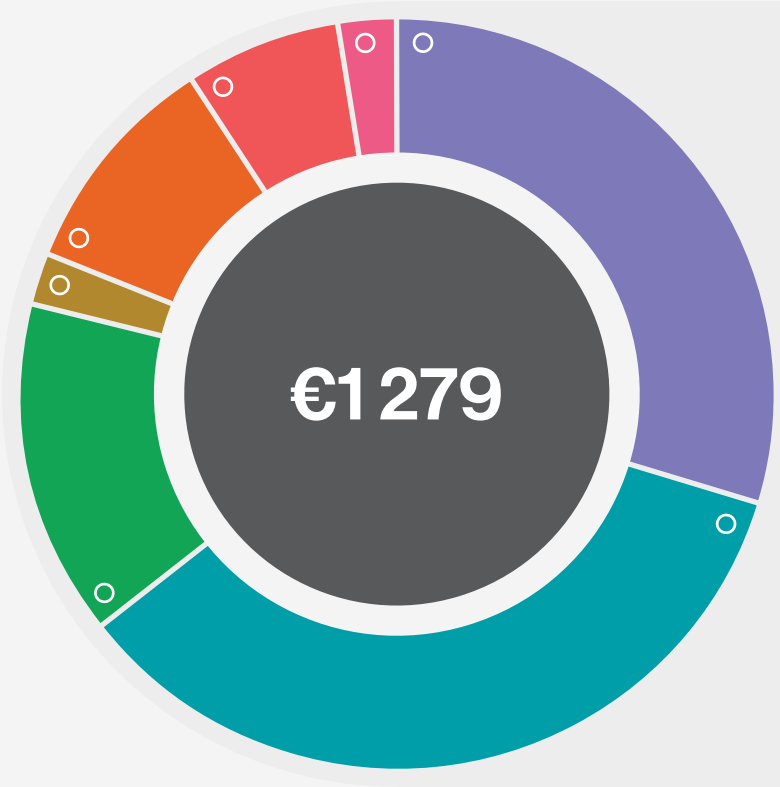
CEE Bankwatch Network

July 2020

Financing the European Green Deal

A guide to making EU climate funds work for the people

The new EU budget



THE NEW MULTIANNUAL FINANCIAL FRAMEWORK 2021 - 2027

In billion euro, current prices

- **NATURAL RESOURCES AND ENVIRONMENT - €378.9**
- **COHESION AND VALUES - €442.4**
- **SINGLE MARKET, INNOVATION AND DIGITAL - €187.4**
- **SECURITY AND DEFENCE - €27.5**
- **NEIGHBOURHOOD AND THE WORLD - €123**
- **EUROPEAN PUBLIC ADMINISTRATION - €85.3**
- **MIGRATION AND BORDER MANAGEMENT - €34.9**

The European Union has its own long-term budget, accounting for around **EUR 180 billion** every year.

This budget is negotiated every 7 years, and is called the **Multiannual Financial Framework**, or **MFF**. The current MFF will last until the end of 2020, and discussions have already begun over the more than EUR 1 trillion envelope for the 2021 to 2027 period.

Even though this might seem like a lot of money, the MFF supports **500 million Europeans and 27 countries, covering eight different priorities, from economic development to agricultural policy to security and defence.**

Each Member State contributes to the EU budget in proportion to its gross national income (GNI). This proportion is subject to heated debate: some countries don't want to provide more than 1% of their GNI, whereas others want the collective contribution to be even higher. The size of the cohesion policy envelope, which is instrumental for many countries in central, southern and eastern Europe, is particularly contentious. The COVID-19 crisis and the related measures to stimulate the European economy will further influence these discussions.

The EU budget and the climate

What is the Next Generation EU?

