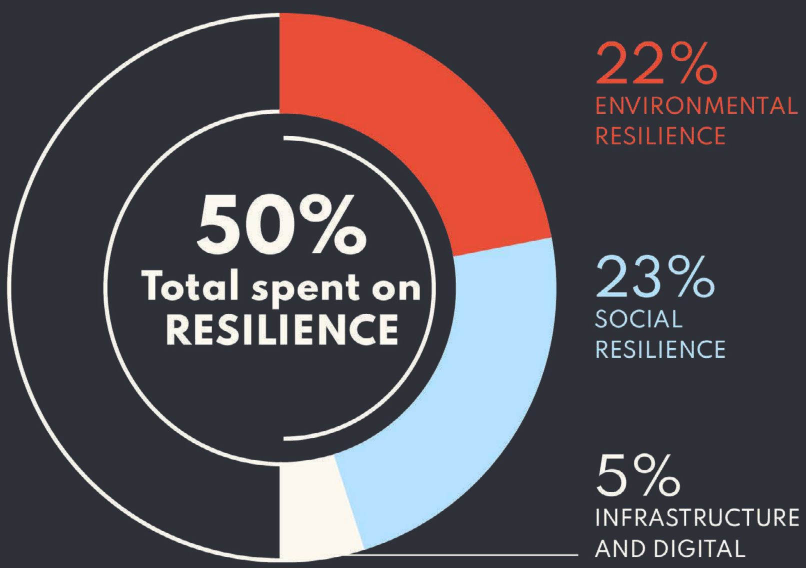
rethink the recovery

IS FRANCE 'BUILDING BACK BETTER' OR BACK TO BUSINESS AS USUAL?

French recovery plan analysis:
"France Relance"

Of the €100 billion French Recovery Budget:



Finance Watch
Making finance serve society

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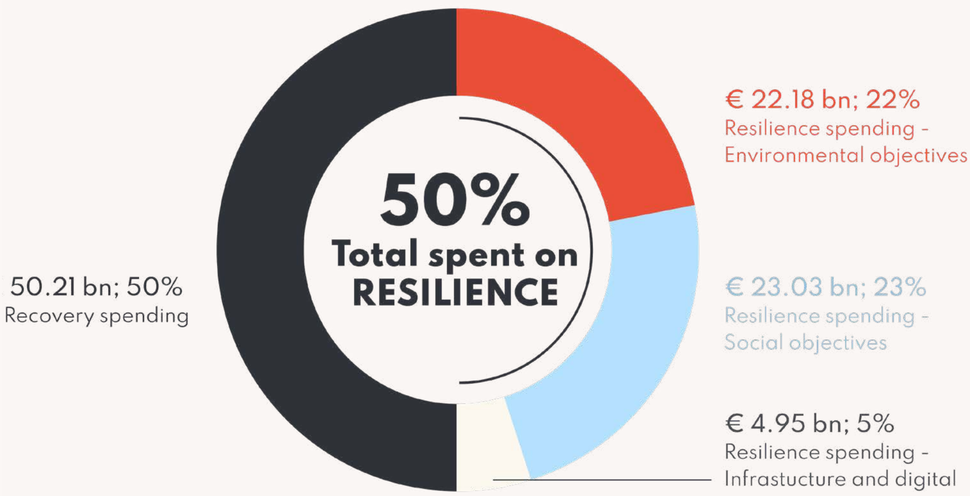
EXECUTIVE SUMMARY

"France Relance", the French government's plan, aims at helping repair the immediate economic and social damage brought about by the coronavirus pandemic while making the French economy more sustainable and resilient to future shocks. **Presented officially in September 2020**, the plan will be partially financed by the funds provided by the Next Generation EU Recovery and Resilience Facility (RRF) in accordance with the criteria defined by the RRF Regulation text.

