other national plans

Tax cuts and the introduction of tax incentives charged to EU funds should be a priority for Spain in the current context, as a way of combating the effects of rising inflation on households and businesses.

Countries such as France, Portugal, Denmark, Austria, Italy and Sweden have incorporated tax cuts or tax incentives into their national plans. Moreover, in the context of the excessive red tape involved in administrative processes in Spain, these are the most immediate, most efficient channels as there is no need for any bureaucratic procedures.

At least the additional €4 Bn that Spain seems likely to receive in the form of non-refundable transfers and part of the funding not yet implemented could be earmarked for this purpose.

2. Guarantee the long-term currency of the reforms agreed and ensure that they do not stray from the purposes set in the milestones agreed with the EU

Spain has an opportunity to undertake structural reforms to solve long-term challenges. It is important to assure respect for social dialogue and for the European Semester in the design and long-term currency of measures, so that they are not changed unilaterally after the fact.

3. Strengthen the balance between major, market-driving projects and subsidies for SMEs and the self-employed via less fragmented calls

Alongside the small calls already ongoing, there is a need to accelerate the publication of larger, transformational calls in relation to PERTEs, to ensure that they are less fragmented than they have been to date and to boost the participation of Spain in IPCEIs.

4. Maximise applications for and access to funding by SMEs and the self-employed based on the positive experience of the Digital Toolkit.

Fragmented calls with small numbers of beneficiaries in highly specific areas make it hard for SMEs and the self-employed to access funding. Calls therefore need to be broader, with high percentages of joint funding from the public sector, with remote access free from red tape. The way in which this is set up in the Digital Toolkit is highly suitable.

5. Unblock the processing of the bill for Royal Decree-Law 36/2020

The deadlock in the lower house of Parliament and the repeated extending of the deadline for submitting amendments to the bill for Royal Decree-Law 36/2020 (almost 50 since February 2021) prevents the legislation from being enriched and turned into a truly effective instrument for smooth administration. Nor is there any justification for a Royal Decree to be used as the form of modifying the legislation, as occurred with Royal Decree-Law 6/2022.

6. Speed up coordination between public administrations

Over and above spending commitments, there is a need to ensure that funding reaches the various administrations, especially at regional autonomous community level, so that they can speed up the publication of their own calls and to help adapt their goals to the actual economic circumstances in each region.

7. Involve the financial sector so as to gain flexibility and ensure a bubble-up effect of aid.

Greater involvement by the financial sector in the implementation of funding would make for smoother implementation and ensure a bubble-up effect, especially towards SMEs and the self-employed in all sectors and territories.

Participation in key schemes in the Plan such as the Digital Toolkit aimed at SMEs with up to 49 employees could provide key leverage to ensure smoothness and success in implementation.

8. Provide more in-depth information on calls and the implementation of funding

It is essential to increase efforts to provide information on the operation of funding and calls, and to ensure transparency in regard to how funding is implemented and how it reaches the real economy.

In particular, the main website set up by the government needs to list the tenders and calls for the public sector as a whole, not just those of the central government.

There is also a need to known what volume of funding has reached the real economy, as was done up in the monthly reports published to August by the General State Comptroller, showing the main indicators for the economic and financial activity of the state.

9. Incorporate solutions into the areas for improvement identified to date under the addendum to the Plan in the application for loans to the tune of €70 billion

This addendum may be a good opportunity to correct those elements of the implementation of the Plan which are currently not working properly in Spain.

The areas for improvement include in particular the incorporation of real market-driving projects to strengthen the balance between large-scale market-driving projects on the one hand and subsidies for SMEs and the self-employed on the other. This would also enable funding to be fitted to the needs of businesses and the economy in each region.

Along similar lines, there is a need to launch broader, less fragmented calls to ensure that funds have a real, transformational impact and can be managed smoothly.

Finally, Spain also needs to incorporate tax cuts and tax incentives.

