BEYOND PROFIT

HOW TO RESHAPE THE EUROPEAN GREEN DEAL FOR PEOPLE'S WELL-BEING

CITIZENS' OBSERVATORY FOR GREEN DEAL FINANCING

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EXECUTIVE SUMMARY

A few months before the 2024 European elections, it is still not clear how the EU will finance its climate agenda. Four years after the European Green Deal (EGD) was announced and the EU almost doubled its budget with the creation of the EUR 800 billion NextGenerationEU fund to help Member States respond to the economic effects of the pandemic, the environmental and recovery agenda is under threat in Europe. This is happening as the climate and biodiversity crises are growing increasingly urgent.

On the one hand, powerful business interests are using their considerable lobbying power to slow down the EGD. On the other hand, the public support for the current environmental agenda is not strong enough to protect it. Despite almost everyone agreeing that the EGD should be fair, there is a lack of public belief that sustainable solutions in current energy, transport, housing and employment policy agendas will be affordable and accessible for everyone. Tackling the cost of living crisis plays a crucial role in building strong public support for the climate agenda, as low and middle income households pay up to 80 per cent of their income on essential services like housing, energy, transport and food. These services are also crucial sectors in need of structural transformation to decarbonise and protect the environment. Finally, there is a need for more political will to mobilise the large amount of public investment needed for a just transformation that combines protecting the environment with the protection of social rights and access to essential services. This is crucial in light of the EU budget being cut almost in half due to the end of NextGenerationEU in a status quo scenario.

Avoiding such a dramatic fall in EU public investment capacity requires setting priorities straight and creating trust among people, by showing how this investment can make their daily lives better and protect the planet. Massive EU public funding is needed as the challenges from the various crises we face are too big for even large Member States to deal with on their own. However, our analysis shows that the key EU instruments financing the EGD and the recovery — the Recovery and Resilience Facility (RRF), InvestEU, the European Investment Bank (EIB) and the Just Transition Mechanism — reveal significant shortcomings in the EGD's strategic priorities and implementation.

The EU's investment strategy is too focused on supporting technological innovation and competitiveness instead of transforming the economic model itself. It fails to combine the provision of essential needs with limiting energy and resource consumption. The green investments under the RRF and implemented by the EIB and other public banks under InvestEU often favour big infrastructure projects or technological innovations by companies already making big profit which are not effective in reducing emissions or have a significant negative environmental impact inside and outside the EU. There are too few investments in environmental solutions which may not be profitable in the short term, but provide immediate help to people and finance what is essential for our survival and wellbeing in the long term.

In particular, InvestEU and the EIB have a strategy based on attracting private investors, which leads to already profiting private companies and financiers receiving a large slice of public funding. The EIB and other public banks do use some InvestEU guarantees to finance projects developing new energy efficient social housing, public green transport or renewable energy projects operated by local governments. But overall, the EIB's lack of risk appetite and its habit of making large profits despite having a non-profit mandate, means it does not maximise its potential to make enough funding available for projects which have long-term economic viability and large social and environmental benefits.

The RRF is a major step forward in financing the green transition, providing a significant financial resource to Member States to invest in urgently needed green measures. However, although the RRF has in theory reached its midway point, its green credentials are certainly not reflected in the progress of fulfilling milestones and targets - of which just 18 per cent have been achieved.

The implementation of measures at national level is proving slower and more challenging than expected, with certain Member States struggling to implement them within the very short RRF timeline, for which all funds must have been disbursed by 2026. In particular, green measures are facing challenges with implementation in Central and Eastern Europe. For example, just 2 per cent of green measures have been implemented in Bulgaria. In Latvia, only 2.3 per cent of funds have been received by final beneficiaries.

The flexible nature of the RRF, which allows Member States to revise their plans, is a useful tool for adapting to changing political and economic circumstances. However, such revisions have predominantly been made to the detriment of green ambition, which has either been removed entirely or significantly reduced.

Because of this strict 2026 deadline, there are concerns that efforts to speed up the RRF's implementation might compromise the quality of the measures. In Poland, important green investments remain at risk. While the REPowerEU chapter increased the target number of an already existing call for proposals for energy communities from 139 to 200, the programme faces difficulties to even reach its initial target and it is unclear how it will be met by the first quarter of 2025.

InvestEU and the EIB both reached this year's targets for approving guarantees and lending for climate finance. Yet when we look behind the numbers, several obstacles towards contributing to a just transformation appear. Some projects have negative environmental impacts, such as the Northvolt giga battery plant in Sweden which received almost EUR 1 billion in support, or some of the large renewable energy projects in Spain. The EIB also has a bad track record of providing quality and timely environmental and social impact assessments of projects it considers financing and continues to finance highly polluting companies and financial institutions.

Finally, the resources dedicated to the Just Transition Mechanism are insufficient to deal with the social and economic impact of the EGD and the cost of living crisis. They are tiny in comparison to the amounts dedicated to support competitiveness, only focus on regions which are heavily dependent on fossil fuels and the EGD's financial instruments are being rolled out very slowly.

Whereas the EIB financed EUR 4.5 billion in InvestEU projects in 2023, only EUR 60 million went to Just Transition projects. EUR 300 million was lent under the Public Sector Loan Facility, with one of the three projects financed being a ski resort.

Building a stronger climate agenda in Europe requires providing sufficient public investment capacity within and across Member States and pursuing a just transformation which puts public money where nature and people need it most. EU public funding must finance measures that effectively protect the environment and improve the lives of people, especially by providing affordable green essential public services like housing, energy and transport for all and applying strong conditions on public funding for companies. Without encroaching on public funds made available for Just Transition regions — which currently only cover areas affected by the green transition — the concept should be broadened to create a comprehensive strategy for providing solutions for low- and middle-income households all over Europe. Financing the EGD must become more democratic — people, civil society but also local governments must have adequate access to information, mechanisms and resources to be able to meaningfully participate in defining and designing the plans for a just transformation in their region.