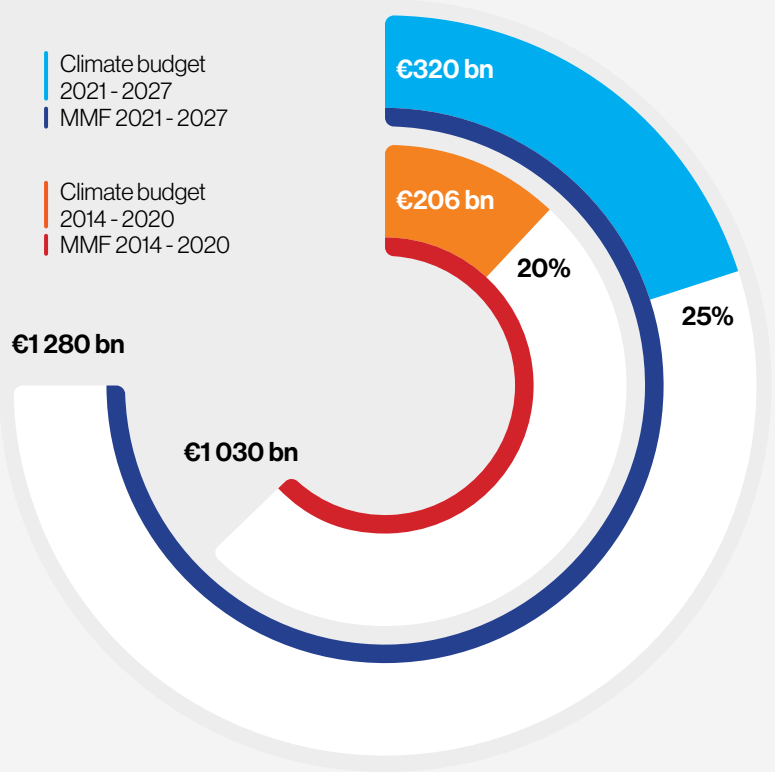
In May 2020, the Commission proposed a Next Generation EU recovery package as a response to the coronavirus pandemic. The proposal will mitigate the economic effects of the pandemic by adding EUR 750 billion to the existing seven-year MFF, bringing the total EU budget to EUR 1.85 trillion. This includes, among others, the following instruments:

- The Recovery and Resilience Facility - EUR 560 billion in grants and loans for Member States
- REACT-EU, an increase of EUR 55 billion to current cohesion policy programs
- An increase of EUR 30 billion to the Just Transition Fund

In addition to these increased resources, the recovery package includes a new EUR 300 billion Solvency Support Instrument for mobilising private investments. The Commission promises to ensure that this respects the 'do no harm' principle of supporting green, sustainable and inclusive economic growth and recovery, but does not specify how to enforce this principle.

The EU has ambitious climate and energy objectives for 2030, and is now committed to climate neutrality by 2050. These objectives, which are part of the European Green Deal – the flagship initiative of the new European Commission (the Commission) – will require huge investments in climate action while stopping financing fossil fuels altogether.

For the post-2020 budget, the EU **has fixed the objective of spending 25% (EUR 320 billion) of its long-term budget on climate action, an increase of 5% compared to the current budget**. However, to avoid climate catastrophe, this percentage alone will not be sufficient: the whole EU budget should be aligned with the Paris Agreement in what is called the 'climate proofing' of the budget.