Finance Watch assessed the proposed French policy measures on their environmental and social sustainability as well as contribution to economic recovery vs resilience objectives. For this, the time horizon over which the measures are expected to have their effect (long-term vs short-term), and the alignment with the strategic objectives were taken into account. Such objectives include, among others, the reduction of greenhouse gas emissions, energy transition, digital transformation, social sustainability.[1] **Resilience measures** were defined to be long-term oriented and expected to have transformative economic effects rather than restore the pre-crisis economic situation, which is the main objective of recovery-oriented measures.

Based on the analysis, the **breakdown of the total "France Relance"** spending of €100 billion is as follows:



1 Expert judgement was used to execute the assessment. No account of the starting conditions in the country was taken, which might accelerate or slow down the transition towards sustainability and resilience.

Summarizing the results of the Finance Watch review:

- Resilience-oriented measures account for roughly 50% of the planned budget.
- However, the long-term environmental sustainability component of the plan is not sufficient; the link of the proposed policy measures to the country's strategic climate and energy goals has not been established.
- Policy measures, which received the largest budget allocations, are mostly driven by short-term business competitiveness rather than sustainability considerations.
- Case evidence suggests that the recovery funds have already been used to the benefit of big traditional industry players rather than transform the economy structure and ensure its resilience to future shocks:
    - Air France bailout without legally binding conditions imposed
    - Corporates across the board, including environmentally harmful companies, benefitting from the different forms of government support without conditions.

The measures put in place as per the plan should be viewed in the broader **context of the** EU economic governance and fiscal framework. The framework is composed of a complex architecture of rules constraining Member States' fiscal policy, combined with a system of governance and tools aimed at enforcing these rules. The most significant of these rules are the 60% limit on the government debt-to-GDP ratio and the 3% limit on the budget deficit-to-GDP ratio, including the corresponding adjustment mechanisms in case of limit deviations. These limits do not properly account for the economic cycle, quality of spending and impacts that environmental and social imbalances have on long-term debt sustainability. Thus, the existing **fiscal framework reinforces policy short-termism and prevents the EU countries from reaching their social and environmental goals.** Even though the rules were temporarily suspended due to the pandemic situation, potential return to fiscal austerity could **break the recovery.**

Conclusions reached by Finance Watch are consistent with…

➜ **the following expert assessments and databases:**

- Assessment of the "France Relance" on the subject of environmental sustainability by the Haut Conseil pour le Climat
- Institute for Sustainable Development and International Relations (IDDRI) analysis
- The Shift Project: Vers un plan de transformation de l'économie française en faveur du climat et de la résilience
- Greenness of Stimulus Index produced as part of the Finance for Biodiversity Initiative (F4B) to assess if the global pandemic stimulus measures will help boost global resilience to climate and biodiversity risks
- Green Recovery Tracker by Wuppertal Institute and E3G – Third Generation Environmentalism (summary)
- IMF database summarising key fiscal measures governments have announced or taken in selected economies in response to the Covid-19 pandemic

➜ **and opinions:**

- Institut Veblen pour les réformes économiques
- Réaction de la Fondation Nicolas Hulot au Plan de Relance et 5 conditions pour réussir et 3 secteurs clés à réguler
- Greenpeace: Relance : l'écologie laissée en plan
- Friedrich-Ebert-Stiftung (FES) expressed reservations with respect to transformational nature of the French fiscal measures
- The Conversation, an independent news organization

COUNTRY PLAN'S CONTEXT

When France announced on the 3rd of September 2020 its €100 billion stimulus plan, it unveiled the second largest European plan in terms of size after Germany. One third of the "France Relance" provides for direct measures under the social cohesion headline. The remaining headlines focus on driving the recovery and speeding up France's competitiveness indicators with some additional – and far too limited – considerations for ecological and social transition. Showing disconnect from France budgetary procedure, the plan is handled under a separate team inside the Economic Finance and Recovery Ministry.[2]

2 A timeline foresees that 50% of the budget will be executed in 2020 and 2021 and the rest is programmed for the budget year 2022.