Recommendations

A new RRF that is greener, more social and democratically planned

A just transformation can only be funded by continuing the large scale EU public investment initiated by NextGenerationEU. EU institutions and Member States must start reflecting early enough — long before the RRF ends — on what investments are needed for a just transformation to avoid a funding gap and guarantee that sufficient resources will be made available. A follow-up to the RRF is needed, but it must be reformed to give higher priority to essential services and social investments, increase green ambition, address unequal regional development, provide clear rules for public participation and transparency, increase monitoring of Member States and provide sufficient resources and assistance to plan investments.

InvestEU4people — EU budget guarantees for public-public cooperation

Guarantees from the EU budget and loans from public banks with favourable conditions can play a significant role in creating more investment capacity for a just transformation. This can be done by using EU guarantees and financing from the EIB and other EU, national or regional public banks to target the financing of projects and programmes that deliver essential services and have long-term economic viability. To achieve this, the following actions should be taken: create a new Just Transformation Mechanism which will provide dedicated funds for environmentally friendly, quality and affordable essential services; prioritise public-public cooperation between European, national and regional public financial institutions and local authorities; increase the EIB's lending and prioritise public services; and improve the banks' climate and environmental criteria for projects and promoters.

INTRODUCTION

Since the launch of the EGD in 2019, climate change has manifested itself in increasingly intense and disruptive wildfires, floods and heatwaves, while biodiversity loss continues to accelerate each year. The pandemic brought social life and many sectors of the economy to an unforeseen standstill, making us painfully aware of how essential it is to prioritise human well-being. At the same time, the importance of maintaining healthy and resilient ecosystems to counteract the spread of diseases and the impacts of climate change has become even clearer. The pandemic exposed a number of pre-existing crises that have been further exacerbated by the war in Ukraine. These include rising energy and food prices which have led to a cost-of-living crisis and an overall decline in the living standards of citizens.

As urgent as the climate crisis is, the European environmental agenda is under threat. This is happening despite four years passing since the EGD was announced and the EU almost doubling its budget by creating the EUR 800 billion NextGenerationEU fund to help Member States respond to the economic effects of the pandemic.

Wealthy corporations are using their considerable lobbying power to slow down the EGD, and the popular support base for the environmental agenda is not strong enough to protect it. Even though almost everybody agrees that the EGD should be fair, there is a lack of confidence that sustainable energy will become affordable for everyone.[1] More generally, the cost of living crisis was the primary concern mentioned by respondents of a Eurobarometer survey in June 2023.[2] Yet it remains a low priority for policymakers.[3] People are already wary of the costs associated with the EGD, but to many it is not yet clear if it will provide decent jobs or access to basic needs like housing, transport or energy.

Vested business interests would have us believe that we can only maintain a decent quality of life by persisting with the fossil fuel-based economy or relying on technological innovations. They promote the continuation of the same economic model responsible for ongoing environmental and social crises while opposing more effective environmental safeguards.

Nevertheless, public investment has a crucial role to play in tackling these various crises and the challenges are too large for even the biggest Member States to deal with on their own. This investment capacity is currently under threat. Economic governance rules which come back into force in 2024 after the pandemic will severely limit Member States[4] ability to invest. The end of the NGEU recovery plan in 2027 will also half the resources which the EU has to make investments for the protection of our living standards and environment — just when we need to scale them up drastically.

1 European Commission, Fairness perceptions of the green transition, *European Commission*, 2022.

2 European Commission, Eurobarometer, *European Commission*, 2023.

3 European Commission, Strategic Foresight Report, *European Commission*, 2023.

4 Fiscal Matters, Time to get it right, *Fiscal Matters*, 2023.

Photo: Lili Popper

It is crucial that we do not waste time in resetting priorities and creating trust in societies by demonstrating how public investment can help improve people's daily lives and protect the planet. To achieve this, public investment in the EU must focus not on what is profitable now but what helps ordinary people now, and what is essential for our survival and wellbeing in the long term. Public money must get to the places and people that need it most. This requires shifting the current strategy behind the financing of the EGD and wider economic recovery, from a focus on making technological innovation profitable for corporations, towards financing measures that effectively protect the environment and improve people's lives. Providing affordable green public services like housing, energy and transport for all and applying strong conditions on public funding for companies is particularly essential.

In this report we will analyse the key mechanisms used by the EU to finance the EGD and the COVID-19 recovery — namely the RRF, InvestEU, the EIB and the Just Transition Mechanism.

In the first chapter, we will analyse the overall strategy behind these investment mechanisms and see if this strategy is contributing to a just transformation and helping people to have access to essential services.

In the second chapter, we take a closer look at the current state of the RRF with examples from countries in the CEE region, focusing on climate and environmental impact, issues with the roll out of funds and governance, and citizen participation.

The third chapter looks at InvestEU, the EIB and the Just Transition Mechanism. We analyse the progress and contribution these instruments have made in financing the EGD, assess to what extent Just Transition instruments are providing essential services for people and explore negative and positive examples of investments through the lens of achieving a just transformation.

The conclusion looks at how the existing strategies and programmes must be modified and scaled up to deliver sufficient public funding capacity within EU institutions and Member States to finance a just transformation.

