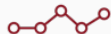


DIGITAL TRANSITION IN THE RECOVERY AND RESILIENCE PLAN

Challenges for Portugal

João Cortes, Steffen Hoernig, Paulo Trigo Pereira
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Institute of Public Policy Thomas Jefferson-Correia da Serra



**INSTITUTE OF
PUBLIC POLICY**

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THE RECOVERY AND RESILIENCE PLAN

THE RECOVERY AND RESILIENCE PLAN

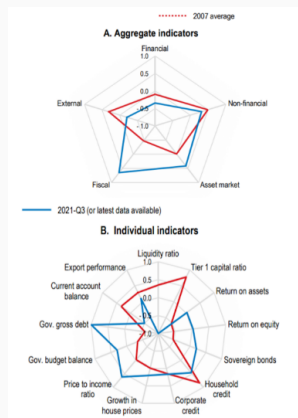
Context, Purpose and Structure of the RRP

PORTUGAL'S MAIN OBSTACLES TO GROWTH

Portugal's weaknesses have been the same for many years:

- **Low qualifications** (of both workers and business owners)
- Economy based on **low wages** and **low value-added**
- **High public and private debt levels**
- **Sluggish productivity growth**

Compounded by: low levels of investment, low R&D intensity, low skills, a business environment hampered by inefficiencies in the justice system and red tape



Index Scale of -1 to 1 from lowest to greatest potential vulnerability, where 0 refers to the long term average. Source: OECD 2021

HISTORICAL FINANCING CONTEXT

- On average, from 2015 to 2020 only 85,1% of the Gross Fixed Capital Formation Plans stated in the Government Budget were executed (even lower for EU funds).
- Net public investment has been negative since 2012, consequent from a depreciation larger than GFCF.

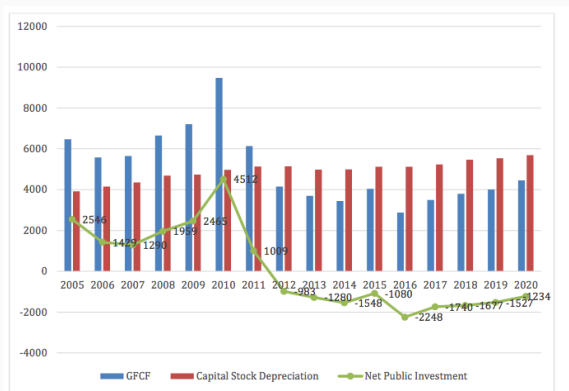


Figure: Gross fixed capital formation, capital stock depreciation and net public investment Source: IMF (Million €)

Purpose

- The RRP is developed in the aftermath of the pandemic crisis with the need to address the key impeditive factors to the sustainable socioeconomic development of the Portuguese economy and prepare Portugal for the challenges of the incoming years (Productivity; Education, Public Administration Efficiency and Judicial System).

Monitoring

- The European Commission monitors on a regular basis the success from the fulfilment of these goals according to the information given by each Member State.

Coordination

- The efficacy to achieve the RRP goals depend on the collaboration between all the different involved institutions and funds.

Structure

The RRP governance structure includes:

1. an Inter-ministerial Commission;
2. a monitoring commission (CNA);
3. an operational entity (EMRP);
4. and an auditing and control entity (CAC).

The RRP beneficiaries are organized in direct, intermediary and final.

Execution

- Member States should present comprehensible and clear public information connecting the KPIs involved to the priorities set.
- RRP follows the principles of centralization of management but decentralization of implementation; execution oriented toward outcomes; transparency and accountability; participation and segregation of functions.

RRP funds are a smaller part of European Funds over the coming years.

How to avoid funding the same project with two different EU financial instruments?

<i>Million €</i>	2020	2021	(%)	2022	(%)
1. Transfers from Portugal to the EU	2173	2562		2585	
2. Transfers from EU to Portugal	4856	7216	100%	9117	100%
2.1 PT2020	4856	4202	58%	5911	65%
2.2 Next Generation EU – grants	0	2908	40%	2732	30%
2.3 PT2030	0	106	1%	474	5%
Balance (2-1)	2683	4654		6533	

Breakdown of financial flows from EU to Portugal 2020-22. Source: Portuguese State Budget Report (p.127) and IPP.