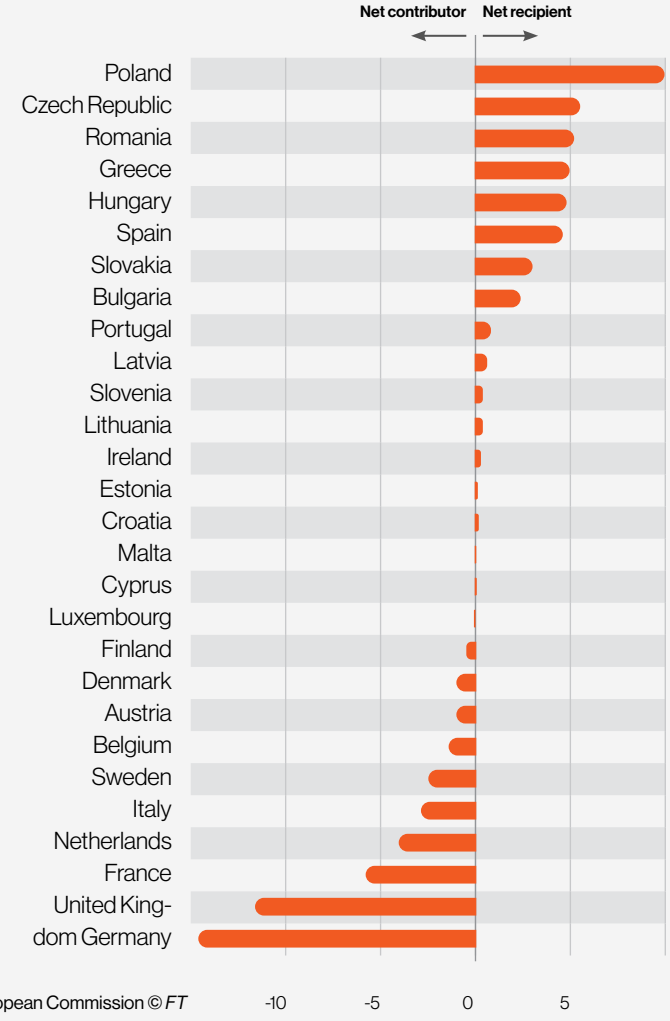


The EU budget and Member States

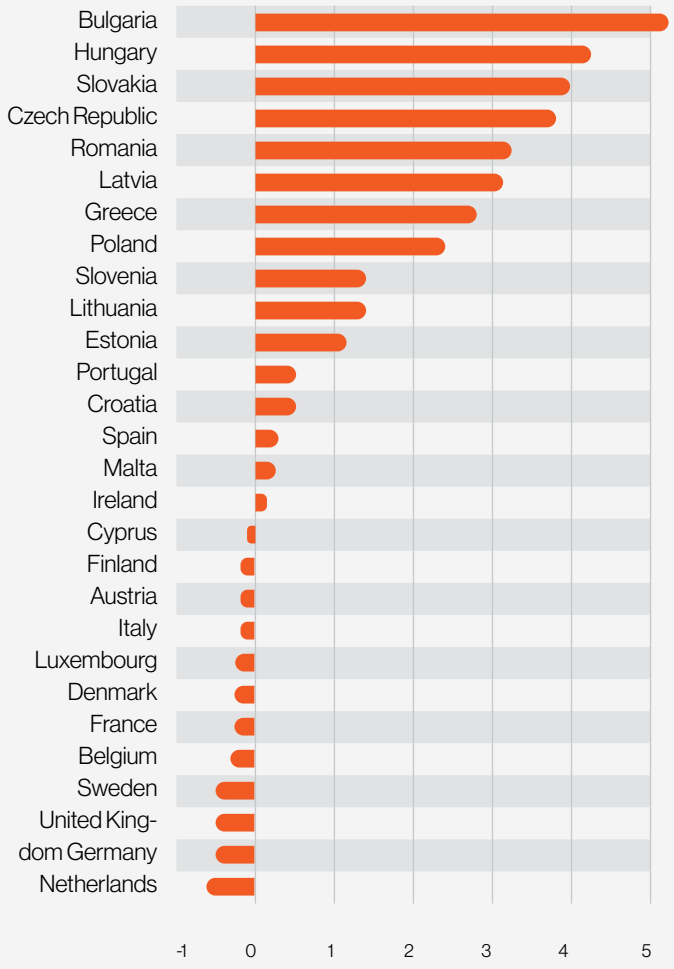
Member States that are net payers (those that pay more than they receive) often complain that net recipients (those that receive more than they contribute) unfairly benefit from the common EU budget. However, this narrative is actually contrary to the macroeconomic reality of the EU, as the investments made in eastern Europe by western companies generate almost double the financial contribution of net-payers countries. Furthermore, western European companies benefit from EU-funded tenders for projects in eastern Europe and from the economic development of the region.

GIVERS AND RECEIVERS: THE EU BUDGET

OPERATING BUDGETARY BALANCE
(EUR bn, 2015)



OPERATING BUDGETARY BALANCE
(as a % of Gross National Income)



Source: European Commission © *FT*

EU budget management

PROVISIONAL TIMELINE FOR 2021-2027 NEGOTIATIONS

Source: DG REGIO

1

Proposing and financing

The European Commission proposes the rules for managing the EU funds ahead of each budgetary period (every 7 years). These rules determine which projects are eligible. Once the Council of the EU and the European Parliament negotiate and agree upon these rules, the Commission discusses with Member States how the funds will be spent.