Photo: Lili Popper

FINANCING THE GREEN DEAL AND THE RECOVERY ANALYSIS

Photo: Allexander

The EU strategy for the EGD and recovery funding aims for technological innovation

The (EGD) plays a crucial role in putting climate high on the political agenda in Europe, with around 50 new policies and objectives in areas as wide as climate, biodiversity, transport, agriculture and clean air. It has also introduced new principles into environmental policymaking — such as 'leave no one behind' — which has led to initiatives to help regions that are heavily dependent on fossil fuels to cope with the transition towards a more environmentally friendly economy. Likewise, the EGD introduced the 'do no significant harm' (DNSH) principle, which stipulates that all economic activities supported by other EU initiatives must avoid harming the environment.[5]

In this chapter, we will look at some of the other key mechanisms used to finance the EGD, which are part of the Sustainable Europe Investment Plan.[6]

This plan seeks to mobilise EUR 1 trillion by 2030 from public and private sources. InvestEU, the Public Sector Loan Facility and the EIB all play a key role in the implementation of these mechanisms and also provide climate and environmental finance on their own.

To finance the EGD, the European Commission made a commitment to mobilise EUR 1 trillion to support sustainable investments through the Sustainable Europe Investment Plan. It contains funding coming from the EU budget, InvestEU and the Just Transition Mechanism. The EIB also plays a crucial role in the implementation of these mechanisms and provides climate and environmental finance on its own.[7] This is not all public money, but largely private investment which the Commission hopes to attract by offering guarantees in combination with public loans with favourable conditions. The idea being that public money will make projects which the EGD wants to support more profitable,

5 European Commission, Communication from the Commission to the European Parliament, The European Council: The European Green Deal, *European Commission*, 2019.

6 European Commission, Commission Communication on the Sustainable Europe Investment Plan, *European Commission press corner*, 14 January 2020.

7 European Commission, The European Green Deal Investment Plan and Just Transition Mechanism explained, *European Commission press corner*, 14 January 2020.

thus attracting more private money than would have been the case without the support. InvestEU is the key instrument in this plan. Its main objectives are to stimulate the competitiveness and growth of the EU economy through research, innovation and digitalisation. This growth must contribute to achieving the SDGs, meeting the objectives of the Paris Agreement and creating high-quality jobs. Other objectives include the strengthening of the internal market, cohesion and pandemic recovery.[8]

On top of this is NextGenerationEU, a large scale EU investment plan launched in 2020 to deal with the economic effects of the pandemic. The plan mainly consists of the RRF, a EUR 723.8 billion instrument from which each member state receives a package of loans and grants to support its national economy to recover from the pandemic. The EGD plays a crucial role in the RRF as 37 per cent of all the funding must go towards climate measures. 20 percent is dedicated to digitalisation.[9]

Behind these targets, the central aim of each EU Member State's National Recovery and Resilience Plan (NRRP) is focused on economic growth, since the only strategic objectives properly quantified in the National Plans are the macro-economic objectives of increasing Gross Domestic Product, productivity and employment.

None of the other strategic objectives in the National Plans around decarbonisation or social cohesion have been analysed and quantified in a similar fashion.[10] More recently, the RRF has also been used to implement the Commission's REPowerEU plan, which was published in May 2022 in response to disruption caused by Russia's invasion of Ukraine. To help EU Member States invest more in the energy transition, the Commission proposed to add a chapter to NRRPs which would integrate new measures in line with the REPowerEU proposal, including an objective to diversify energy supplies.

Five years after the launch of the EGD, and just before entering EU elections two things stand out. Firstly, the EGD does not go far enough to limit climate change and protect the environment. Secondly, there is a severe political and to a certain extent societal backlash against implementing the EGD — let alone going further.

From the outset, several organisations have criticised the EGD's goal of aiming for green growth as not realistic. The model promoted under the EGD attempts to combine climate objectives with continued economic growth, rather than adapting the economic model itself and combining the provision of essential needs with limiting energy and resource consumption. The pursuit of economic growth and profit maximisation have led to various crises we are now facing, such as rising inequality, resource depletion, biodiversity loss and climate change. We have never been able to achieve economic growth while using fewer resources.[11]

8 European Parliament and the Council, Regulation (EU) 2021/523 of the European Parliament and of the Council of 24 March 2021 establishing the InvestEU Programme and amending Regulation (EU) 2015/1017, *EUR-lex*, 24 March 2021.

9 European Commission, NextGenerationEU, *European Commission*, accessed 15 February 2024.

10 Counter Balance, Things have to change, *Counter Balance*, September 2023.

11 Jason Hickel and Jefim Vogel, Is green growth happening?, *The Lancet*, 2023;
European Environmental Bureau, Decoupling debunked – Evidence and arguments against green growth as a sole strategy for sustainability, *European Environmental Bureau*, 2019;
Debt Observatory in Globalisation, Green Deals in a time of pandemics, *Debt Observatory in Globalisation*, 2021.

The EGD as it is currently being pursued relies on an enormous amount of raw materials and water. Although a switch to more sustainable forms of renewable energy is clearly urgent in order to limit the impacts of burning fossil fuels, pursuing such a strategy still has detrimental effects on global justice. This is particularly so when not complimented by coherent long-term policies to decrease the EU's consumption of materials and energy, and when the role of green hydrogen and individual electric vehicles is over-emphasised to the detriment of public and non-motorised transport.

Increased mining will create enormous environmental damage and has major negative human rights impacts on local communities. Moreover, many of these resources are located in the Global South, yet the EU is offering countries unequal economic relationships which primarily benefit itself in an effort to secure supply chains in the face of global competition.[12] The Global Gateway, the EU's strategic investment programme for building infrastructure and projects outside the EU, highlights that access to Critical Raw Materials (CRMs) and green hydrogen production for export to Europe is high on the agenda. This is increasingly directing development money towards pursuing an unsustainable corporate green growth strategy.[13]

In Things have to Change,[14] the Foundational Economy Collective[15] points to the shortcomings of the EU's economic strategy behind the financing of the EGD and NextGenerationEU when trying to improve the living conditions for low and middle-income households in Europe. Since the beginning of the cost of living crisis in 2022, in several Member States the poorest 25 percent of households have had to spend more than half — and sometimes up to 80 percent — of their income on housing, energy, water, transport and food. Among these essential needs, housing is by far the most important factor determining whether low-income households are able to get by or fall into the poverty trap.