THE RECOVERY AND RESILIENCE PLAN

The RRP and the Digital Transition

Digital transition plays a crucial role in developing skills; access to education and boosting the competitiveness of the business fabric.

22 % of the RRP is allocated to the Digital Transition, the equivalent to €3,678M.

In this context, the digital transition has a relevant **supporting role** for catching up:

Low levels of education hamper productivity: use of **digital tools to improve education, and education in digital skills themselves.**

Complicated legal rules and an inefficient public administration and justice system are drags on innovation and growth: **74% of the investment in the digital area is dedicated to public institutions** including administrations, courts, and schools.

Portuguese firms tend to be small and concentrated in low-productivity sectors: **workforce training, digitisation of processes** (but only marginally to innovative business models).

PORTUGAL'S DIGITAL STRENGTHS AND WEAKNESSES

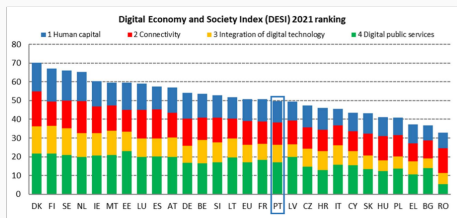
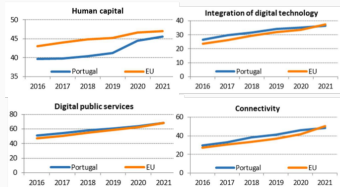
DESI, the *Digital Economic and Social Index*, indicates the relative strengths and weaknesses of the country in four main dimensions: Connectivity, Digital Public Services, Digital Technology Integration, and Human Capital. Portugal is below EU average in Digital Integration and Human Capital.

DESI Dimension	At/Below average	Better than average
Connectivity	<ul style="list-style-type: none">- Affordability of broadband, take-up of mobile broadband- Internet usage: below-average numbers of households with internet and various measures of internet usage. High number of individuals who never used internet	<ul style="list-style-type: none">- Broadband take-up, speeds and coverage; 4G coverage
Digital Public Services	<ul style="list-style-type: none">- Slightly below average use of eGovernment services	
Integration of Digital Technology	<ul style="list-style-type: none">- Usage of digital tools by firms- Low number of online purchases and sales by citizens, due to lack of trust and security concerns- Low use of for work-related internet services	<ul style="list-style-type: none">- Consumption of digital entertainment and news, social networks, health information
Human Capital	<ul style="list-style-type: none">- Digital skills: while internet users have around average levels of basic skills, in the whole workforce the share with even basic digital skills and those that use computers at work is low	<ul style="list-style-type: none">- Online presence of businesses and number of trained IT specialists

HOW DESI'S ASSESSMENT IS CONSISTENT WITH RRP'S PLANNING

A significant portion of the workforce in Portugal has poor digital skills that translate into difficulty in integrating these tools into internal and business processes.

It is identified by DESI and RRP the need for the acquisition of digital skills and support for the digitization of companies.



Source: Digital Economy and Society Index (DESI), 2021

THE 7 REFORMS ENVISAGED IN THE DIGITAL TRANSITION

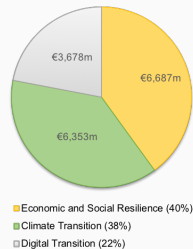
Portugal's RRP includes 37 reforms materialized into 83 investments in a total endowment of €16,644m (€13.9bn subsidies, €2.7bn loans).

The 7 reforms foreseen in digital transition are:

1. Digital transition of businesses
2. Modernization and Simplification of Public Financial Administration
3. Economic legal system and the business environment
4. Digital, simple, inclusive and safe Public Services for citizens and businesses
5. Functional and organic reform of Public Administration
6. Public Administration empowered to create public value
7. Reform for a digital education

However, each of these reforms is formulated in vague terms and unclear measures. While one component is directly related to businesses, 5 out of 7 reforms concern the public administration (6 out of 7 if one counts the public school system as being part of the public administration).