2

Programming

Member States negotiate the rules that govern the use of the funds with the European Parliament. Once the rules are approved, Member States propose a Partnership Agreement to the Commission, a reference document explaining their strategy and investment priorities, and present a list of operational programmes that will be funded. When a Member State is also a managing authority, it negotiates operational programmes.

3

Implementing programmes and projects

Managing authorities are in charge of managing and implementing EU funds. They can be a national ministry, regional authority, local council, or another public or private body that has been nominated and approved by a Member State. They discuss the content of each operational programme with the Commission and ensure that projects supported by EU funds match programme priorities and respect EU rules. They also evaluate performance.

4

Overseeing

Monitoring committees include social partners, civil society and regional authorities and ensure that EU funds programmes are properly implemented. Monitoring committees have access to direct and up-to-date information on programmes, and they can challenge the evaluation of programmes and propose revisions and changes. They can also question when harmful projects are financed by the funds.

Cohesion policy is the future of sustainable investment

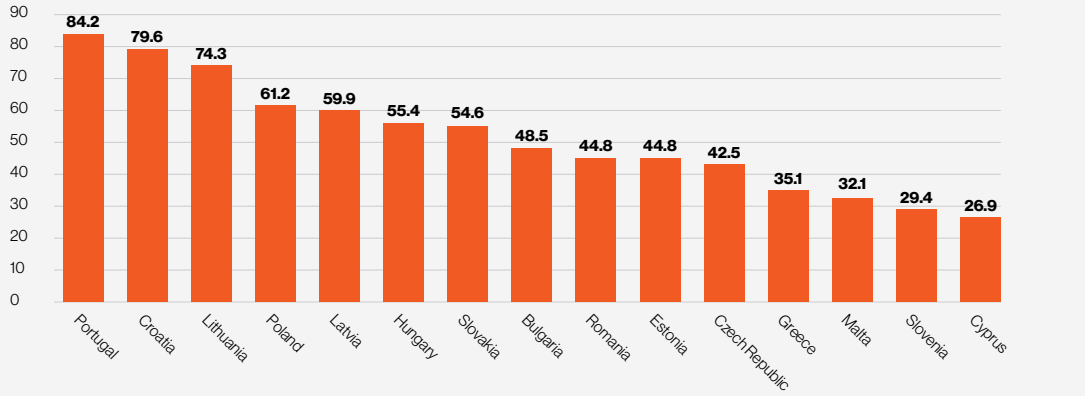
€372

billion or approx. 30%

15 COUNTRIES WITH THE HIGHEST SHARE OF PUBLIC INVESTMENT CO-FINANCED BY THE EU BUDGET

% PER MEMBER STATE

Source: www.europa.eu



With a budget of **EUR 372 billion** for the next seven years, the future cohesion policy will be the biggest investment policy of the EU, accounting for **approximately 30% of the total budget**.

Cohesion policy is an expression of economic solidarity across the different regions of the EU and a proven catalyst in the fight against climate change. Its role in shaping public investments, especially in central and eastern Europe, is crucial: on average, **cohesion policy represents 41% of all public investment in CEE countries**.

Some sources of cohesion policy funding include:

- European Regional Development Fund (ERDF) (EUR 196 bn)
- Cohesion Fund (EUR 40 bn)
- European Social Fund Plus (ESF+) (EUR 86 bn)
- REACT-EU (EUR 50 bn)

The Cohesion Fund and the ERDF are expected to invest at least EUR 108 billion in climate and environment related projects during this period (2021-2027), more than 30% of all cohesion policy funds.

