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Spain's Recovery, Resilience and Transformation Plan: key challenges for implementation

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On October 7th 2020, Prime Minister Pedro Sánchez presented the high-level headlines of Spain's COVID-19 recovery plan. Spain's plan has been welcomed as, a priori, it is aligned with the European Green Deal,¹ with the Sustainable Development Goals—the emphasis on which is a distinctive feature compared to other recovery plans—and with the priorities of the upcoming and reinforced EU budget. However, there are several concerns about the execution of the plan.

Spain's recovery plan adds up to the list of existing EU Member States' recovery plans that put an emphasis on their alignment with the Green Deal. As emergency measures to safeguard the economy and employment are still a priority for many countries, the fact that the EU and its Member States are developing recovery plans is extremely important as they give a political signal and a mid- to long-term direction to short-term public financial interventions. Instead of a series of uncoordinated rescue measures, these plans open the possibility to assess their alignment with the high environmental and social ambition that is necessary to “build back better”. Analysing these plans is also fundamental to understand how these Member State level plans are synergistic, aligned with one another, and how they could be coordinated or even made more efficient by cooperation between Member States. In this context, IDDRI reaches out to its think tank partners in key Member States to be able to analyse their recovery plans, with two objectives: enabling the French political debate to be better informed on other Member States' recovery plans, and contributing to a European level debate about their alignment. Hence the analysis of the [German](#), [French](#), and [EU level](#) recovery plans. In this perspective, this blogpost presents the analysis of the Spanish recovery plan by experts of the Real Instituto Elcano in Madrid.

Spain is one of the EU countries that has been most severely affected by the pandemic, with 1,556,730 confirmed cases and 42,619 deaths as of November 23, 2020.² The IMF's October update of the World Economic Outlook expects Spain's GDP to decrease by 12.8%³ in 2020. The unemployment rate in Spain was 16.26% in Q3 2020.⁴ The large weight of the tourism and service sectors in Spain's economy, coupled with the high percentage of small and medium sized enterprises (SMEs) and high rate of temporary contracts are some of the key elements that explain Spain's economic fallout vis-à-vis other EU countries.

Given that the EU's response to the pandemic in terms of allocation of funds is based on the severity of its effects, Spain is expected to be the second largest recipient of EU COVID-19 recovery funds in absolute terms, only second to Italy. In fact, Spain is set to receive circa €140 billion from the temporary recovery mechanism (Next Generation EU) which amounts to 11% of Spain's GDP in 2019. Almost half of that would be in the form of transfers.

As for the use of EU funds, Spain's Recovery, Transformation and Resilience Plan (España Puede) establishes, as indicated by the EU, that 37% of said funds will be allocated to green investments and 33% to the digital transition. See Table 1 below.

Table 1. Allocation of funds in Spain's Recovery, Transformation and Resilience Plan.

Allocation of funds by categories

%

1

Urban and rural agenda, fight against rural depopulation and development of agriculture

- Including: a sustainable mobility plan, the establishment of Low emission Zones (LEZs), a significant increase in electric vehicle (EV) charging infrastructure (100,000 charging points), housing rehabilitation (500,000 buildings)

16.0

2

Resilient infrastructures and ecosystems

- Including: conservation and restoration of ecosystems and biodiversity, coastal areas and water resources.

12.2

3

Inclusive and Just Energy Transition

- Integrated National Energy and Climate Plan (INECP) goals for 2025 to be brought forward to 2023, 250.000 EVs, boost of renewables via auctions and support for innovative projects (especially for floating offshore wind), a roadmap for 4GW of clean H2, the National Self Consumption Strategy, reinforcing the grid, invest in smart grids, boost storage, etc.

8.9

4

An administration for the XXI century

- Among other, this will arguably reduce red tape that has been argued to hold back renewable energy projects in the past.

5.0

5

Modernisation and digitalisation of the industrial and SME fabric, recovery of tourism and promotion of an entrepreneurial Spain

17.1

6

Science and Innovation Pact. Reinforcement of the National Health System

16.5

7

Education and knowledge, lifelong learning and capacity building

17.6

8

The new care economy and employment policies

5.7

9

Boosting the culture and sports industry

1.1

10

Modernisation of the fiscal system for an inclusive and sustainable growth

- Including a green fiscal reform that will have to overcome resistance from some of the industry associations⁵ as well as consumers⁶.

-

Total

100*

Source: adapted from Presidencia del Gobierno (2020: 56).* Figures are rounded up.

These funds will be front loaded to the next two years, with €72 billion in transfers expected to be received from April 2021 until 2023.⁷ In principle, the recovery funds cannot be used after 2026, so the timely use of funds is key for Spain. Additionally, 50% of the EU recovery funds will be managed by the regional governments, making regional absorption and implementation capacity critical to Spain's EU-supported recovery and transformation success.