MAIN TAKEAWAYS

The detailed analysis of France's recovery plan ("France Relance") does provide evidence that resilience is part of the plan's thinking. Fifty percent of the plan's budget has been assessed as being long-term-oriented and resilient. These measures cover spending on public health, territorial regions, renovation of the energy sector, green mobility and education. Proposed measures within the plan should be viewed with anticipation for sustained economic activity in certain sectors of the economy such as in construction. Lacking an environmental sustainability plan, however, France's recovery plan does not fundamentally depart from its existing planning exercises or more traditional models.

Sustainability assessment of measures yields a weak score, falling below the average plan score (see Graph 1). Missing within the "France Relance" are the links between the environmental sustainability objectives and plan measures. The larger the size of planned investments, the weaker environmental considerations attached to them. As no new ecological commitment is being communicated, Finance Watch questions the ability of the plan to push ahead the environmental boundaries of standards and regulations. Climate-related benefits are entrenched in existing environmental regulations while no linkage is established to the 2050 climate neutrality goals. The review did not find any form of sustainability assessment being attached to the wide range of measures aimed at boosting business competitiveness.

On the social sustainability component of the measures, the situation appears more positive. That said, the assessment could be further improved by extending the temporary measures for workers and consumers. Further, the social measures outlined in the plan would have to be integrated into a broader, more long-term social vision.

RESILIENCE ASSESSMENT

A balanced profile exists in the plan composition between resilience and recovery dimensions. Key resilience gaps highlighted below reflect the definition of resilience that Finance Watch outlined in the report "10 Principles for a Sustainable Recovery", presented on the 2nd of October 2020 (see Annex 1 for details):

➜ Despite the plan having a balanced composition of recovery vs resilience-oriented measures, its climate ambition needs a boost. The plan does not outline any details on its ability to contribute to the national energy and climate goals. The plan fails to provide a coherent assessment of the benefits and impacts in environmental domains covering climate mitigation, adaptation, resources' uses, air pollution or biodiversity protection.

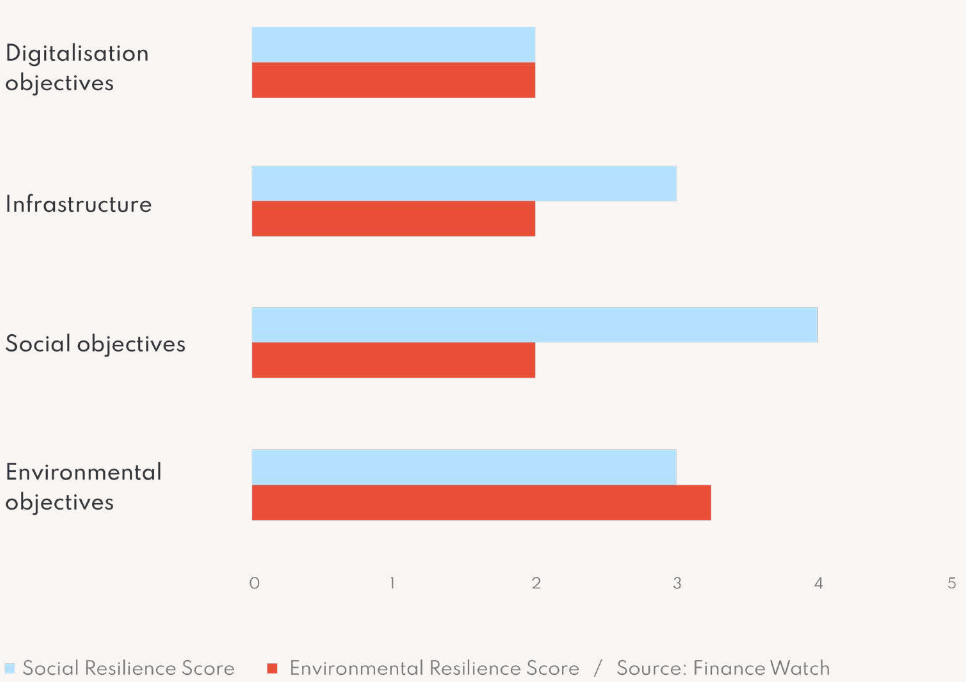
➜ The long-term orientation of measures within the plan could be improved to the benefit of the plan's coherence and resilience if the foreseen measures were linked to the broader social vision.