Yet the EU's current strategy attempts to protect the climate by supporting big infrastructure projects and technological innovations led by the private sector. The primary role of public investment is to finance this infrastructure and to make these technological innovations interesting enough for private companies and investors.

Germany, France, Italy and Spain spend more than EUR 170 billion on becoming more competitive in clean and digital technologies and, despite some good examples,[16] the InvestEU model is predicated on mobilising private sector money.[17] The preference for technological innovation and infrastructure-led growth is further demonstrated in the REPowerEU initiative, which also requires Member States who request the extra funding to address the objectives set out in the recent Green Deal Industrial Plan for the Net-Zero Age.

This plan focuses on the improvement of the competitiveness of clean technology industries.[18] This is exemplified in the updated Spanish recovery plan, which includes the REPower EU measures. The goal of this part of the plan is to 'strengthen strategic projects (PERTE) and especially the

12 Leah Sullivan, 100+ Organisations Call on MEPs to vote against EU-Chile Deal, *Seattle to Brussels Network*, 17 January 2024.

13 European Parliament, Report on the role of EU development policy in transforming the extractive industries for sustainable development in developing countries, *European Parliament*, 30 October 2023.

14 Counter Balance, Things have to change

15 Foundational Economy Collective, Foundational Economy, *Foundational Economy*, accessed 15 February 2024.

16 For more information, see chapter 3.A.II 'Invest EU projects contributing to delivering green essential services' in on p.22 below

17 Counter Balance, Things have to change.

18 European Commission, Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, *REPowerEU Plan, EUR-Lex*, 18 May 2022.


Photo: Frantzou Fleurine

strategic autonomy of Spain and the EU in the field of energy, and the agri-food, industrial, technological and digital sectors'.

PERTE are big public-private partnerships directly led by ministries, that mostly benefit big corporations.[19] In Hungary, green investments by profiting businesses (greening of logistics, parks, electricity grid development, green production capacities and technologies etc.) are expected to receive grants under REPowerEU,[20] even though they could have made such investments with loans. This would have allowed for less profitable investments to be made with grants.[21]

While this may look positive at first sight, and we of course need technology, the problem is that we are not setting the priorities straight. While focusing on technological innovation and competitiveness, we are supporting companies that develop certain technologies and maybe create some jobs along the way, but we do not tackle the root causes — overall diminishing resource use, guaranteeing supported economic activities are part of a broader plan to adapt the economy and making sure projects that receive support adopt strong labour and other social conditions. The resources dedicated to the Just Transition are small, dealing only with regions that are heavily dependent on fossil fuels, and the roll out of these instruments is slow.

Meanwhile, many of the climate and environmental actions that are essential but not profitable, as well as low income households that are suffering through the cost of living crisis, are being neglected. Essential services – housing, energy, transport and food – are also sectors which must be transformed to decarbonise and protect the environment. This means the cost of living crisis and tackling climate change must really be tackled together.

The transport sector is a good example of how focusing on providing affordable mobility for all, which requires making mobility more collective, also has positive environmental effects.
If we opt for green public transport instead of merely replacing cars' combustion engines with electric engines, we will use a lot less lithium and other CRMs, and as a consequence create

19 Government of Spain, IV Informe de Ejecución del Plan de Recuperación, *Government of Spain*, December 2023.

20 Government of Hungary, Magyarország Helyreállítási és Ellenállóképességi Terve, *Government of Hungary*, December 2023.

21 National Society of Conservationists - Friends of the Earth Hungary, Outcome of the Energy Policy Evaluation Conference, *National Society of Conservationists- Friends of the Earth Hungary*, 14 December 2023.

less pollution and exploitation in mining areas and decrease current geopolitical tensions around accessing these minerals.[22]

We can also see in the RRF that there is a lack of attention for social inclusion and fundamental rights. Several objectives refer to social issues: social and territorial cohesion (pillar 4); health, and economic, social and institutional resilience (pillar 5); and policies for the next generation, children and youth (pillar 6). Yet there is no comprehensive strategy, nor spending thresholds or criteria for how to achieve these social objectives. Measures providing citizens and workers with buffers against the possible negative consequences of the green transition are underdeveloped, while the role to be played by social dialogue in the framework of the transition is not always evident in the measures proposed.[23]

Even though the pandemic confronted us with the significance of essential economic activities to our daily lives, such as with food, health, education and care, the prioritisation of growth and technological innovation has led to a greater focus on 'productive' sectors of the economy. These include but are not limited to the energy sector, the microelectronics sector, the automotive sector and the shipbuilding industry. As a result, the 'social' is a low priority as an object of expenditure in NRRPs. When it comes to health, there is a lot of focus on technological innovations in hospitals or the health industry to protect us against health threats. This is a missed opportunity to invest in the improvement of public health in the sense of diet and lifestyle, despite the obesity crisis and massive physical and psychological health inequalities between social groups. This narrow vision on social measures leaves out a whole series of social policies in housing, care services and social infrastructure which could have a significant impact in helping households deal with the cost of living crisis. Housing policies only figure as long as there are investable projects to make residential buildings more energy efficient (e.g. in the French, Italian and German plan),[24] but there is no mention of the construction of new social housing.[25]

InvestEU does include some projects which invest in new social housing.[26] Yet as housing was identified as a determining factor on the ability of lower and middle income classes to deal with the cost of living crisis, not targeting these investments explicitly and giving them a larger role in both the recovery fund and InvestEU is a lost opportunity. Moreover, Italy's revised recovery plan – including the REPowerEU chapter – also includes a cut in spending for cohesion and social inclusion funding.

