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Green spending shoots in eastern EU at risk of being crushed

EU member states and the European Commission, after what has felt like a marathon two-year process, are now engaged in finalising agreements on the EU's Structural and Cohesion Funds (ESIF) investment strategies and spending plans for the 2014 –2020 EU budget period.

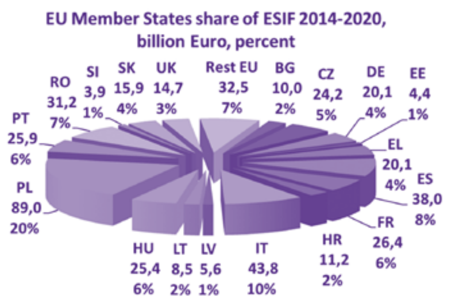
Where the 11 'new' member states of central and eastern Europe (CEE) are concerned, their approach to economic and societal development via the EU funds is proving to be a double-edged sword: while their spending plans for climate action is set to increase ten-fold in comparison to the 2007-2013 period, and the 'greenest Cohesion Policy legislation ever' prevents them from committing major environmental crimes, a reasonable long-term investment strategy, and financing, to achieve the decarbonisation of these economies by 2050 is noticeably lacking.

A decade on from EU accession, the member states in the east have duly taken on board some'Brussels lessons': how to please the European Commission on paper, while pursuing their respective business as usual agendas in keeping with the motto "give us the money and leave us alone".

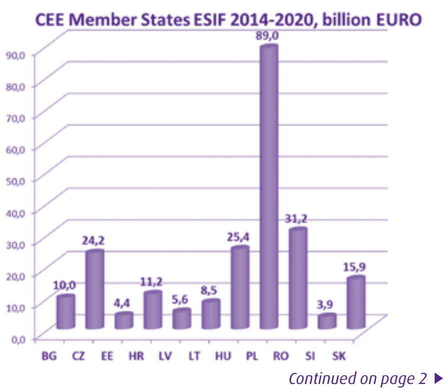
Rather than picking up and running with the Commission's baton to take investments decision now that will make their economies cleaner, leaner and lighter, that will create new jobs, and that will decrease energy import dependency and stop the further exploitation of the planet's natural resources, CEE member states remain wedded to short-termism and discredited investment plans. Planned EU funds support for government-friendly big polluters looms large in the spending plans, as does the further wastage of scarce materials – waste incineration is labelled as 'energy recovery, a blasphemy trying to veil the underlying paradigm. More roads are to be built, at the expense of alternative means of transport. Above all, citizens are being frozen out of the EU funds game yet again, not only in terms of decision-making, but also when it comes to receiving EU funds for their own, citizen-driven projects.

The money situation

In net financial terms, the CEE countries are far from being less well off than in the previous 2007-2013 funding period, as the graph below illustrates.



Of the EUR 453 billion set to flow from the EU's Cohesion Policy (2013 prices, comprising the Cohesion Fund, the European Regional Development Fund, the Rural Development Fund and the European Marine and Fisheries Fund), more than half – EUR 231 billion – is destined for the 11 member states in the east.



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Can the EIB lead the European economy out of crisis by championing EU climate policy?

The European Investment Bank, the biggest multilateral public bank in the world by lending volume and the self-styled 'EU bank', has recently announced that it will be reviewing its approach to climate change in the coming months. According to comments made by EIB vice-president Philippe de Fontaine Vive to civil society representatives, "The EIB wants to position itself between this October's anticipated EU 2030 climate agreement and the Paris COP 21 meeting in December 2015".

It would appear, therefore, that the EIB is eyeing the opportunity to go beyond the EU 2030 climate agreement, with its own climate review due to be finalised in the months leading up to the Paris COP 21 meeting. If you like, the ambition may well be to adopt an EU 2030+ climate policy within the EIB itself.

This, then, appears to be a promising start to the bank's climate review. With the EU climate policy process grinding on, and with the member states bickering over how unambitious the final deal due to emerge from an EU Council meeting in late October, the EIB is now well placed to push beyond the uninspiring hot air of these negotiations and commit real financial firepower to meet Europe's climate challenges.

Currently the EIB does not have a climate policy as such. Bits and pieces of climate relevant rules and guidance are spread across the bank's sectoral policies (in sectors such as energy and transport), its greenhouse gas accounting methodology and project feasibilty assessments, as well as its so-called Climate Action Programme that currently covers 25 percent of all EIB lending.

Substantial climate progress at the EIB, though, was achieved in 2013 with the adoption of a revised energy policy following an extensive consultation process that saw a coalition of European environment NGOs strongly encouraging the EIB to clean up its wide-ranging energy sector lending. This duly materialised, to a reasonably ambitious extent, with the EIB introducing an innovative Emission Performance Standard of 550gCO_2/kWh for energy investments, a shadow carbon price and accounting for non-climate related externalities (such as nitrogen oxides and other pollutants).

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With Poland receiving by far the biggest chunk of the pie with EUR 89 billion, followed by Romania, the Czech Republic, Hungary and Slovakia, the EU funds will continue to play a crucial role in CEE countries' overall investment plans.

The sustainable development situation

The EU funds' contribution to the EU's long term sustainable development targets, though, remains highly questionable in the new member states.

Reducing **greenhouse gas emissions** is one of the EU's targets for 2020 and beyond. This will be hard to achieve if Cohesion Policy, the second largest EU budget item, does not contribute to this goal. Other than considering whether the overall amount allocated to climate action within Cohesion Policy for 2014-2020 is sufficient, attention also needs to be given to whether certain supported investments will contradict the goal of combating climate change. For example, exclusive support for road transport infrastructure can lead to increased traffic and related emissions if a sustainable transport strategy is not in place. Unfortunately this is often the case across CEE.