RRP Investments' Ratio in total fund size (€)



THE 5 DIGITAL TRANSITION COMPONENTS

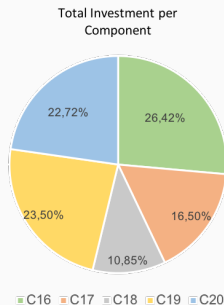
C16: Enterprises 4.0. 1R, 3I. (€650m, 26.42% of digital funds) Accelerate and strengthen digital skills of the workforce, integrating digital technologies

C17: Quality and Sustainability of Public Finances. 1R, 3I. (€406m, 16.5% of digital funds) Improve the performance of public financial management, social security, and tax authorities

C18: Economic Justice System and Business Environment. 1R,1I. (€267m, 10.85% of digital funds) Target inefficiencies in the justice system, simplify interaction between citizens and businesses with the State, reduce complexity and eliminate barriers

C19: Digital Public Administration. 1R, 7I. (€578.1m, 23.5% of digital funds) Provide simpler and more efficient digital public services, enhancing proximity and technology to contribute to economic growth and social development through public administration.

C20: Digital School. 1R, 3I. (€559m, 22.72% of digital funds) Create educational and managerial sustainable conditions for innovation, integrating technology.



THE RECOVERY AND RESILIENCE PLAN

Main Purpose of the Paper

Following the role of the Digital Transition in the **dynamism and sustainability** of the Portuguese economy, this study arises from the need for a clearer and more cohesive connection between the **vision designed** for the Portuguese economy and the publicly available information about its **direct implementation**.

In this study we have looked into detail information publicly available on the digital transition.

We have **reviewed all affected milestones** individually and cross-checked them with information from multiple **different public available sources** - also considering their financing.

We have tried to measure:

- The **monitoring** of RRP and identify means for improvement
- RRP's **impact** over Portugal's long-run digital needs.

RRP IMPLEMENTATION AND MEASUREMENT

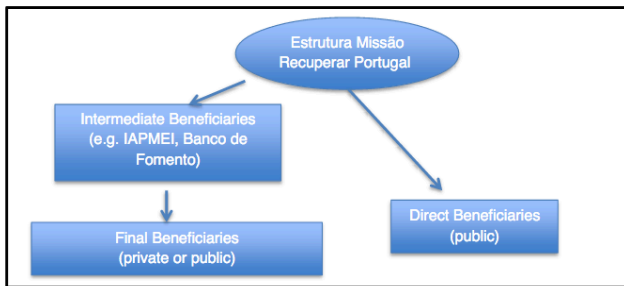
RRP IMPLEMENTATION AND MEASUREMENT

RRP Implementation

RRP's implementation is dependent on the role of **Direct; Intermediate** and **Final** Beneficiaries.

Both direct beneficiaries and public final beneficiaries must open procedures of public procurement to use the funds allocated to them.

In August 24th 2022, still 38% of all digital transition investments we pending approval.



The governance structure of RRP is defined in Portuguese law and includes:

1. An **inter-ministerial commission** (Comissão Interministerial, CI)
2. A **monitoring commission** (Comissão Nacional de Acompanhamento, CNA)
3. An **operational entity** (Estrutura de Missão Recuperar Portugal, EMRP).
4. An **auditing and control entity** (Comissão de Auditoria e Controlo, CAC).
5. A “**Mechanism of Information and Transparency**”, (coordenado pela Agência para o Desenvolvimento e Coesão)

ACHIEVEMENT STATUS - FIRST INSTALLMENT

There isn't a centralized source or referencing across sources.

1. The **European Commission's Recovery and Resilience Scoreboard**
2. **"Recuperar Portugal" monitoring overview**
3. **European Commission's Implementing Decision**
4. **"Mais Transparência" portal**
5. **"Portugal Digital"**
6. **Recuperar Portugal portal**

The first installment was successful but information is **missing and incoherent**, e.g. 30% of financial information was missing in "Mais Transparência".