While the initial evaluation of the plan is positive for its potential economic effect and its environmental and social ambition and alignment with the EU Green Deal, there are some concerns about the fully fleshed plan that is expected to be published in early 2021. First, Spain's capacity to absorb large amounts of funds in a relatively short period of time. Second, there are concerns about the governance of the plan across a highly decentralised institutional system in Spain.⁸ Third, there is a need to structure the collaboration with the private sector, especially with SMEs that make up over 99% of Spanish businesses,^{9, 10} with some business representatives voicing concerns about the limited information they have received to date from the government. Fourth, the government will have to implement potentially unpopular economic reforms, including the education, R&D system, tax, labour market, pension and public administration reforms. Fifth, these politically costly reforms will have to be implemented in a polarised internal political context.¹¹

Regarding ensuring the absorption capacity and correct use of the funds, Spain's Recovery, Transformation and Resilience Plan includes several governance and control initiatives. These include: the establishment of a Commission for Recovery, Transformation and Resilience (inclusive of a technical committee) that is linked to the government's Delegated Commission for Economic Affairs and headed by the principal Economic Advisor to the Prime Minister; a follow-up unit for the adequate absorption of EU funds; parliamentary control over the execution

and results of the plan; and, the adoption of a royal decree-law to eliminate the barriers to the absorption of funds. As for fostering public-private collaboration, and in the hope of quadrupling public recovery money and hence leverage private sector funding for a low carbon transition, various advisory bodies are being convened with non-state actors. Additionally, in order to enhance coordination across regional and local governments, the Sectorial Conference for European Funds will be convened, led by the Ministry of Finance.

In stark contrast to what happened in the aftermath of the 2008 global financial crisis, Spain's preparedness for a low carbon transition is now significant. Institutionally the Ministry for Ecological Transition and Demographic Challenge (MITECO) merged energy and climate responsibilities, making integration and coordination easier. The Spanish government published its Agenda for Change in 2019 where the economy's strengths and weaknesses were analysed and where economic policy was to be geared towards economic, environmental and social sustainability, in line with the 2030 Sustainable Development Goals.¹² Spain's climate ambition has been matched by a low-carbon transition regulatory spree which has been acknowledged and welcomed by the EU. Key climate-related legislation (both legislative and executive initiatives) include, among others, an ambitious Integrated National Energy and Climate Plan, Spain's Second National Adaptation Plan, the Just Transition Strategy and the recently published Long-term Decarbonisation Strategy. This flurry of initiatives indicate that the low carbon transition roadmap is clear for Spain.

In short, the Spanish strategy combines a clear, and EU Green Deal aligned, energy transition roadmap, an ambitious economic reform program, and several institutional mechanisms to foster absorption capacity. A well-developed and executed recovery, transformation and resilience plan can provide Spain with a unique opportunity to accelerate its decarbonisation plans and enhance its contribution to the EU's climate neutrality goals while supporting European and Spanish economic recovery.

¹ EC (2020), The European Green Deal. Brussels, 11.12.2019 COM(2019) 640 final.

² European Centre for Disease Prevention and Control (2020), COVID-19 situation update for the EU/EEA and the UK, 23rd of November 2020.

³ IMF (2020), World Economic Outlook update. October 2020. International Monetary Fund.

⁴ INE (2020), Encuesta de Población Activa. Tercer Trimestre de 2020. Instituto Nacional de Estadística.

⁵ Note that associations such as Alianza por la Competitividad de la Industria Española has advocated for a moratorium of all new taxation, including environmental and energy taxation. This contrasts with the position of the Spanish Green Growth Group that has advocated for a green fiscal reform that embeds the polluter pays principle in Spain's fiscal system.

⁶ Lázaro Touza, L. González Enríquez, C. and Escribano Francés, G. (2019), Los españoles ante el cambio climático. Real Instituto Elcano. 24/9/2019.

⁷ The remaining €68 billion in loans could hence be expected in 2023-2026, if the government decides to use these.

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⁹ Ministerio de Industria, Comercio y Turismo (2020) Cifras PYMES. Enero 2020. Gobierno de España

¹⁰ In fact, the Spanish Confederation of Business Associations (CEOE) has set up an on-line platform to inform Spanish companies about available EU funds, identify projects that could receive such funds and provide updates regarding said funds. <https://www.ceoexeuropa.es/presentacion/>

¹¹ Spain has a coalition government that does not have a parliamentary majority and needs other parties' support to enact substantial policy changes. For instance, the government's proposal to increase the taxes on diesel was rejected by two potential partners in passing the National Budget, the Basque Nationalist Party (PNV) and the centre-right party Ciudadanos (C's).

¹² Ministerio de Economía (2019), Agenda del Cambio. Hacia Una Economía Inclusiva y Sostenible. Gobierno de España.