All programs supported by the EU funds should be assessed in terms of their impact on greenhouse gas emissions and alternative, less emission-intensive scenarios should be seriously considered. A number of practical tools and procedures are now in place, such as the European Commission's 'CO2MPARE' or the Strategic Environmental Assessment (SEA), which is required for most Operational Programmes (OPs). Yet the member states appear to be failing to deeply assess the strategic climate impact of their spending plans.

Proper, rigorous carrying out of SEAs for member states' spending plans is not only legally required, it is the EU's key tool for ensuring strategic coherence in achieving sustainable development.

However, certain governments, blinded by their 'national energy mix' considerations, look to be getting away with maintaining their addiction to coal (Poland), nuclear (the Czech Republic) or oil shale (Estonia) - in part via forthcoming EU money. By reducing SEAs to a mere 'tick box' exercise, a good opportunity to do long-term planning in harmony with the environment is being lost.

A new, prominent role for **EU Cohesion Policy stakeholders**, i.e. local authorities, businesses and civil society organisations, was foreseen for the new period, in a bid to increase ownership and improve spending implementation. This so-called **'partnership principle'** was further strengthened in the Cohesion Policy legislation. By now, member states should already have developed good practices in including partners such as civil society in all stages of the programming and implementation of EU funds. This is unfortunately not being witnessed.

Only in a few countries can real dialogue and early involvement in setting priorities for the EU funds 2014-2020 between authorities and social partners be observed. In addition, member states are appearing reluctant to make partners eligible to receive funding, although the legislation specifically foresees instruments such as Community-led Local Development (CLLD) or Technical Assistance and global grants which could be managed and redistributed, for example by NGOs.

While Cohesion Policy 2014-2020 does foresee increased funding for catalysing the transition towards the **low-carbon economy** (including priorities such as energy efficiency, renewable energy and sustainable public transport), the funds are mostly being lined up to benefit local governments or big companies.

In terms of **energy efficiency in buildings**, the refurbishment of public buildings is a priority in most programs, while the need to renovate residential buildings is only modestly addressed, ignoring - for example - opportunities opened by innovative financial instruments as proposed by the European Commission. The opportunity to significantly reduce CO2 emissions, as well as to create new jobs and reduce the threat of energy poverty, highly relevant in all CEE countries, is set to be missed.

As for **renewable energy**, the tendency appears to be to plan support for large installations, while the focus should rather be on small, community-owned or citizen-owned installations, improving regional and local energy security and providing an opportunity for communities and citizens to actively engage in the clean energy transition. Meanwhile citizens' initiatives, such as community-owned local renewable energy projects, still cannot tap into EU funds sufficiently deeply to get their community projects running.

Transport has traditionally been a sector supported heavily by Cohesion Policy - with all the related environmental and climate impacts. Improved road infrastructure generates increased car traffic with its accompanying externalities, including CO2 emissions, air pollution, congestion, noise, accidents and ecosystem fragmentation. If the railway system is not developed at the same time - as has been the case in Poland - it quickly loses its share in freight and passenger transport to roads.

Emissions of greenhouse gases from transport are still growing across Europe. In order to reverse this trend, Cohesion Policy needs to concentrate investment in environmentally-friendly modes such as rail and clean urban transport. With a modal split currently biased towards road transport, it remains a riddle that perhaps only governments can answer as to how they are going to achieve a 60 percent GHG reduction target by 2050 in the transport sector.

Related to emissions stemming from the transport sector, **polluted air** remains a key environmental problem across CEE. The top ten places in the rankings of cities with the dirtiest air are occupied mostly by cities in Bulgaria and Poland (including Krakow, Poland's second largest city and historic capital). This is having severe impacts on human health.

The European Commission has been insisting on using Cohesion Policy to help solve the problem of air pollution, including replacing old-fashioned heating based on coal and reducing car traffic in city centres. Unfortunately, in most countries, the OPs do not clearly address air pollution as such, although some planned investments, including for energy efficiency in housing and public transport, can contribute to solving the problem.

And even though **nature protection** is highly relevant to Cohesion Policy, as it can help create jobs and build sustainable local economies, this opportunity is only being marginally (in terms of money allocated, and measures chosen) taken up by the member states. Even worse, many investments in sectors such as transport, water management or even renewable energy may seriously threaten the still abundant natural environment in CEE countries.

Natural solutions need to be prioritised over technical ones whenever possible. Sustainability criteria in areas such as energy from biomass or flood protection should be a key instrument to prevent investments which damage nature.

Unfortunately, though, the member states in the east still appear stuck, all too often, in the 'big-concrete-is beautiful' mentality - an approach that is wedded of course to the 'infinite GDP growth' paradigm, however much this is untenable and increasingly being challenged in mainstream economic discourse.

Are we set to see, then, another lost decade that instead should be ushering in eastern member states' transition to renewables-based and resource-efficient economies - ones that function within the planet's limits?

The remaining weeks in the EU budget 2014-2020 negotiations offer a final opportunity for a reality check and for vital new thinking to flourish still. Shaking off the short-term shackles of GDP, new concepts of 'well-being' can set the benchmarks for EU regional development funding. This change of perspective can happen anytime, anywhere, even now and even in the countries of CEE. The EU funds can help usher in the deep-rooted economic transformation needed now more than ever.

Read more Bankwatch's latest assessment of how the draft EU spending plans are shaping up in central and eastern European member states is available at: http://bankwatch.org/publications/eu-funds-draft-spending-plans-reveal-flaws-environmental-mainstreaming-central-and-east

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The new energy policy also involves the bank putting more weight behind the EU's energy efficiency directives as well as other directives that aim to improve air, water and soil quality and increase the relevance of the renewable energy sources.

This kind of recent progress suggests that the EIB is able to provide leadership and propose solutions that address climate concerns – it has the financial means and the policy tools to direct other market players in both the private and public sectors. And let's be clear – accelerated and strong climate financing is urgently required.