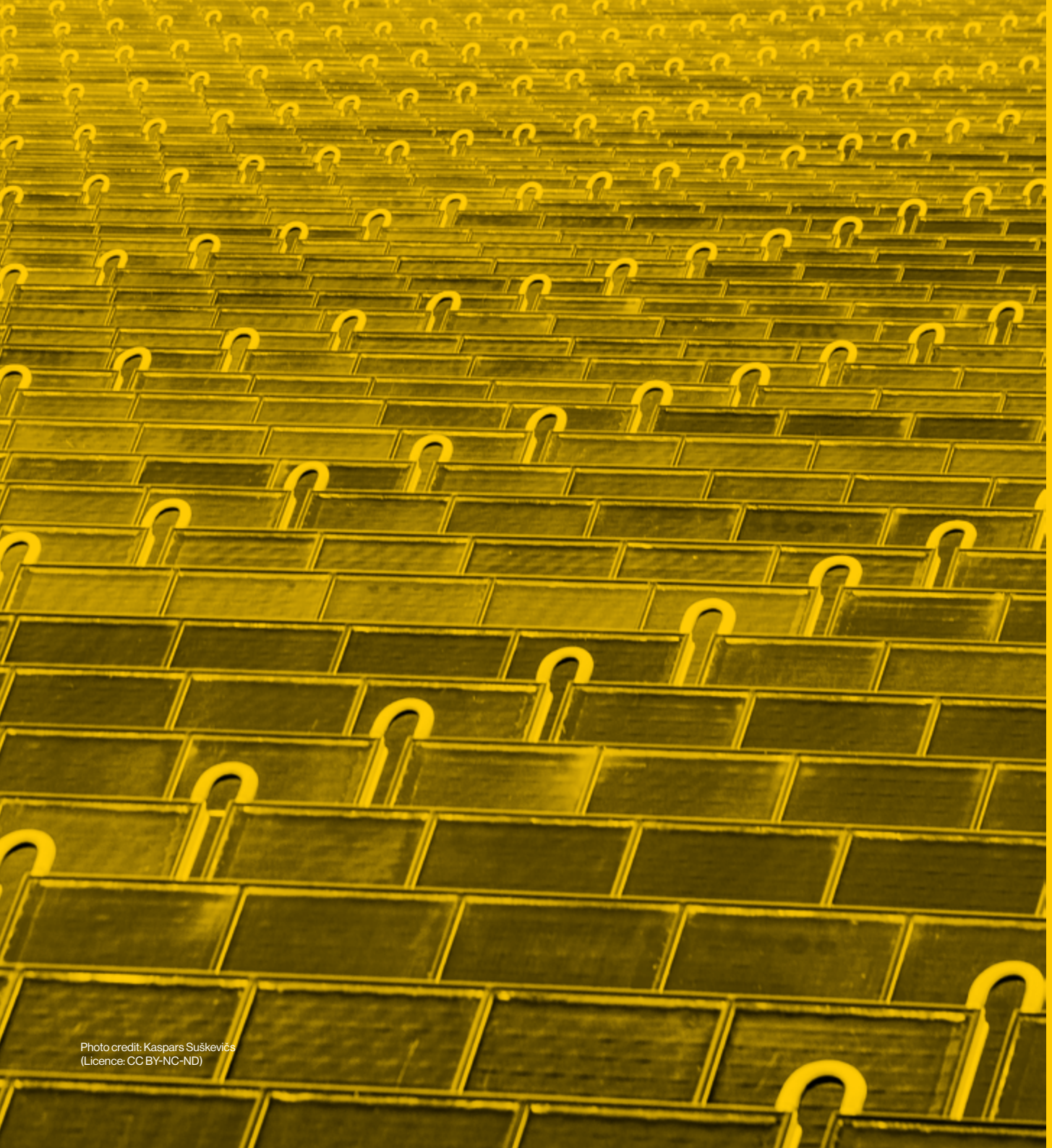


Photo credit: Kaspars Suškevičs
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Great examples of cohesion policy funds at work

Solar district heating in Latvia

In September 2019, the first large-scale park of 1,720 solar collectors was opened in Salapils, Latvia. The project has been recognised as the best practice for decarbonising district heating systems (DHS) and deploying solar thermal energy, including the provision of energy monitoring data. Out of the total EUR 8.78 million required for the project, Salaspils received EUR 2.73 million in cohesion co-funding under the thematic objective 'Promoting energy efficiency and local RES in district heating'. The project has attracted broad public interest and international acclaim, and Latvia's Building Design and Construction Council awarded Salaspils' solar DHS with the Grand Prix 2019.