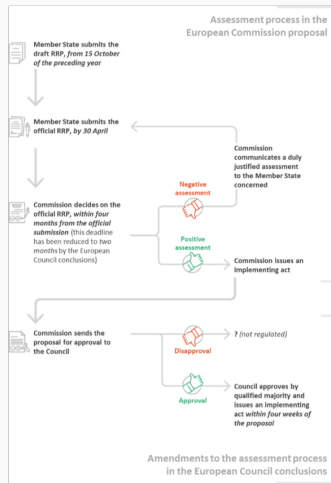
Code	Description	Date	Recuperar Portugal	Achievement Status				Public information at Responsible Entity
				EC Implementing Decision	EC Recovery and Resilience Scoreboard	Portugal Digital Dashboard	Mais Transparência	
C17-r32	<i>(Milestone): New model of management contract with a system of incentives and penalties for the management of public enterprises</i>	2021Q4	Fulfilled	Fulfilled	No information	100% complete	Fulfilled targets for 2021	Ministry of Finance: clear
C19-r34	<i>(Milestone): Judicial framework for the digital transition of the public administration</i>	2021Q3	Fulfilled	Fulfilled	No information	Unclear information	Fulfilled targets for 2021	AMA: Unclear, contracts available in DRE
C19-r36	<i>(Milestone): Creation of the "National Institute of Public Administration"</i>	2021Q2	Fulfilled	Fulfilled	No information	Unclear information	Fulfilled targets for 2021	INA: Website
C16-I03	<i>(Target): Selection of 17 Digital Innovation Hubs [goal: 16]</i>	2021Q4	Fulfilled	Fulfilled	No information	85 % completed	0% fulfilled	IAPMEI: clear reference of developments
C20-I01	<i>(Milestone): Contracts for acquisition of 600,000 computers for high school teachers and pupils</i>	2021Q4	Fulfilled	Fulfilled	No information	90 % completed	Fulfilled targets for 2021	SGEC: action taken unclear

RRP IMPLEMENTATION AND MEASUREMENT

RRP Measurement and Communication

RRP MEASUREMENT

- Payment requests occur on a **semi-annual basis, based on achievement** of given metrics (by 30th April and 15th October).
- EMRP is in charge of informing the EC of any significant “risks to the timeline for the completion of any milestone or targets”.
- Early 2022, CNA criticized some of the reforms, investments, milestones and targets for being rather “vague, imprecise, at times, omitted”.
- The Portuguese Operational Arrangements includes 39 qualitative milestones and 47 quantitative targets.
- It cannot be deduced from the Operational Arrangements (already a long document) on what basis these targets were chosen and which trade-offs they involved.



Source: Official Journal of the EU, C350

Different institutions including the IGF - an auditing organism from the Ministry of Finance; Public Prosecutor and the Monitoring Commission have identified serious risks on RRP execution.

In January 2022, a report from **IGF** revealed that the EMRP was late in establishing its internal control system, not fully implemented and lacking procedures. for the risks of fraud, corruption, conflict of interests and double financing.

Later in the same year, a report from RRP's **Monitoring Commission** (CNA) also confirmed *significant weaknesses* at the design level of RRP.

In January 2023, the **Public Prosecutor** still reports "*insufficient control*" and "*fragilities*" in the RRP management.

Unclear how each policy objective comes to fruition from strategy to concrete implementation.

- Information is **dispersed** over different websites and resources and not always **up to date**.
- Information between available sources is not always **consistent** – this is also true within the same institution.
- **Unclear** to say how exactly each share of the funds is being applied or by whom.
- Inefficiencies in the communication of announcements and activities hamper the preparation of answers by institutions, enterprises, and socioeconomic agents
- EMRP **reports lack specific information** about the chains of execution involving the interactions between intermediary and final beneficiaries, where the majority of the financial exchanges occur.

RRP IMPLEMENTATION AND MEASUREMENT

Quality of Measurement

KPIs VERIFICATION CRITERIA

Verification of Key Performance Indicators (KPIs)

- Lists: 37 %
- Proof of implementation, operability, completeness, or availability: 36%
- Only 9% of all KPIs identified as “specific”

Verification Mechanism	Number of Measures	Verification Mechanism	Number of Measures
16 - Entreprises 4.0	15	15 19 - Digital Public Administration	26
Certifications	1	List	5
List	9	Numeric	2
List and complement	3	Official Journal	3
Official Journal	1	Proof of availability	1
Specific	1	Proof of completion	1
17 - Quality and Sustainability of Public Finances	20	Proof of completion and Operability	4
Certificates	1	Proof of completion operability and availability	1
Decision from MoF	1	Proof of completion, list	2
List	3	Proof of Operability	3
Official Journal	2	Proof of Operability and availability	1
Proof of Completeness Implementation	1	Specific	1
Proof of completion	1	10 - Digital School	18
Proof of implementation	3	List	9
Proof of Operability	3	Numeric	2
Proof of Operability and availability	1	Numeric, list	1
Specific	4	Proof of completion and Operability	2
18 - Economic Justice System and Business Environment	9	Proof of completion, list	1
Official Journal	1	proof of purchase	1
Proof of Operability	6	specific numeric	1
		Specific proof of completion	1