Climate impacts are not going away. As recent findings on the retreating Antarctic ice sheet show, we need to act with a level of resolve and determination that has not been required from any European society since at least the end of the second world war. At the EU level, however, we are witnessing a stand-still, and a decision-making procedure requiring unanimity is presenting a serious challenge for progress to a low-carbon economy and the necessary energy transition across the EU-28.

The current EIB climate review thus offers a unique opportunity to introduce progressive initiatives and approaches at the EU level without the risk of being blocked by a single member state. Both the conclusions of Denmark's recent EU Presidency and the European Parliament resolution on the EIB from March 11 this year offer a very good starting point and suggest that there is a climate consensus among European representatives as well as a majority of EU member states representing a majority of EU citizens.

This year's European Parliament resolution in particular has set the scene for relevant changes in EIB lending and its alignment with climate science and the EU Roadmaps for 2050. In the climate context, the European Parliament has specifically called on the EIB to:

- Update its climate change strategy as regards its financing operations before the end of 2015.
- Perform a climate assessment and review of all its activities in 2014, leading to a renewed climate protection policy, e.g. through project assessment and an integrated approach to smartly combine sector-specific policies for key sectors; and calls on the EIB to annex this review to its next annual report.
- Present a comprehensive phase-out plan for lending for non-renewable energy.
- Step up its low-carbon investment efforts and to work on policies leading to more ambitious climate targets (in view of the 2030 climate package, including its decarbonisation priorities).
- Focus the EIB's investment policy even further on sustainable projects.

Expanding on these calls from the European Parliament, and confident that the EIB is willing to show climate leadership at a crucial juncture, CEE Bankwatch Network has developed a set of policy demands aimed at the EIB's climate policy process.

1. The EIB should further increase its support for energy efficiency and renewable energy

Steady year-to-year total investment increases by the EIB in new renewables and demand-side energy efficiency – with an emphasis on the housing sector – are essential. The EIB should elaborate together with different stakeholders – finance, energy, climate and environment ministries in the EU-28 member states, relevant departments within the European Commisison (DG Climate Action, DG Environment, DG Energy), and civil society organisations – a plan that would determine the level of ambition for these annual increases that would, in the short-term, result in the EIB becoming a 'climate positive' bank. The bottom line in this regard is for the EIB to be financing the avoidance (both directly and indirectly) of GHG emissions through its projects rather than generating them. Central to this, the EIB needs to be mainstreaming climate considerations into each and every sector it lends to – from the financial market and SMEs to loans in the infrastructure and natural resources sectors.

2. The EIB should develop a 'Climate Roadmap' up to 2016

Such a roadmap would indicate how absolute investments by the EIB into fossil fuels will decrease, and by when the bank will stop funding all fossil fuel based projects and infrastructure. This would cover loans for refineries, oil and gas pipelines, oil and gas exploration and field development, new coal and lignite mines, coal or lignite mining equipment, equipment used for gas and oil (including unconventional hydrocarbons) extraction, retrofits for the fossil fuel industry, and carbon capture and storage and supporting infrastructure. We highly recommend that this objective should be reached by 2016, with an absolute deadline of 2018. As part of this roadmap, the EIB should ensure that its Emission Performance Standard is revised continuously and strengthened in line with the EIB climate roadmap.

3. The EIB should dramatically decrease project-generated GHG emissions and become a climate friendly bank

The drawing up of a financed "GHG emissions (going beyond the fossil fuel sector)" plan – including airports, highways, expansion of industrial capacity, new non-passive commercial buildings etc. – guiding the EIB to become a climate friendly bank by 2020. This would entail the level of GHG emissions financed by the EIB decreasing, and from 2020 becoming negative.

At a practical level, the bank's investment focus should shift to projects such as: sustainable small-scale biomass plants using agricultural waste that has otherwise not been used for any other purpose; energy-producing buildings; deep retrofit programmes in housing that dramatically decrease the sector's energy consumption, and; support for fuel switching in the energy sector from fossil fuels to renewables, for example, geothermal and solar energy for heating or cooling instead of coal or gas.

By aiming to thoroughly mainstream climate change considerations, the EIB's climate policy would also result in its loans to the small- and medium-sized enterprise sector providing increased energy efficiency or small, client-tailored renewable energy components as part of the overall loan packages. This would also také shape over the course of the next couple of years across all the other sectors in which the EIB is active, including the multi-billion euro lending provided via financial intermediaries and financial markets.

The EIB's positive climate potential is truly vast. The road to this point may have been long and winding, but it is now time to realise this potential in full.

How many white elephant projects can you fit into EU funds programming?

Some Czech projects proposed for EU funding are already sticking out as 'white elephant' investments. As the final spending decisions for 2014–2020 shape up, Bankwatch will be keeping a close eye on the likely stampede of similar project concepts all across central and eastern Europe.

Throughout the past seven year EU budgetary period, the Czech authorities have tried but failed to deploy a single euro from the EU funds for **waste incinerators** – this in spite of three major incinerator projects, with a total estimated budget of over EUR 200 million, having been planned. Two of these projects remain a long way off from realisation, as spatial planning permits for them have recently been revoked by the courts. The third, the Chotikov incinerator near Plzen, was started, but the investor gave up asking for EU funding following tough questioning from the European Commission regarding waste management in the Plzen region. In spite of these setbacks, for the 2014-2020 EU budgetary period and instead of focusing on recycling and waste prevention, the Czech Republic plans to use EU funding to build two new incinerators near the cities of Most and Karviná.

Both proposed projects are located in heavily polluted areas, both lack the requisite spatial planning permission, and both are being contested by local populations.