Finally, a key missing element needed to achieve a just transformation is the lack of popular participation in the decision making process on how the EGD and recovery is financed. There is a huge lack of transparency around how decisions are made, and citizens have at best an extremely limited ability to provide input into proposals as part of the RRF. Additionally, it is virtually impossible for citizens to have any impact on the decision making processes for EU level mechanisms for financing the EGD, such as InvestEU.[27]

22 Climate and community, Achieving zero emissions with more mobility and less mining, *Climate and community*, 2023.

23 ETUI, Social policy in the European Union: state of play 2022 Policymaking in a permacrisis, *ETUI*, 2022.

24 Federal Ministry of Finance of Germany, German National Recovery and Resilience Plan, *Federal Ministry of Finance of Germany,* accessed 15 February 2024; Government of Italy, Italian National Recovery and Resilience Plan, *Government of Italy*, accessed 15 February 2024; Government of France, French National Recovery and Resilience Plan, *Government of France*, accessed 15 February 2024.

25 Counter Balance, Things have to change.

26 For more information, see chapter 3.A.II 'Invest EU projects contributing to delivering green essential services' on p.22 below

27 Citizens' Observatory Green Deal Financing, No recovery without citizens: why public involvement is key to Europe's green transformation, *CEE Bankwatch Network*, 2023.

Is the Recovery and Resilience Facility on track to meet its objectives?

The RRF had the potential to be a key tool to further invest in the green transition and respond to people's needs. With EUR 723.8 billion, it provides significant support to national governments to not just recover from the pandemic, but to also prepare for future challenges. The sheer size of financing made available provides a significant opportunity to further drive progress towards the EGD objectives.

However, halfway through its implementation, the RRF is facing significant challenges in many Member States. This implementation is proving to be complex and the RRF has not yet delivered the potential of what the recovery package was supposed to bring Member States, such as making their economies and societies more sustainable, resilient and prepared for the green transition. As a lot of funds still need to be dispersed within a short timeframe, and many projects and reforms still have to take shape, Member States cannot afford to just speed up the implementation of their recovery plans by rushing to unleash a wave of low quality projects.

In total, according to the scoreboard[28] in January 2024, EUR 141.25 billion in grants have been disbursed out of EUR 338 billion available, and only EUR 78.93 billion loans out of a possible EUR 385.8 billion. In the Member States assessed in this report, in particular in the CEE region, the disbursement of funds and subsequent implementation is much slower than initially expected. This is particularly true for the implementation of green measures (e.g. clean energy, environmental protection), which are lagging compared to other sectors. Questions can therefore be raised as to whether the design of the RRF is well suited to delivering fast and efficient spending, as was the original intention behind devising such a structure.

The design and the implementation of the facility, however, shows multiple shortcomings that risk investing in wrong solutions which benefit actors which are not in dire need of financial support and without the necessary scrutiny and public participation. In February 2024, the Commission released the mid-term evaluation of the RRF, stating that considerable progress had been made during implementation and the considerable role it is playing for accelerating the green transition. However, the report also acknowledged the need for greater involvement of local and social actors, as well as increased capacity in Member States.[29]

The RRF led to important progress by putting decarbonisation higher on the agenda and providing finance for solutions such as energy communities, energy renovation of buildings and the decarbonisation of heating systems and public transport. The 37 per cent threshold for climate and environmental measures is not strong enough though, because the main focus remains on stimulating economic growth via technological innovation and industry competitiveness. More specifically, the examples from the countries' NRRPs below shows that the RRF continued to direct money towards fossil fuels, favours fast spending at the cost of qualitative projects, does not fix transparency and governance issues despite calls from watchdogs and lacks a coherent strategy to go towards a just transformation.

28 European Commission, Recovery and Resilience Scoreboard: disbursements, *European Commission*, accessed January 2024.
29 European Commission, Mid-term evaluation of the Recovery and Resilience Facility (RRF), *European Commission*, 21 February 2024.

Loosening of the rules sparks new gas investments

The RRF is a key EU financing stream to implement climate-related measures, and has a target of 37 per cent going towards climate contributions. However, this does not prevent Member States from using this instrument for potentially harmful investments, particularly on fossil gas. The DNSH rules were enacted in a way to allow countries to support fossil gas-based heating and transmission systems under certain conditions. Such earmarking is taking place in several countries (such as Slovakia, Poland, Romania, Italy) to replace solid fossil fuel heating.

For REPowerEU chapters, this means using the RRF money for building or expanding fossil fuels infrastructures by derogating from the application of the DNSH principle for specific measures dedicated to the immediate security of supply. Governments are therefore allowed to temporarily use EU funds for fossil fuel expansion, further contributing to the climate crisis and diverting precious funding that should be used to better protect citizens from the impact of climate change.

During the preparation of the chapters, several countries expressed their intention to earmark funding for new fossil fuels investments using this new DNSH exemption.

Following the approval of the chapters by the EU, four gas projects will be funded in three different countries at a total amount of EUR 1.6 billion (see table below). While this funding is more limited than what could have happened given the broad eligibility and possibility for Member States to direct funds towards fossil fuels, these four fossil fuel projects contradict EU policies and divert public money from clean and sustainable energy. These are likely to perpetuate the reliance on fossil gas and energy imports, which led us to the recent energy crisis.