Verification Mechanism	Number of Measures
Certification(s)	2
Decision from MoF	1
List	26
List and complement	3
Numeric	4
Numeric, list	1
Official Journal	9
Proof of availability	1
Proof of completeness implementation	1
Proof of completion	2
Proof of completion and operability	6
Proof of completion operability and availability	1
Proof of completion, list	3
Proof of implementation	3
Proof of operability	12
Proof of operability and availability	2
proof of purchase	1
Specific	6
specific numeric	1
Specific proof of completion	1

QUALITY OF KEY PERFORMANCE INDICATORS

Entity	Concrete	Method	Efficiency	Vision
Ministry of Economy and Digital Transition in collaboration with the Minister of Labour, Solidarity and Social Security	2,00	3,00	1,00	2,00
EMPO - Portugal Digital Mission Structure	2,07	1,07	1,07	2,73
IEFP - Institute of Employment and Training	2,33	1,33	1,33	3,00
IAPMEI - Agency for Competitiveness and Innovation	2,07	1,07	1,07	2,79
DGAE - Directorate-General for Economic Activities	2,00	1,00	1,00	2,80
AICEP - Agency for Investment and Foreign Trade of Portugal	2,00	1,00	1,00	2,00
Startup Portugal	2,00	1,00	1,00	2,50
DIH Working Group	2,00	1,00	1,00	3,00
ANI - National Innovation Agency	2,00	1,00	1,00	3,00
INCM - National Mint Press	2,00	1,00	1,00	3,00
CNCS - National Cybersecurity Center	2,00	1,00	1,25	3,00
AMA - Agency for Administrative Modernization	1,33	1,00	1,00	2,83
CNPD - National Data Protection Commission	2,00	1,00	1,00	3,00
ESPAP - Public Administration Shared Services Entity	1,82	1,91	1,91	2,36
Ministry of Finance	1,69	1,77	1,69	2,31
UnILEO - Implementation Unit of the Budget Framework Law	1,86	2,00	2,00	2,14
DGO - Directorate-General for Budget	1,86	2,00	2,00	2,14
DGTF - Directorate-General for Treasury and Finance	2,00	2,00	2,00	3,00
UTAM - Technical Unit for Follow-up and Monitoring of the Public Business Sector	2,00	2,00	1,00	3,00
AT - Tributary and Customs Authority	1,00	1,00	1,00	2,33
IL, IP, ISS, IP	1,33	1,00	1,00	3,00
IGFS, IP - Social Security Financial Management Institute	1,00	1,00	1,00	3,00
IGFEJ - Institute of Financial Management and Justice Equipment	1,50	1,00	1,25	2,75
Ministry of Justice	2,00	1,00	1,00	3,00
DGJP - Directorate-General for Justice Policy	2,00	1,00	1,00	3,00
MMEAP - Ministry of Modernization of the State and Public Administration	2,00	1,00	1,00	1,67
PJ - Judiciary Police	1,00	1,00	1,00	3,00
IRN - Institute of Registries and Notaries	1,00	1,00	1,00	2,00
DGACCP/SG (DGA/DSC)	2,00	2,00	2,00	3,00
INE - National Institute of Statistics	2,00	1,00	2,00	3,00
GNS - National Security Office	2,00	1,00	1,00	2,67
CEGER - Government IT Network Management Center	1,50	1,50	2,00	2,00
Ministry of Internal Administration, General Secretariat of the MAI	2,00	1,00	3,00	3,00
SEF / Ministry of Home Affairs: General Secretariat of the MAI	1,00	1,00	2,00	3,00
VP_DRI	1,00	1,00	1,50	2,50
Regional Secretariat for Finance, Planning and Public Administration	2,00	1,00	1,00	2,00
DGAEP - Directorate-General for Administration and Public Employment	1,50	1,00	1,50	1,50
INA - National Institute of Administration	1,00	1,00	1,00	2,00
SSEC - General Secretary of Education and Science	2,22	1,00	1,44	1,44
Regional Secretariat for Education	2,11	1,44	1,11	1,89

We measured KPI quality in four dimensions (1 lowest, 3 highest)

1. How **concrete (C)** are the terms used in the verification criteria?
2. How clear is the **methodology (M)**?
3. How **effective (E)** are targets to ensure that structural objectives are achieved?
4. How clearly are targets aligned with **policy vision (V)**?