Another project that has been hanging around for some time now is the **Děčín dam on the River Labe**. The last straight of the Labe in the Czech Republic, passing through a deep gorge between two nature protected sandstone massives, is the last unregulated piece of major water current in the country. Home to many endangered species such as the beaver and part of salmon and eel migration routes, it is on the list of projects for the Czech Republic's OP Transport. The Highest Auditing Court has ruled this investment to be economically unprofitable, and the German authorities do not plan to invest into continuing the river straight from the border to Dresden.

With an under-used TEN-E railway corridor running parallel to the river, and the new D8 motorway linking Prague and Dresden just 20 kilometres away, the question remains why should this long time 'ghost' transportation project now be scheduled to rise from the dead with EU funding, when this part of the Labe should – by rights – become protected under the EU's Natura 2000 network?

EU budget last lap – going for gold, and green

Mathieu Fichter, Team Leader on 'Sustainable Growth' in the European Commission's Regional and Urban Policy directorate (DG Regio), and Markus Trilling, EU Funds coordinator for Bankwatch and Friends of the Earth Europe, discuss and reflect on the challenges and opportunities that are being thrown up as we enter the final negotiating stages in the programming process for the EU budget 2014-2020.

Markus Trilling: The Partnership Agreements (PAs) have been submitted, the Operational Programmes (OPs) are taking shape – how is the EU Funds 2014-2020 programming process proceeding from DG Regio's perspective, and what are the main challenges that you're encountering in the process?

Mathieu Fichter: As you know PAs from all member states have been submitted, already around nine of them have been adopted, and the remainder are on track to be adopted – we hope – by the end of October this year. The Commission has also received around 60 percent of the OPs related to the European Regional Development Fund (ERDF) and the Cohesion Fund, and the remainder should be submitted by the end of July.

It's a bit difficult of course to give an overall perspective because of differences between the member states – different levels of pace and progress etc. It should be underlined, however, that we've been having very constructive discussions and negotiations in most cases. Needless to say there are sometimes difficult points, but in the main we're able to find solutions that are acceptable to both the member states and the Commission, with effective and efficient use of the funding for the individual countries being the paramount consideration.

A major positive is the fact that first estimates show that a minimum of about EUR 38 billion has been allocated for investments aimed at bringing about the shift to the low-carbon economy. With the addition of the national/regional co-funding and private funding, not least through financial instruments, this will provide very substantial support to projects dedicated to energy efficiency, renewables or clean urban transport. This will foster jobs, energy security and sustainable regional development.

Also positive is the mobilisation in general of the Commission to support this negotiation process. All the directorate generals concerned are providing thematic inputs to ensure that what the member states are proposing to do with the funding is closely aligned with EU policies in all areas – such as environment, climate, energy, innovation and so on.

> "A major positive is the fact that first estimates show that a minimum of about EUR 38 billion has been allocated for investments aimed at bringing about the shift to the low-carbon economy."

Having said this, there are some challenges – some major, some minor – and it's very country-specific: there's no real cross-cutting challenge that applies to every member state. The first thing to mention in terms of difficulty is trying to ensure a good 'intervention logic'. By this we're talking about ensuring that the spending plans contain four key elements. First, what are the needs and the gaps in the countries, in terms of specific areas. So, to take 'environment' – what are the needs, what is the 'gap analysis' related to biodiversity, to water, to waste, and so on? Then, what are the objectives of the investments linked to a selection of priorities? And then, what are the results and the impacts? And here we really have difficulties to see a very clear approach in a number of member states.

Sometimes we may have a very good 'state of play' analysis, but then the selection of objectives and priorities is not clear. Or, often, the expected results are not so well highlighted. So, developing and improving this intervention logic across many of the member states is a key focus for the Commission.

In terms of our own remit especially on environment, one area for attention is proper consideration of Article 8 on sustainable development – for many of the member states it's proving to be a struggle to have this horizontal approach. In concrete terms, this requires establishing the instruments and tools to implement this Article 8 requirement, because we need to go beyond merely theoretical commitments. But we know that if there are no concrete instruments such as green public procurement, specific project selection criteria, working groups on sustainable development and so on, then it might not really be followed up. So this is one of those areas that the Commission is quite systematically focusing on – in order to push member states for real outcomes.

A further challenge is the limited funding in more developed regions. The difficulty for these regions is to allocate funding for adaptation to climate change ('thematic objective 5') and environment ('thematic objective 6') because of the 'concentration requirement', and the Commission preference for not seeing just a little bit of funding everywhere. Thus there are big decisions in the more developed regions about what needs to be funded.

On Strategic Environmental Assessments (SEAs), again it's not a universal problem but we see in some countries that there are difficulties in this respect – it can seem that some member states have not fully grasped the SEA rationale, namely that it's not a 'punishment' but instead a tool for ensuring that regional and national sustainable development materialises via the funds.

The 'Partnership Principle' also is falling a bit short of expectations, and this is definitely work in progress. Overall, it's moving forward, but the picture is extremely mixed, and the Commission has limited power in this particular area. I would further highlight the 20 percent commitment to climate spending, part of the overall multi-annual framework deal for 2014-2020. Things are looking really rather positive here. We didn't know how the member states would react to this, and actually implement it, but it's safe to say that the majority of member states are hitting – or exceeding – the 20 percent green spending figure in their submitted plan. Of course we're remaining vigilant on this, as there are some few cases where getting close to the target is not yet happening.

MT: Could you perhaps clarify and expand a bit more on the issues related to, and potentially due to affect, the 'more developed regions'?

MF: The background here is that we have three categories of regions based on GDP level. So, below 75 percent of EU average GDP is a 'less developed region', 75-90 percent is classed as a 'transition region', and regions with GDP over 90 percent when compared to the

EU average are the so-called 'more developed regions'.