The assessment of the resilience of the measures presented in the plan provides a first step in the direction of an integrated fiscal policy. Indeed, the next 10 years will be crucial when it comes to achieving societal cohesion. And, as recommended by Finance Watch, fiscal sustainability requires a more active public debt management under an integrated climate and fiscal stance at EU level. [3]

Sustainability assessment of the resilience measures

To understand the sustainability component of the measures, the scores below shed light on the measures considered as both long-term oriented and resilient. Annex 2 provides more details on the budgeted funds for the respective group of objectives – environmental, social, infrastructure and digital. By definition, this score does not include the measures exclusively oriented towards recovery.

Graph 1: Sustainability scores of French fiscal measures / 1-5



Source: Finance Watch

3 https://www.finance-watch.org/publication/10-principles-for-a-sustainable-recovery/

COUNTRY DETAILED ASSESSMENT

Social and cohesion measures. Cohesion forms one of the plan's political **priorities**, with **€36 billion of spending outlays** that represent close to 40% of total plan spending. Applying our assessment methodology, however, we find that only roughly 64% of those €36 billion, i.e. €23 billion, is resilience-oriented. Importantly, the measures offering protection to workers receiving the minimum wage are temporary and thus have been classified as **recovery-led measures.** Finance Watch also finds the different measures listed in the cohesion pillar characterized by their **heterogeneity.**

> **Case illustration: Heterogeneity of cohesion measures.** Cohesion measures contain public funding to hospitals and to the health sector (the 'Ségur' Plan); public support is also expanded to strengthen cohesion within regional authorities. In the cohesion pillar, financial compensation to workers and consumers, including €7.6 billion earmarked for some short-term work compensation measures, were identified as aiming to prevent a sharp drop in personal goods and services consumption. In comparison to the German plan, the short-term-driven employment assistance to thwart job loss appears far less sizable than the €25 billion Kurzarbeit measures.

Environmental measures: A touch of green transition. The plan presents measures towards buildings renovation, with €6.7 billion marked for green private, public and social building renovations. In addition, green mobility will benefit from a €8.5 billion budget allocation, while a third group of investments proposed under the "green technologies" label amounts to €8.2 billion. This latter measure targets **industry decarbonization and support to airlines and railways**, but it fails to convince through a sustainability lens.[4] In comparison, measures related to the circular economy (€ 0.5 billion) and to biodiversity protection (€1.65 billion) appear underrepresented.

- On environmental sustainability, the approach taken by France towards building renovation can be qualified as a "compliance exercise" that does not entail a clear long-term environmental vision. France Relance assumes that the order backlog in building and renovation will experience cyclical recovery through new construction.

- On social sustainability, France Relance features two positive aspects. First, it will benefit employment in the building industry, and second, that it addresses, even if partially, the question of social housing.[5] Thus, the social sustainability score assigned to the measures reflects the positive cyclical benefits provided by new public orders placed with the building sector.

Competitiveness and trade-related measures. The €12 billion infrastructure pillar, one third of the plan total, is driven by the need to move faster on the competitiveness front. These measures are driven by recovery considerations and are not anchored enough with long-term orientation. The plan includes large investments of €2.3 billion for measures aimed to incentivise industrial companies to produce in France. This "Made in France" dimension of the

4 https://www.fondation-nicolas-hulot.org/ferroviaire-la-france-sur-de-mauvais-rails-pour-respecter-les-objectifs-climatiques/

5 France's economy relies upon a large domestic building sector that has the largest work basin with 1 million workers.

plan is inspired by the need to improve the country's technological leadership. Some part of the trade-related measures included in the plan's competitiveness pillar include guarantees and will not be fully backed with financing. Some spending relates to military orders – booked under the plan's competitiveness pillar – via the support to the aerospace industry. In total, the measures grouped under the "infrastructure objective" account for 10% of the planned spending.