Country	Project	Budget
Croatia	Capacity expansion of the Krk LNG terminal and strengthening the gas infrastructure (pipeline and interconnector)	EUR 559 million
Italy	Adriatic Line Phase 1 (compression station and 140 km pipeline)	EUR 375 million
	Cross border gas export infrastructure (new compressor station)	EUR 45 million
Poland	Construction of natural gas infrastructure (250 km pipeline towards a future LNG terminal)	EUR 631 million
TOTAL		REPowerEU budget for new fossil fuels: EUR 1.6 billion

Photo: Martin Adams

Fast spending of funds: Too much focus on quantity over quality

The RRF was designed to disburse funds rapidly, due to its role as a temporary, emergency instrument for Member States to recover quickly from the COVID-19 pandemic. This is reflected by the fact that all funding must be disbursed by 2026, with simplified reporting obligations for Member States compared to other funding streams. However, the RRF's very short timeline is proving to be a significant barrier for the implementation of reforms and investments by Member States. In particular, the RRF did not help to drive changes at national level which would enable better investment planning and remove bottlenecks to implement these plans (e.g. permitting, supply chain, workforce skills).

This slow implementation means Member States are often delaying the start of schemes or implementing measures with low transformational potential, such as poorly planned building renovation programmes. In Latvia, renovation targets only homeowners, who need to completely finance up front and take on the initial risk and can only receive compensation afterwards.[30] This not only heavily reduces the ability of lower income households with less financial resources to benefit from the programme, but risks it not being fully implemented due to a lack of interest. In Bulgaria, there is a similar situation with a programme which aims to provide renewable energy equipment for households. In the first phase of the programme, applicants needed to make initial investment on their own, which excluded energy poor households. Moreover, there was probably low interest due to the lack of an information campaign. On the other hand, progress has been made with the adoption of legal criteria for energy poor households in Bulgaria since December 2023, but it is not clear which institution will be assessing households and making sure they are prioritised within the next instalments of the programme.[31]

30 Altum, Daudzdzīvokļu māju energoefektivitāte 2016-2023, *Altum.lv*, accessed 12 February 2024.

31 Lex.bg, дефиниция и критерии за енергийно бедно домакинство, *Lex.bg*, accessed 14 February 2024.

Moreover, measures which were hastily included in the RRF with promises of 'green infrastructure integration' without proper public discussion or scrutiny turned out to have been exaggerating about their environmental benefits. For example, in Latvia, some investments related to flood risk mitigation infrastructure have been delayed or removed from the recovery plan.

This is partly because project promoters cannot carry out the legally mandatory environmental assessments and develop other mitigation measures in the short time available, and partly because of cost increases. These projects might still be financed through other funding means, hopefully with more time to do the necessary environmental assessments, but potentially also with a lower level of DNSH implementation. While it should be considered a success that potentially harmful projects did not receive RRF financing due to the vigilance of civil society and the European Commission, some projects could have been improved had sufficient time been available to better discuss and develop them.

In Poland, during the revision of the recovery plan, several positive energy and clean transport investments were adjusted — either being scaled up, scaled down or delayed due to problems meeting the deadline. While the Polish REPowerEU chapter increased the target number of an already existing call for proposals for energy communities from 139 to 200, the programme faces difficulties to even reach its initial target and it is unclear how it will be met by its first quarter of 2025 goal. One of these scaled-down projects is a much needed investment in the replacement of heat sources in buildings, while in Bulgaria, 81 per cent of total RRF reductions affect energy and climate related projects and biodiversity investments were removed.

A further consequence of the very short RRF timeline is the difficulty to design projects quickly, without necessarily factoring in regional and local needs and extensive public consultations. This is the case in Spain, where the lack of access to decision making also applies to local and regional governments. Most of the calls for proposals have been designed from the top, so local authorities have had to draft projects according to the programmes available. The limited time available also prevented local authorities from being able to draw up projects based on specific needs and to plan with the medium and long term in mind.

There are, however, some positive revisions increasing green spending, albeit limited. In Poland, support for energy communities was almost doubled and new reforms and investments were included in the REPowerEU chapter. Allocations for green measures from the Italian RePowerEU chapter increased to a total of 39.5 per cent compared to the 37.5 per cent, although the quality and real environmental credentials of these plans is difficult to assess as they have not been made publicly available.

Photo: Helio Dilolwa

Governance issues

The design of the RRF provides greater flexibility to use funds compared to other EU funds and programmes for Member States and national managing authorities, only requiring States to simply evidence the achievement of certain milestones and targets to the Commission for the next instalments of funds to be disbursed. In theory, this allows for a more simplified approach and less bureaucracy for Member States, yet there is concern about the light level of control and monitoring that this creates. The European Ombudsman recently criticised the lack of detail around how the Commission supervises the spending of recovery funds in Member States, pointing to the structure of the mechanism which leads to such a situation.[32] This was also echoed by the European Court of Auditors in a 2023 report,[33] where concern was voiced over the Commission's control system for the RRF.

One such example is the large infrastructure project for the reconstruction of the port of Genoa in Italy, financed through the RRF, which has been involved in several investigations in relation to the tendering procedure. The European Public Prosecutor Office (EPPO) opened an investigation into the case in relation to alleged irregularities with EU funds.[34]

In addition to the lack of stringent monitoring of recovery funds by the Commission, the ability of citizens to access the necessary information and participate in the decision making process creates a lack of scrutiny and shared ownership of this flagship investment program. In most Member States,no systematic, detailed, up-to-date and harmonised information on the actual implementation of specific measures is available. There is no meaningful consultation process which allows citizens to draw up and evaluate projects based on their specific needs, to plan with the medium and long term in mind and to move towards a just transformation adapted to each regional context.

Even though civil society platforms are consulted in some Member States, a positive development in Italy was that after long and intense pressure on the government, a platform of 60 organisations was able to enter the steering committee of the NRRP in November 2023. However, in many countries such mechanisms do not exist and where they do, they tend to have very limited ability to meaningfully influence the decision making process.

In Italy, information on how implementation is progressing is updated very late on Italia Domani,[35] the institutional portal through which the government informs its citizens about the plan. As of the beginning of 2024, Italia Domani still displays outdated information on the milestones and targets from to the second quarter of 2023, making it impossible for the public to scrutinise the state of the plan and to provide meaningful input to overcome challenges in implementation. In Hungary, citizens and civil society had only two weeks during the summer to comment on the REPowerEU chapter.