The requirement for ring-fencing the funding under the ERDF is more stringent in the more developed regions – effectively, their ability to choose among the different thematic objectives is significantly reduced, while the less developed regions have a much freer hand for spending, and also more money, for example via the Cohesion Fund.

MT: Just how much, from what you can detect so far, are the funds being viewed as a life-saver, especially in countries and regions that have been most badly hit by the enduring economic crisis and austerity measures?

MF: What is crystal clear is that in many member states in the east, in the south but also in other cases, EU funding will be a large component of the available public money, so its role will be crucial in the years to come, principally because municipalities, regional authorities and national authorities have seriously limited financial capacity. And of course this is why there are – shall we say – tough battles going on within member states, between ministries, to get a hold of the new EU funding. The effects of this that can sometimes be discerned are, for instance, that there can be the wish to keep certain programmes rather vague to allow for fine-tuning or later spending decisions, depending on developing circumstances.

At the same time, DG Regio's wish is – in line with stimulus thinking – to ensure that we have more investments of a multi-benefit type. Thus when it comes to investment areas such as nature protection, or water and waste, we're looking for them to have the potential to exploit increased job creation and SME support. The trick can be to convince member states that 'green growth' is not a luxury – it can bring major economic benefits.
So, the EU funds are clearly a counter-balance to some of the austerity measures, but it's also a challenge to have a positive approach underpinning this new pot of money, and not just to revert to traditional thinking and planning for basic infrastructure funding.

“EU funds are clearly a counter-balance to some of the austerity measures, but it's a challenge to not just revert to traditional thinking and planning for basic infrastructure funding.”

MT: Going back to what you've said about certain difficulties being encountered related to 'strategic approach' (or otherwise), about SEA, about problems associated with the mainstreaming of sustainable development across the multitude of spending lines, and especially regarding the central and eastern European (CEE) countries where – on average – 60 percent of public investments are being realised via the EU funds – Bankwatch's firm belief is that the EU funds have a massive role to play in our region's hoped for transition to cleaner, leaner, lighter economies.

Do you see this path being taken by CEE member states, and how would you compare what's in the pipeline now with the last spending period of 2007-2013?

MF: Things are definitely moving in the right direction. In programme documents arriving from many of the CEE states, the opportunity to link green growth and innovation is being seized. There is clearly, too, greater understanding of how to link resource efficiency and waste management to economic development. A sense also that natural assets are important – so green infrastructure, still very much in the early days, is cropping up increasingly in the planning, although we of course have to see what happens in the implementation.

Naturally, there is still room for improvement. Governance issues and capacity issues still persist, and the thinking in some member states remains that you want to design programmes that are doable. The danger can be that shiny, bright project concepts are placed in programmes, but end up not being implemented. And weak capacity for implementing such shiny projects only adds to the problems, so devoting attention and funding to the basics – such as training people and reforming administration – has to be considered.

Also, we're trying to encourage member states to pursue more strategic approaches – and overall strategies – across individual sectors, which is also a result of the new 'ex-ante conditionalities'. This is all about insisting on the establishment of more coherent, joined up strategies that can be a solid framework for verifying where countries are going, and what is their plan – masterplans in the transport sector will be expected from some member states, and in Poland for instance there will be a masterplan for water drawn up, to subsequently guide EU funds' investments.

Clearly lacking, again, is sufficient understanding of the 'green economy', and a lack of co-operation and horizontal work in CEE countries, where vertical, or 'silo' approaches still dominate. Cross-cutting, co-operative approaches are fundamental to the green economy concept.

MT: You touched upon the implementation question, involving the capacities of the managing authorities, and the ease of implementation of programmes. We know in the last budgetary period that funds 'absorption' was a stand-out problem, linked to excessive bureaucracy and too much paperwork. Is it going to now be easier to get the funds running? And, related, how do you think citizens with certain initiatives will be able to benefit directly from the EU funds?

MF: There is a battle ongoing regarding simplification, for sure, and this can bring certain benefits. But the most important thing to be improved is capacity within individual member states, and this is why one of the ex-ante conditionalites has been linked to administrative capacity.

The Commission will provide, where necessary, support in such efforts, encouraging member states to use technical assistance, especially in areas such as energy or climate, and tapping into available funding on this from the likes of the European Investment Bank, and other relevant instruments, of which there are many – for example, ELENA and JASPERS. In the enduring crisis times, administrative know-how has to be improved so that the money can move quickly and effectively – we can't afford to drag our heels again.

And yes, involving stakeholders such as citizens and NGOs is critical in the whole set-up here, in making sure that funding is well implemented, and that it's a generally participatory process. And the Commission is pushing on this certainly in the new member states, where there is room for improvement. The 'Community-led local development' initiative should be integral here, but it's take-up to date in the area of environment, energy and climate change has been rather limited.

MT: Looking to the future and the next seven years, what can the Commission do to keep member states and regions on some sort of a sustainable development path? And what role for partners do you see? How can they really get involved to ensure the best outcomes via the new EU budget for the environment and people?

MF: Well, having good programmes is absolutely necessary, but it's only half of the job. So, the Commission's goal in this context is first to provide further support in terms of guidance, expertise and good practice – as we've done in the past. And certainly this time around providing guidance on nature protection and biodiversity, green growth etc. will be essential, and also to encourage exchanges between member states.

Another avenue here of course is the monitoring committees at national level, which in the initial stages are critical when project selection criteria are being established, setting the framework really for the next seven years. All partners have a critical role to play in this crunch moment: setting the criteria, adopting instruments for monitoring the implementation of projects, including the inclusion of sustainable development.

This is the scene-setting stage, i.e. now, that can lead to a smooth functioning of the next seven years, so involvement from member states, the Commission and socio-economic partners is paramount.