Case illustration: France Relance incorporates a reduction of the so-called "production taxes" amounting to up to €20 billion over two years. The measures will lower levies on different components of the corporate value added and has a regional fiscal income component.[6] This recovery-led measure covers different fiscal instruments and it will be effective in 2020.[7]

The **Citizens Convention on Climate (CCC)** report on the plan published in October 2020 acknowledges that the recovery plan responds to citizens' call to "massively increase support for energy renovations".[8] The Citizens Convention on Climate was called by French President Emmanuel Macron to make proposals in the field of ecological transition to reduce greenhouse gas emissions by at least 40% by 2030 (compared to 1990) in the spirit of social justice.[9]

The plan foresees significant measures in supporting youth employment. The **"Plan Jeunes"** dated 23 July 2020 lays out social measures to support young candidates in the job market – namely covering apprenticeships and work placement contracts ("contrats d'insertion").

6 https://www.economie.gouv.fr/files/files/directions_services/plan-de-relance/Baisse-impots-production.pdf

7 The taxes covered by the measure include the property tax on developed land (TFPB) and the local economic contribution (CET), which consists of a business premises contribution (CFE) and a contribution on business value added (CVAE).

8 https://www.ecologie.gouv.fr/sites/default/files/CCC-rencontre_A4-pointdetape_2020-09_web.pdf

9 https://www.conventioncitoyennepourleclimat.fr/en/

CONCLUSIONS AND WAY FORWARD

- The review of France's stimulus plan finds no clear indication on how the plan addresses **social transformation.** Whilst it guarantees environmental benefit by refocusing investments on a dedicated set of sectors (see the example of renovation), it falls short on proposed cohesion measures and reforms. Cohesion measures cover a short-term horizon and do not extend into a long-term vision. As cohesion is viewed by the French government as short-term by definition, it is "complementary to the recovery" according to Bruno Lemaire, the minister in charge of the plan.

- Long-term transformations such as **biodiversity protection or circular economy** only account for €1.75 billion of spending, a small part of the planned expenditure. Neither environmental nor social conditionality is attached to the measure provided for in this plan. While France's National Energy and Climate Plan (ENCP) sets out a trajectory to reach the national long-term objective of net carbon neutrality by 2050, the recovery plan does not echo this goal.[10]

- The execution roadmap does not allow reconciling the stimulus plan with the revised draft **budgetary plan** for 2021 and with France's 2021 **green budget.**

- Planning based on **long-term ecological and social resilience indicators** is a way to boost the plan's quality and ultimately facilitate its adoption by citizens, their representative bodies and/or by non-governmental organizations. Post-Covid-19 reforms and investments should have a clear long-term orientation over the period 2030-2050. The funds drawn from the EU's Recovery and Resilience Facility will have to be in alignment with the Do No Harm Principle, as per the Article 17 of the EU Taxonomy Regulation.

- **EU economic coordination and governance** will be on the political agenda in 2021 and debate will take place on the EU spending rules and conditionality (EU fiscal rules).[11] In this context, the national recovery and resilience plans (NRRPs) submitted by EU Member States to the European Commission represent an opportunity to embed ex-ante long-term sustainability criteria. The French national stimulus plan represents an opportunity to provide a reference pathway in the process, alongside with the plans of the other Member States of the European Union.

- **Climate Check.** French government published in September 2020 its first "Green Budget" as an annex to the 2021 budget under the OECD "Paris Collaborative on Green Budgeting". Green budgeting can be thought of as a tracking tool for recovery plans. Such a monitoring system is crucial to prevent the plans from securing long-term funding for activities that are unsustainable. Streamlining of environmental subsidies and taxation may also be timely in the context of the 2050 climate neutrality objectives and the EU Green Deal.

10 SWD(2020) 904 final, https://data.consilium.europa.eu/doc/document/ST-11897-2020-INIT/en/pdf

11 Conditionality or macro conditionality are the rules linking EU spending to the Rule of Law or other challenges identified in a national macro assessment.