32 European Ombudsman, The transparency and accountability of the Recovery and Resilience Facility, *European Ombudsman*, 2023.

33 European Court of Auditors, Special report 26/2023: The Recovery and Resilience Facility's performance monitoring framework – Measuring implementation progress but not sufficient to capture performance, *European Court of Auditors*, 2023.

34 Marco Preve, 'Appalto per la maxi Diga, la Procura Europea indaga su gara e varianti a tutela del miliardo e 300 milioni di fondi PNRR', *La Repubblica*, 2 November 2023.

35 Italia Domani, National Recovery and Resilience Plan, *Italia Domani,* accessed 8 January 2024.

The Commission's decision to introduce a provision for Member States to disclose the top 100 beneficiaries is, in principle, a welcome step for increasing transparency and tracking the final recipients. An analysis of these lists from the countries[36] in this report reveals that the majority have been allocated to the private sector, and more specifically channelled to very large infrastructure projects. This particularly applies to transport infrastructure, such as in Spain,[37] Italy and Poland. However, this varies to some extent depending on the Member State in question. In Italy, information is notably available at the level of projects,[38] whereas the list is much more limited and vague in Bulgaria and Spain.[39] Moreover, despite being the most advanced in receiving funds, Brussels has had to remind Spain at least twice of the legal obligation to publish the list of the first 100 final recipients.

Some positive progress has been made with requests for greater transparency, largely as a result of initiatives from civil society. In Italy, the civic observatory was formed by a coalition of national NGOs to improve the exchange of information and to more effectively follow the implementation of recovery funds. This Observatory is now a member of the RRF steering committee. Subcommittees have also been established within already existing monitoring committees in Poland, also as a result of civil society campaigning, to improve transparency and coordination. In other countries, progress on influencing fund disbursement and governance is still lacking — Latvia still does not have a monitoring committee for the RRF and investments have not been submitted for review within the existing EU funds monitoring committee (with few exceptions).

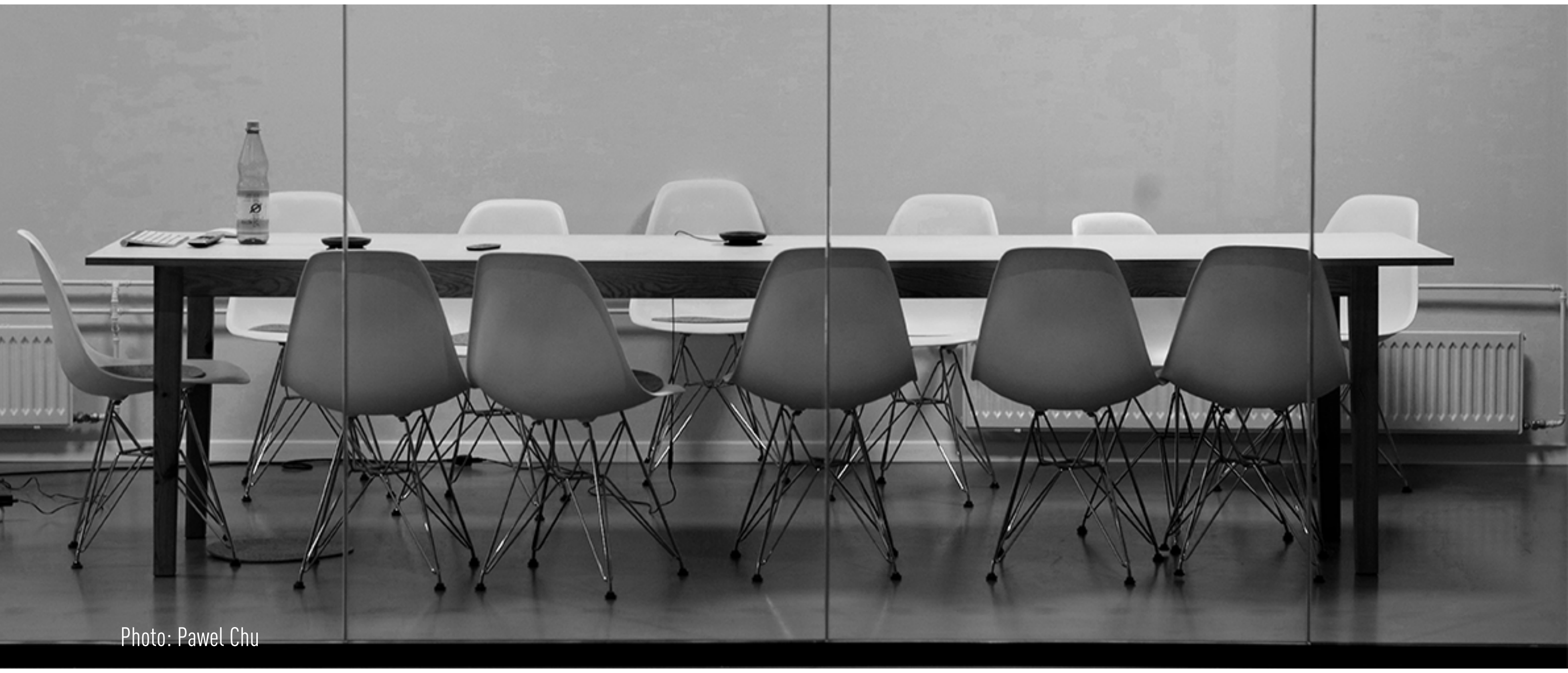

Photo: Pawel Chu

36 European Commission, Recovery and Resilience Facility Scoreboard: 100 largest final recipients per country, *European Commission*, accessed 15 February 2024.