Our provision of further support in the area of innovation and green growth is also a big thing for us – as you know, there will be the national or regional innovation strategies for smart specialisation and the support of the smart specialisation platform. In this framework there is also focus on climate and energy. Peer reviews, workshops and seminars can contribute to ensuring that real change takes place on the ground, i.e. going beyond simply 'good' rhetoric in programme documentation. This is going to be a longer term mobilisation effort in the coming years.

We haven't really touched on the 'core funding' issue, but it will be a challenge again, especially in the short-term for municipalities and the regions to find the 15-25 percent funding from their side. So this is why we are promoting financial instruments more, and also working with the EIB to find solutions in this area too.

MT: When can we expect to see final approval for the operational programmes?

MF: Certain more technical strands of the programmes will probably drag into 2015 for final sign-off. The end of October this year is the general deadline, but we're prepared to go beyond this to ensure that good quality programmes get signed off and are adopted by the member states.

MT: Final question – with the rather deep scepticism from many of the richer member states about the usefulness of the EU budget, plus also perhaps the growing anti-EU sentiment across the continent, does the Commission feel under some pressure to ensure that the budget for 2014-2020 delivers, and that the EU is seen to be a force for good in people's lives, and for their environment?

MF: This is absolutely clear-cut. This policy is one of the most significant implementation arms of the EU, so it's a huge responsibility to ensure that real, positive benefits materialise on the ground, and to ensure that this gets communicated. We need to make the EU dimension visible, but the best way to achieve this visibility is through good projects. And I think low carbon and environment projects particularly present a great opportunity for maximising benefits across the entire EU, and really showing EU solidarity. We're keenly aware of this, and the responsibility to deliver, to provide EU 'added value', especially now in the ongoing crisis context.

MT: Well, many thanks Mathieu. It sounds very much like a cautiously optimistic view emanating from the Commission, and we wish you good luck in concluding the spending negotiations in the months ahead.

58 minutes of power for one billion Czech crowns – a good deal for some

Bankwatch's Czech co-ordinator Ondřej Pašek takes time out from EU funds programming documentation digging to describe just one little alarming discovery.

Reading through the Czech Republic's 2014-2020 EU funds programming documents recently, I was mostly concentrating on assessing the main trends and most important budget lines. But by chance my gaze was diverted towards a minor specific target related to the application of 'intelligent measures' in smart grids.

As measuring intelligence is always tricky, and even more so in the case of these power grids, I was interested in trying to grasp the real impact and outcomes the Czech national authorities are looking to achieve in smart grid application – for this, approximately one billion Czech crowns (or 40 million euros) in EU budget money is to be disbursed, with the big energy distributor companies ČEZ and E.on lining up to tap these funds. And I became a bit surprised.

In the Operational Programme (OP) Enterprise and Innovation for Competitiveness, this allocation is to be used in order to cut the annual average time of interruption in power supply per consumer (so-called SAIDI) by 58 minutes. Of course power interruptions and outages are a nuisance, and the Czech Republic is not the best performer in this regard. Yet is it really the case that the current 4.5 hours of interruptions per year for an average consumer is hindering the competitiveness of Czech enterprises, and will a one hour reduction change something?

Without detailed analysis, it's not easy to answer these questions.

However, this omission points to a much more serious issue: the strategy and the financing goals described in this particular OP point to the need for developing the capacities of the grid in order to deal with intermittent renewable energy sources, to enable more renewables connections and to improve local supply/demand balances. Yet no indicators are laid out in the OP that would enable measurement of how EU public funding will improve the Czech grid's ability to accommodate solar or wind energy.

The Czech Republic is seeking to secure EU funding for smart grids out of the newly established and widely trailed low-carbon envelope, within which 20 percent of the EU's total budget now resides. Yet were European Commission evaluators of OP Enterprise and Innovation for Competitiveness to look in detail at what changes are likely to be realised, they would have to reject use of taxpayers' money for measures that will not help to make the country's grid more equipped for the low-carbon energy generation set out in both the Europe 2020 strategy and the European Regional Development Fund regulation that governs much of the country's new EU spending.

Perhaps, though, they should be pointing to and insisting on the introduction of an indicator more appropriate for measuring the intelligence of the grid: the Hosting capacity for distributed energy resources in distribution grids, recommended by the Commission's own Task Force for Smart Grids.

Without such a tailored indicator, 40 million euros is at risk of being sunk into a very grey area. Indeed, in spite of the fine talk that liberally references 'low-carbon' and 'renewables', when it comes to hard numbers and indicators, the Czech approach is pretty clear – there is no interest in or intention to seriously invest into the development of renewables and smart grids. It's a familiar picture. Our purse-holders have become adept at following EU strategies on paper, while investment money is adroitly pushed in the direction of particular interests.

The upshot, as far as I can see, is that instead of making the grid smart and geared for greater uptake of renewable energy, the distribution companies – in this instance ČEZ and E.on – will receive supposedly low-carbon targeted EU funding for their bottom line business, with the funds simply improving the reliability of services that their customers pay for anyway.

As we come to the finalisation of all the Czech OPs in the coming weeks, it is clearly time to jump on the 'programming geek' bandwagon and check even the smallest details – they can count in the end and are likely to add up, overall, to significant sums.

EU funds **continue** to do their bit for the **promotion of sustainable** living in **Hungary**

Whether at the global level with the United Nations Framework of Programmes on Sustainable Consumption and Production, the European level with the Environment Action Programme to 2020, or at the national level, a great deal of effort is being made to promote, develop and expand sustainable lifestyles and production. Such efforts should be tailor-made for receiving financial support from the EU funds.

'Promotion of sustainable lifestyle and consumption' became a separate priority in the Hungarian Environment and Energy Operational Program for 2007–2013. While not fully equipped to solve the underlying problem that, in the previous seven year period, the majority of EU financed programs flouted the principles of sustainable living, the inclusion of this 'promotion' priority was nonetheless viewed as a small step forward.