Regional development with EU Funds in Romania

Ciugud is a small village in the western part of Romania, but it is well-known in the country as the community with the most investments financed through European funds. So far, EUR 27 million have been invested in various projects. All of the community's roads have been paved, including the agricultural roads which connect the surrounding villages and farms. In addition, sewage and water networks have been built, an industrial area was set up providing almost 1,000 workplaces for the community, and the energy for public lighting and buildings is now based entirely on renewable energy sources. But the investments don't stop there – the community also has a new bicycle path, free Wi-Fi in all public spaces and modernised parks as a result of European money.

Photo credit: Primaria Comunei Ciugud Facebook Page

Photo credit: Office of the Plenipotentiary of the Government for the Development of the Civil Society, 2020

Supporting partnership in Slovakia

For years, civil society experts participated in the programming and monitoring of EU funds without proper recognition, systematisation, networking and financial support. But since 2017, the Partnership projects in Slovakia have created coordination capacities and supported official activities with state authorities, such as:

- Connecting ministries with experts and regional stakeholders;
- Participatory monitoring and practical implementation of
- Operational Programmes;
- Working groups, analyses and surveys for improving calls
- for proposals; and
- Improvements in official rules and conditions, i.e. the improvement of the nomination mechanism for civil society representatives in the EU funds system.

The Just Transition Fund

Just Transition Mechanism

€40bn
Just Transition Fund

€45bn
InvestEU Just Transition

€30bn
loan facility at the EIB

The proposed Just Transition Mechanism will be composed of a Fund of EUR 40 billion (pillar 1), an InvestEU Just Transition Scheme mobilising EUR 45 billion (pillar 2), and a public sector loan facility at the EIB mobilising EUR 25 to 30 billion in investments (pillar 3).

Although limited in its amount, the Just Transition Fund (JTF) can have a strong impact on communities and territories dealing with the adverse effects of the energy transition.

The Just Transition Fund is still being discussed by EU lawmakers, but its purpose is clear: it should support forward looking and fossil-free projects that will have a positive impact at the local level. The case studies presented on this page could be replicable under the JTF..

Geothermal & PV development in Hungary

The municipality of Miskolc built a new photovoltaic power plant with 1 MW capacity on a former recultivated landfill site with co-financing from the EU Structural Funds. It is able to produce power for seven municipal buildings and allows the local district heating system to run on renewable energy. This is one of the first cases in Hungary where a municipality can consume its own self-produced electricity in buildings outside of the production site using the existing power grid. The project combines the benefits of a typical small scale PV systems (maximum 50kW; no greenfield use, production for self-consumption) and the efficiency of large scale solar power plants (500kW+). EU funds (from the Energy and Environment Operational Fund) are also being used (2013-2020) to transform the local district heating system from its dependence on fossil fuels to a mixture of biogas, biomass, geothermal and solar energy sources by 2030.

Overcoming industrial scars in Poland

The Silesian city of Bytom has gained new recreational grounds with the reclamation, repurposing and revitalisation of nearly 30 hectares of degraded industrial sites in the Bytomka river valley. The area now hosts outdoor gyms, cycling and pedestrian paths and football pitches. Existing vegetation has been cropped, new trees have been planted and some landscape design measures have been implemented to restore the site to a near-natural condition. Degradation of the Bytomka river valley dates back to the 19th century, when the mining of coal and metal ores started in the area. Now, the site offers recreation opportunities to Bytom's inhabitants. The revitalisation cost PLN 25.2 million, of which 21.4 million was provided by the EU from the Cohesion Fund.

Upper Silesia Urban Framework Programme and Walbrzych Urban Revitalisation in Poland