ANNEX 1: FINANCE WATCH ASSESSMENT PRINCIPLES

The Finance Watch review includes an assessment of the individual measures within fiscal plans announced in 2020 by France, Germany and Spain. Finance Watch assessed the proposed policy measures on the subject of their contribution to environmental and social sustainability, as well as contribution to economic recovery versus resilience objectives. For this, Finance Watch took into account the time horizon – long-term versus short-term – over which the measures are expected to have their effect and the alignment with the strategic objectives. Such objectives include, among others, the reduction of greenhouse gas emissions, energy transition, digital transformation and social sustainability.

In analysing each of the fiscal measures, Finance Watch differentiated between two sets of measures:

- measures that improve resilience of the economy and society,
- measures that are of short-term or emergency nature and therefore considered as recovery-driven. These measures are mostly targeted at restoring the pre-crisis economic situation.

Each individual investment or reform measure has been characterized as being either resilient or driven by recovery considerations. Resilience measures were defined to be long-term oriented and expected to have transformative economic effects beyond 2021 up until 2030-2050. As a result, resilience-based measures relate to investments, which enhance the ability of economies and societies to withstand future shocks and thus be more prepared to minimize environmental risks and maximize social justice. This assessment can be seen as a decomposition of each fiscal plan into two sub-parts: the resilience part and the recovery part, as illustrated in Annex 2.

For more information, the methodological note can be provided as a reference.

ANNEX 2: FINANCE WATCH MATRIX – FRANCE

Breakdown of national recovery resilience plans

Source: Finance Watch

Amounts (Million Euros)	Environmental sustainability objectives (Pillar 1)	Social sustainability objectives (Pillar2)	Infrastructure & digitalisa-tion objectives (Pillar 3)	Others	Plan based Resilience - Recovery Mix (%)
France Relance	30,730	36,300	12,497	20,832	-
Resilience	22,180	23,025	4,947	-	50%
Recovery	8,550	13,275	7,550	20,832	50%

APPENDIX 3: FRENCH COUNTRY FORECAST – ANNUAL GROWTH SURVEY

	2020	2021	2022
GDP % change	-9.4	5.8	3.1
Unemployment rate (%)	8.5	10.7	10
General government balance[12] as % of GDP	-10.5	-8.3	-6.1
General government debt as % of GDP	115.9	117.8	119.4

Source: European Commission - Country forecasts - Annual Growth Survey - 2020[13]

Broader economic indicators are presented to provide some comparisons with other countries and to help the reader assess both plan context and impact of the Covid-19 crisis. After the Covid-19 shock, investments are not expected to be back to their 2019 level before 2022 as private consumption and gross domestic product will undertake a muted recovery. GDP is forecast to contract by 9.4% in 2020 compared with 2019. The unemployment rate will settle at 8.5% in 2020, 10.7% in 2021 and 10% in 2022. Public debt will reach 116% by the end of 2020 according to European Commission recent economic forecasts due to the large government deficit and severe contraction in its GDP associated with the knock on effects from the Covid-19 crisis.

Link to the Plan "France Relance"

12 General government balance includes the balance of the central government, state/regional governments (applicable in Belgium, Germany, Spain, Austria and Switzerland), local governments and social security funds.

13 https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/germany/economic-forecast-germany_en

About Finance Watch

Finance Watch is an independently funded public interest association dedicated to making finance work for the good of society. Its mission is to strengthen the voice of society in the reform of financial regulation by conducting advocacy and presenting public interest arguments to lawmakers and the public. Finance Watch's members include consumer groups, housing associations, trade unions, NGOs, financial experts, academics and other civil society groups that collectively represent a large number of European citizens. Finance Watch's founding principles state that finance is essential for society in bringing capital to productive use in a transparent and sustainable manner, but that the legitimate pursuit of private interests by the financial industry should not be conducted to the detriment of society. For further information, see www.finance-watch.org

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