The aim of the priority indeed was to help make sustainability a generally accepted way of living, to make more widely known ways of applying sustainable alternatives as well as the environmental consequences of consumption, and to improve the availability of sustainable consumption alternatives via cooperation between different groups in society – for instance, between businesses, NGOs, the education and scientific sectors, consultants and the public.

For the 2007–2013 period, 77 million euros was duly allocated for campaigns that would present both the environmental and social impacts of consumption and the benefits of sustainable living, especially in the following areas:

- Raising awareness about the benefits of sustainable consumption, including disseminating and clarifying the values of sustainability in order to make its benefits comprehensible at a personal level.
- Promoting the acceptance of sustainability as a social norm.
- Facilitating access to sustainable infrastructure alternatives, and increasing awareness about possible uses for such infrastructure alternatives.

Although difficult to precisely quantify the results of the campaigns that took place, it was evident that NGOs, local and national authorities as well as companies implemented several successful nationwide projects that reached millions of people living in Hungary. According to a Eurobarometer survey, environmental awareness among the Hungarian population increased from 41 percent in 2007 to 55 percent in 2011.

This looks set to continue into the new programming period, though in a slightly different form (and with precise budgetary sums not yet clearly definied). The Environment and Energy Efficiency Operational Programme includes seperate awareness-raising programmes for different priorities as follows:

- Comprehensive climate change mitigation and adaptation awareness-raising campaigns.
- Campaigns aimed at water use, and water-saving demonstration projects.
- The promotion of selective waste collection, re-use and recycling.
- Awareness-raising activities related to the national Natura 2000 network and the preservation of certain protected species.
- Increasing energy awareness, energy efficiency, and the use of renewables through the implementation of complex awareness-raising programs.

Issue remain, however, as the programming details are currently being thrashed out. Communication experts like to have clear, simple messages and well-defined, target audiences. A shortcoming of the new plans in their current form is that the awareness raising programs are divided into sectors, and are thus likely to hinder the raising of awareness in a holistical sense, where all the major problems of unsustainable living are seen and understood in the round.

There is still time, though, to address these shortcomings in the next few months, and formulate thoroughgoing sustainable living campaigns that will help make a difference in Hungary for the next seven years, and well into the future.

Czech energy efficiency – an open goal demanding more EU funds ambition

The Czech government's plan to phase out part of its lignite-fired power plant fleet by 2025 has hit the news recently with total annual power output from this climate-damaging source set to drop from 40 TWh in 2015 to 18 TWh by 2035.

However the increased electricity consumption projected in the very same planning scenarios, that over time will eliminate the country's current high energy export share and shift it instead onto an import dependency path, places an unfortunate question mark over just how serious the Czech Republic is about its transition to becoming an energy efficient, low-carbon economy.

Moreover, while heat consumption is set to decrease steadily, though slowly, the Czech Republic's energy efficiency potential is not being fully exploited, according to the State Energy Strategy's optimal scenario. Despite all the efforts to improve energy efficiency, not to mention the relevant EU targets and financing provided for these efforts, final energy consumption in the country is predicted to actually increase from 1,119 PJ in 2015 to 1,145 PJ by 2035. Instead of bolder support for energy savings and domestic renewables, the Czech plan is now to import more energy to cover this expected rise.

But why opt for this scenario when you are committed to decrease energy consumption under the EU's Energy Efficiency Directive (EED), and when you receive substantial EU funding for this into the bargain?

Little wonder, then, that the European Commission has asked the Czech Republic, during the formal negotiations for the forthcoming 2014-2020 EU funding period, to provide "quantified and structured data to justify planned interventions within individual priority areas". Yet the disappointing prospectus is that EU funding and the measures planned for 2014-2020 will not deliver sufficiently for energy savings in housing and public buildings.

The rapid, deep renovation of residential buildings, the optimal scenario identified in Czech National Energy Efficiency Action calculations, requires total investment of 6.5 billion euros between 2014 and 2020. Yet the allocation of EU funds planned for residential building renovations is not likely to provide a strong push in this area. Only 0.48 billion euros from the EU funds pot is planned for the energy retrofit of residential buildings, with investment spin-offs from the EU component expected to release a further 0.55 billion. The situation is similar in the public buildings sector, where required investment stands at 1.6 billion euros, with EU funds projected to provide only 0.52 billion euros.

Using EU funding for energy efficiency stands as the most important of the so called alternative measures that will be taken to comply with the binding energy end-use savings target set by the EED. Another major source of funding for residential buildings, the new Green for Savings Programme, financed by revenues from the EU's Emissions Trading System (ETS), is struggling with lack of funding as a result of the outage of incomes caused by the backloading of ETS allowances, as well as by the continuing low ETS carbon price.

In the public building sector meanwhile, the EU funds are in fact the only source of finance dedicated to energy efficiency. Although mayors and local authorities may well be planning some essential work in properties under their control, without dedicated financial support they will be unwilling to invest scarce public budget money into energy efficiency measures even if they would like to. A lack of finance from EU funds for energy efficiency in buildings may inevitably lead to non-compliance with the energy end-use savings target in 2020. The time to sort out the financing and to establish the conditions so that the end-use savings target is fulfilled in 2020 is now.

EU funds and biomass: Slovakia risks losing sight of both the wood and the trees

EU funds for the 2014-2020 budgetary period look set to further fuel the massive over-exploitation of biomass for energy use in Slovakia. Formally, both the European Commission and the Slovak Ministry of Economy have announced the introduction of sustainability rules to govern the use of new EU money. Yet only the final phase of EU funds programming – now under way – will determine whether or not this latest injection of EU investment money will recklessly contribute to the destruction of Slovakia's key natural treasure – its forests.