	C	M	E	V	Average
C16: Enterprises 4.0	2.1	1.2	1.1	2.7	1.8
C17: Public Finances	1.7	1.7	1.6	2.5	1.9
C18: Just. & Bus. Env.	1.6	1.0	1.1	2.7	1.6
C19: Public Adm.	1.5	1.1	1.5	2.5	1.6
C20: Digital School	2.2	1.2	1.3	1.7	1.6
Average	1.8	1.3	1.3	2.4	

MAIN HIGHLIGHTS, CONCERNS AND RECOMMENDATIONS

MAIN HIGHLIGHTS AND CONCERNS

In sum, there are a few key risks for the success of RRP addressing Portugal's key structural challenges effectively.

1. Risk of **not fully implementing** and executing RRP within its given time span and avoiding fund misapplications.
2. Risk of **misalignment** between the macro governance political structure; the macro-level strategic vision needed and the micro level objectives.
3. Risk of institutions implementing RRP failing to function fully according to their role at a medium-level due to **lack of technical, human, and digital resources**.
4. Risk of **funding duplication** and poor complementarity of resources.
5. Risk of public **misinformation** on the financing and execution of key performance indicators at the micro level.

Overall Portugal's RRP vision is **somewhat aligned with many of the country's most relevant structural issues**

However: Milestones / Targets **focused on execution, not on effectiveness** and public information and financing remain unclear.

With these challenges in mind, we emphasize the following **action points**:

- Match attribution of funds and strategic priorities.
 - **Support financially** institutions executing and monitoring RRP to ensure their success.
 - Include **additional metrics** related to **effectiveness** (rather than execution) e.g. metrics used to maximize return on investment.
 - **Clearer and more consistent communication** on how / why RRP budget is allocated to those items. - choices made and alternatives.
Connect actions and achievements.
- Promote **cooperation and support** between different institutions.
 - Improve complementarity between sources and centralize information.
 - Incorporate broad analysis of contributions to main reforms and investments
 - Avoid duplicating of funding

Concerning the communication structure and consistency of RRP, there is a need for a **clear and centralized platform**, the EMRP portal, resulting from a centralized management program, where the general public can consult in a **concrete and simple** manner:

- **Monitoring Perspective.**

Information on how RRP is addressing Portugal's structural needs:

1. Which exact **deliverables** were **achieved** with the funds allocated (What?);
2. Who were the main **beneficiaries** (Whom?);
3. Which were the roles and **resources allocated** per beneficiary (How much?);
4. What is the expected measurable **impact** on the main structural issues. (Why?);

EMRP should report regularly with the granular end-to-end process in mind.

“Mais Transparência” is the best available source that matching the **Monitoring Perspective** above, but with limitations that don't allow a more rigorous cost-benefit analysis or impact assessment.

- **Usage Perspective.**

Information optimized for the broad society to execute RRP.

1. Improve communication of the **funding process**
(e.g. targeting more the media / specialized groups);
2. Communicate **in advance**;

Need more KPIs to align milestones with the socioeconomic structural needs.

KPIs should have in consideration:

- The *measurable technological and socioeconomic development* - not report *delivery* alone.
(How it contributes to economic sustainability).
- A quantitative estimated **projected Return on Investment** weight based on *impact* assessment. An *a priori* balanced scorecard.

E.g. Why investing in 600.000 computers and not 700k or 400k ? What makes it a **financially viable** solution compared to its **opportunity cost** ?
(Why/How investments achieve the target)
- Consider the synergies and consequences from simultaneous implementation of the different Milestones and Targets combined.

Portugal needs to improve **budget transparency** and implement budgeting with consideration of public sector outputs and outcomes. Addressing this, among other weaknesses, should be a priority, in order to improve the efficient allocation of public sector funds and promote sustainable economic growth.

This has been foreseen in the Budget Framework Law for decades - with comprehensiveness, transparency, and clear objectives and indicators.

More information can be identified in reports and evaluations by the Institute of Public Policy – Lisbon, and the International Budget Partnership.

You can find more information in our paper **here** :

www.ipp-jcs.org/wp-content/uploads/2022/11/Policy-Paper23.pdf

THANK YOU FOR YOUR TIME!