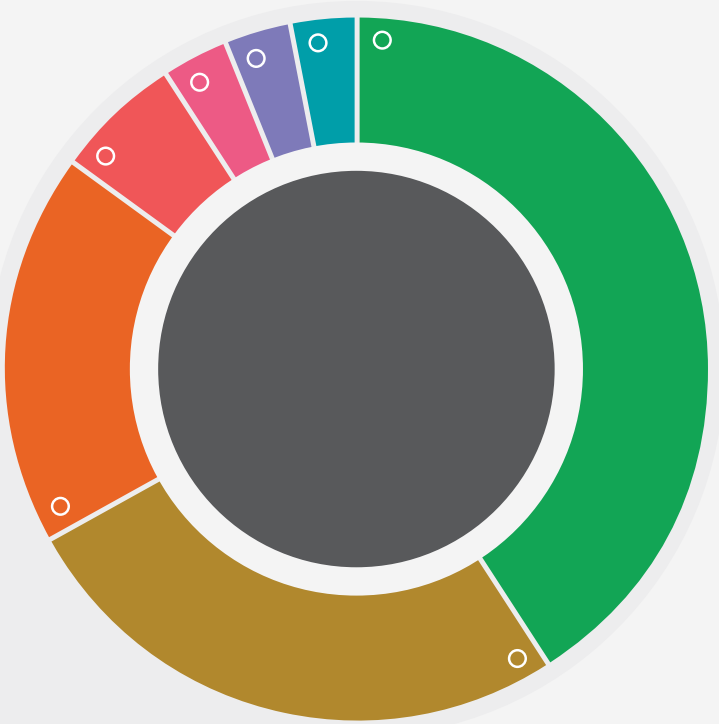
The Silesia Urban Programme consists of nine framework loans for municipalities in the Silesia region: Katowice, Gliwice, Dąbrowa Górnicza, Ruda Śląska, Sosnowiec, Chorzów, Tychy, Rybnik and Bytom. The EIB will lend up to EUR 655 million for projects worth EUR 1.5 billion in total. Framework loans aim to support the modernisation of municipal infrastructure and urban development in line with the local development strategies adopted by participating municipalities. Since 2016, the programme has supported local transport projects, the construction of schools and energy efficiency of existing buildings, energy efficient street lighting, the purchase of city buses, the upgrade of parks and monuments, investments in water and waste sectors, health and social housing.

The **European Fund for Strategic Investment (EFSI)** supported the Walbrzych Urban Revitalisation framework loan, worth EUR 30 million with an interest rate of 0.56%, which will cover almost 60 investments in the city, including cultural and tourist attractions, social housing, modernisation of schools and other public buildings and energy efficient street lighting.

The European Investment Bank

EIB CLIMATE ACTION IN THE EU IN 2019

- **41%** Sustainable transport
- **26%** Energy efficiency
- **18%** Renewable energy systems
- **6%** Research, development and innovation
- **3%** Other
- **3%** Climate change adaptation
- **3%** Waste and wastewater greenhouse gases reduction
- **0%** Afforestation and forest management



The EIB, the EU public bank owned by all Member States, has dedicated at least a quarter of its annual lending for projects contributing to climate change mitigation and adaptation. This proportion will further increase, as the bank **recently announced it will extend at least 50% of its loans for climate action and environmental sustainability by 2025**. In 2019, more than EUR 16 billion of the EIB's EUR 55 billion in loans for various operations in the EU were designated as climate action.

In November 2019, the Bank adopted a new Energy Lending Policy which virtually excluded EIB financing for fossil fuel projects starting from 2022. It has also established an Energy Transition Package focusing on energy projects to provide extra support to those Member States or regions with a more challenging transition path. The package, including advisory services, will focus on energy projects in those Member States that benefit under the EU Modernisation Fund. By the end of 2020, the EIB is also expected to adopt a new Climate Bank Roadmap which will align all of the EIB's operations with the objectives of the Paris Agreement.

The EIB will be the biggest single financial partner of the **InvestEU**, a new EU programme set to leverage up to EUR 650 billion of private investments around Europe from 2021 to 2027. Climate investments should make up 40% of its portfolio.

Get involved

Monitoring committee in Latvia
Photo credit: Ministry of Finance of the Republic of Latvia

To make the most of EU funds, it is important that all stakeholders are involved at different stages of the process. In fact, national governments have to comply with the **partnership principle** and include different stakeholders when making decisions about the EU budget, as specified by the **European Code of Conduct on Partnership (N. 240/2014)**. The Code of Conduct sets standards for the involvement of all partners in EU funds' programming, implementation, monitoring and evaluation. The obligation to consult partners is also guaranteed in **Article 6 of the Common Provisions Regulation 2018/0196 (COD)**.