Annex

Sources of information

Sources of information

Independent Authority for Fiscal Responsibility (AIReF)

- Report on Initial Budgets of Public Administrations for 2022 https://www.airef.es/wp-content/uploads/2022/04/PRESUPUESTOS-INICIALES/INFORME-PRESUPUESTOS-INICIALES-2022-GENERAL.pdff

Bank of Spain

- Quarterly report on the Spanish economy (Q1 2022). https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/InformesBoletinesRevistas/BoletinEconomico/22/T1/Fich/be2201-it.pdff

Business Europe

- Online portal for Next Generation EU funds.
- https://www.businesseurope.eu/campaign/overcoming-covid-19-crisis

CEOE.

- Framework document for the recovery, transformation and resilience of the Spanish economy (November 2020). https://www.ceoe.es/es/publicaciones/economia/documento-marco-para-la-recuperacion-la-transformacion-y-la-resiliencia-de

- Monographic economic overview: "The Russia-Ukraine conflict: channels of transmission to the Spanish economy" (March 2022). https://www.ceoe.es/es/publicaciones/economia/panorama-economico-marzo-2022-monografico-el-conflicto-rusia-ucrania-canales

- First monitoring report on EU Next Generation funding in Spain (January 2022) https://www.ceoe.es/es/publicaciones/economia/informe-de-seguimiento-de-los-fondos-next-generation-eu-en-espana-primer

CEPYME

- Survey on the arrival of Next Generation EU funds at SMEs (November 2021). https://www.cepyme.es/wp-content/uploads/2021/11/NdP-El-653-de-las-PYMES-espaolas-no-espera-recibir-ninguna-ayuda-de-los-fondos-europeos.pdf

European Commission

- Recovery and Resilience Facility Annual Report (March 2022). https://ec.europa.eu/info/files/recovery-and-resilience-facility-annual-report_en

- Compilation of national recovery plans in different Member States. https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en#national-recovery-and-resilience-plans

FEDEA

- Monitoring of the coronavirus crisis and the Recovery Plan (April 2022). https://documentos.fedea.net/pubs/eee/2022/eee2022-08.pdf?utm_source=wordpress&utm_medium=portada&utm_campaign=estudio

Government of Spain

- National Database on Subsidies https://www.pap.hacienda.gob.es/bdnstrans/ge/es/convocatorias
- Report on the Implementation of the Recovery, Transformation and Resilience Plan (February 2022) https://planderecuperacion.gob.es/ejecucion/informe-de-ejecucion-del-plan
- Monthly report: Main indicators of economic and financial activity in the State. https://www.igae.pap.hacienda.gob.es/sitios/igae/es-ES/Contabilidad/ContabilidadNacional/Publicaciones/Paginas/imdatoscaja.aspx
- Public sector procurement platform. https://contrataciondelestado.es/wps/portal/plataforma
- Online portal of the Recovery, Transformation and Resilience Plan. https://planderecuperacion.gob.es/

Government of France

- Monitoring report on the implementation of the plan, drawn up by the Evaluation Committee (February 2022). https://www.strategie.gouv.fr/sites/strategie.gouv.fr/files/atoms/files/fs-2021_committees_opinion_committee_for_the_evaluation_of_the_the_french_recovery_plan_france_relance.pdf
- Portal of "France Stratégie", an organisation answerable to the Prime Minister. https://www.strategie.gouv.fr/

Government of Italy

- Online portal of the Italia Domani recovery plan. https://italiadomani.gov.it/en/home.html
- Monitoring report on budgeting and planning of funding (December 2021). https://italiadomani.gov.it/en/news/inviate-alla-commissione-europea-le-domande-di-pagamen1.html

Government of Portugal

- Online portal of the Recuperar Portugal recovery plan. https://recuperarportugal.gov.pt/
- Operational situation point report (March 2022). https://recuperarportugal.gov.pt/wp-content/uploads/2022/04/Relatorio-de-Monitorizacao-PRR-Sumario-20220330.pdf

KPMG

- Pulse report on European finding (April 2022). https://assets.kpmg/content/dam/kpmg/es/pdf/2022/04/pulso-fondos-europeos-2022.pdf

CEOE Empresas Españolas