The biomass debate in Slovakia is acute, in part because of increased pressure to meet targets for share of renewables use within the EU's overall energy sector – though this seemingly positive trend is complicated, and hampered, by poorly defined, mostly quantitative targets, that can be seen to be permitting an unsustainable biomass 'free for all' situation. With final spending decisions as part of the EU funds programming process now due in the coming weeks, Slovakia's natural resources are in danger of being strained beyond all reasonable limits.

Falling trees, rising biomass use

The disappearance of trees and shrubs in Slovakia has become almost impossible to ignore. On riverbanks, roadsides, unused fields and meadows, and in the forests themselves (whether protected or not), logging has been growing rapidly and consistently over the last decade.

Indeed, the first EU funded support period that began in 2004 resulted in a sharp increase in biomass energy utilisation. The consumption of solid biomass in heating plants jumped from nearly zero to 2,900 tonnes in 2004, reaching – according to data from the Slovak Hydro-meteorological Institute – 433,300 tonnes in 2010.

Moreover, the quantity of logged biomass has significantly exceeded sustainable harvest levels every year for the last 17 years. For the 2008-2010 period, the level of over-exploitation was on average 21 percent over the nationally set sustainable harvest limit, with harvests increasing by 87 percent in the 20 years up to 2010. The price of biomass has also risen sharply due to EU support for major biomass-fired installations bringing about substantial increases in demand for biomass.

This is resulting in social impacts in poor regions where households and small municipalities have been shifting to biomass because of rising gas prices. Fuel poverty is thus becoming an acute issue, alongside the phenomenon of heavily subsidised large companies depleting local resources.

So-called 'white areas' have become the most heavily exploited source of biomass. These cover all areas which are not regulated as forests and include riverbanks, roadsides, fields and meadows lying fallow and that have been naturally turned into forests by wind-spread seeds.

The speed with which destructive felling and chipping has been taking place in these areas is staggering. The most dramatic level of felling to date has occurred in the environs of the River Slatina in central Slovakia, where 27,000 trees and 90,000 square metres of shrubs have been logged for energy purposes – such a procedure, following the permitting green light, can be executred quickly in a matter of weeks.

What makes these kind of developments all the more galling is the blatant disconnect taking place between so-called 'clean' energy target fulfillment and the need for climate adaptation and anti-flood protection measures – the ongoing sharp increase in logging for energy production is only having negative effects on the latter measures.

EU funds in the pot

EU funds in the 2014-2020 period will bring in several hundred million euros for renewables support, the majority of which as far as Slovakia is concerned will flow into biomass utilisation. In comments to the draft Operational Programme Quality of Environment, the European Commission has already clearly expressed its position on sustainability criteria, demanding a detailed description of rules for project selection.

For its part, the Slovak Ministry of Economy has thus far pledged to elaborate such criteria, but the fact that the main focus of EU-funded renewables support is being aimed at large installations (up to 20 MW) has stoked concerns that small-scale, decentralised, locally-oriented biomass use will not feature in the funding spotlight.

Moreover, the fact that all approximate 20 MW power installations are currently burning coal means that supporting a fuel shift in these facilities will end up producing carbon 'lock-in' effects. And why? Shifting to biomass in these kind of large power stations accounts for usually only up to 20 percent of their total fuel use – their main, continuing fuel source still remains coal. Public money support for such a shift is delivering very marginal – if not outright questionable – benefits compared to the ending of such fossil fuel-dominated production and replacing it with altogether new, clean installations.

Where to from here?

Overall, it looks like no real transformation of the Slovak energy sector is foreseen within the Cohesion Policy and by the substantial funds that accompany it. Municipalities, SMEs and even NGOs to a certain degree have been granted eligibility to draw available funds for biomass projects, but only the final decisive stage of programming will show whether this is simply lip service or real commitment. The Ministry of Economy has to come to terms with the limitations of funding biomass use and establish stringent criteria for project selection.

The European Commission also needs to play a more active role, one that goes beyond merely commenting on operating programmes and instead moves towards establishing binding rules for biomass use – the introduction of a biomass specific EU directive is long overdue. Pushback against such steps, of course, is huge as big energy companies can sniff the burning wood and smell the public cash.

Only public pressure can match this industry pressure, and currently in Slovakia a major campaign against support for biomass energy utilisation is being spearheaded across the country by the conservationist movement Vlk ('Wolf'), and is attracting increasing public support.

Yet such an anti-campaign has to be accompanied by a suitably pitched awareness campaign that explains to the public how our still abundant, but increasingly threatened, natural resources can be used meaningfully and sustainably. Here is the trick – building pressure against biomass can deflect attention away from the real benefits of a sustainable biomass-based economic model which has major potential in Slovakia's rural regions. For a start, this means using locally sourced biomass, and relying on, for example, 'waste biomass' rather than high quality wood stocks.

With the clock ticking down to the final decision-making for EU funds allocations in 2014-2020, the Slovak public still has time to demand – in Bratislava and Brussels – binding biomass sustainability criteria. Approach national parliamentarians and MEPs, speak to your mayors. All of them can still help to ensure more order, more rationale and less ultimate devastation resulting from the biomass funding negotiations.

Editorial board: Greig Aitken, Claudia Ciobanu, Sven Haertig-Tokarz, Petr Hlobil, David Hoffman

Contributors: Akos Eger, Kuba Gogolewski, Miroslav Mojzis, Ondřej Pašek, Markus Trilling, Selina Vancane

Design: rjones73.carbonmade.com,
Layout: Tereza Hejmová

Newsletter of the CEE Bankwatch Network on International Financial Flows
Address: CEE Bankwatch Network
Na Rozcesti 1434/6,
Praha 9, 190 00 Czech Republic

E-mail: main@bankwatch.org
Web: www.bankwatch.org
Twitter: @ceebankwatch

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