If the partnership principle is followed properly, the projects that receive financing will better reflect regional needs, barriers to spending and future challenges, such as the climate crisis. Public participation also helps prevent fraud and the misuse of money.

Programming

Programming is the phase in which a country decides how to spend EU money. Citizens can influence local, regional and even national decisions and decision-makers by proposing solutions, supporting NGOs and demanding responsible action.

During the programming phase at the national level (which for the upcoming budget will take place during 2020 and 2021), several key documents are prepared and adopted by the national authorities. Usually, these are:

- Socio-economic analyses which define the national priorities for the upcoming period
- Regional development plans
- Enabling conditions, i.e. the National Energy and Climate Plans
- Partnership agreements
- Operational programmes

In the development of each of these strategic documents, there are fixed opportunities for public participation.

But to be able to influence the final results according to concrete needs requires proactive and long term citizen engagement. We recommend the following steps for the effective mobilisation of interested parties:

- **Early mobilisation**: Create a community or coalition of active participants that define their priorities early on in the programming. This will allow for proper planning, identification of needs, and division of tasks.
- **Gathering information**: Ensure you are informed about the responsible institutions, timeline and deadlines of the programming process. Send letters to the authorities regularly, and make an early statement to the national authority as an interested party. Seek out communities, NGOs and business associations that can become partners or join common initiatives. More citizen initiative at this stage will increase the likelihood that citizen priorities are represented in the outcome.
- **Participation**: Meaningful participation in working groups and public hearings can be ensured by identifying and recruiting relevant experts to support you. Deficiencies in the process and the institutional approach can be reported directly to the responsible officers in the Commission.

Monitoring committee in Latvia
Photo credit: Ministry of Finance of the Republic of Latvia

Implementation

Projects are implemented at the regional level, so it is up to your local municipality or regional authority to propose, select and monitor projects and ensure that everything is going according to plan.

If you suspect any misuse of funds, flag it to local NGOs or watchdog organisations. If your community, coalition or citizens' initiative has the expertise, it can produce monitoring reports or case studies and communicate the findings directly to relevant regional, national or European authorities.

One important way to participate is to represent your community in the operational programme's monitoring committee. As a member of this body, you will have voting rights and access to direct and up-to-date information on the implementation of the programme and concrete projects. Biannual progress reports should be publicly available on the websites of the programmes.

Ministries can also set up citizen working groups to improve public calls for project proposals in a way that respects local needs.

Becoming a beneficiary

If you are a mayor, an entrepreneur or an organisation that is looking for funding for a project, there may be some money available for you. If you don't know how to apply for the funding, you can check if there are public offices that can assist you with turning your idea into a project.

Sometimes, ministries place certain restrictions on what types of activities and beneficiaries can be awarded under a given programme. This may indicate that the ministry needs more information from the regions in order to create the right conditions to support good projects.

If you encounter problems in trying to become a beneficiary of EU funds, you can contact NGOs, such as Bankwatch, or write a letter directly to the responsible institutions. The authorities may be willing to improve the conditions for applicants, especially if there is low interest in a concrete call for proposals.

Five point checklist for good partnership

Establishing good partnerships between authorities and stakeholders is essential to effective and sustainable national, regional and local EU-funded programmes. The following checklist serves as a guide to help both sides ensure funding is managed in the best possible way.

1. Relevant partners are identified early in the planning process. These can include industry, unions, communities, local authorities, academic insitutions and civil society (including organisations that work on the environment, EU Funds, social inclusion, gender equality and non-discrimination). In programmes, they may nominate a single representative umbrella organisation into the partnership.
2. In monitoring committees, partners are able to join the process early and are notified about the rules and information in time to be able to give input. Input is adequately considered and contributors are given feedback.
3. Partners in monitoring committees receive reimbursement rules, capacity building opportunities and technical assistance.
4. Partners are involved early enough in programming, implementation, monitoring and evaluation of the programmes.
5. The managing authority helps – with training, coordination, networking and financial contribution (via technical assistance) – to strengthen the institutional capacity of partners like small local authorities, economic and social partners and NGOs.

CEE Bankwatch Network

Get in touch with us

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