37 In terms of investment volume, the main recipients of funds in Spain have been public entities, with ADIF and ADIF-Alta Velocidad, the main manager and administrator of the railway network and its infrastructures, being the most important public companies. ADIF is the leading contracting entity among the 50 largest awardees of tenders called within the framework of the Recovery Plan, which has led to big public-private partnerships. More information available here: Government of Spain, Nota metodológica: lista de los 100 mayores perceptores, Planderecuperacion.gob.es, accessed 14 February 2024.

38 Italia Domani, Piano Nazionale di Ripresa e Resilienza, Open Data Catalog, *Italia Domani*, accessed 8 January 2024.

39 Government of Spain, Nota metodológica: lista de los 100 mayores perceptores, *Government of Spain*.

A missed opportunity to take action on biodiversity loss

The RRF was a significant opportunity to finance urgently needed measures for biodiversity conservation and restoration, in particular to help achieve the objectives of the Biodiversity Strategy for 2030. Yet overall, less than 1 per cent of all RRF funds have been earmarked for this area.[40] In the few cases where biodiversity related projects were initially included in Member States' recovery plans, these have since been removed, as highlighted above in the case of Bulgaria. This is made worse by a series of investments and reforms which will likely have a negative impact on biodiversity, and thus prove detrimental to the Biodiversity Strategy's objectives, as outlined in previous reports[41].

Further concerns also relate to the use of reforms as part of the RRF. Some countries appear to be using these to lower the standards for environmental assessments and other related procedures, and to fast-track investments under the guise of 'emergency procedures'. This can be seen in the case of Latvia[42] and Italy,[43] where crucial procedures designed to detect potential harm to the environment have either been conducted to a very low quality, or pushed through with no or limited civil society and public scrutiny.

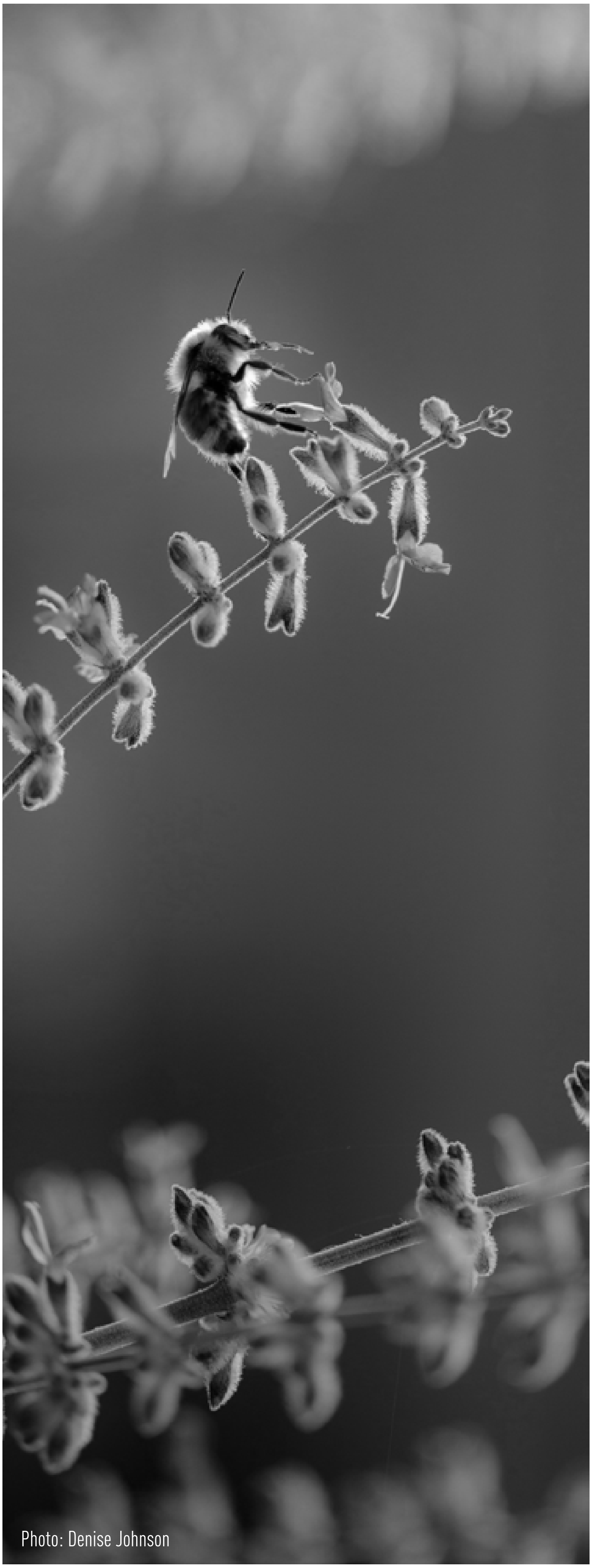

Photo: Denise Johnson

40 VividEconomics, Fund nature, fund the future: EU recovery plans miss the triple win opportunity for nature, climate and the economy, *NetworkNature*, June 2021..

41 CEE Bankwatch and Euronatur, Behind the 'green recovery' – how the EU recovery fund is failing to protect nature and what can still be saved, *CEE Bankwatch Network and EuroNatur*, June 2022.

42 Maksis Apinis, A Latvian forest the size of 237 football pitches cut down for an industrial park, *CEE Bankwatch Network*, 2023.

43 Citizens' Observatory for Green Deal Financing, No recovery without citizens.

INVESTEU AND EIB CLIMATE FINANCE DO NOT FOCUS ON A JUST TRANSFORMATION

Photo: Mathieu Stern

In this chapter, we will look at some of the other key mechanisms used to finance the EGD: InvestEU, the Public Sector Loan Facility and the European Investment Bank (EIB), which plays a key role in the implementation of these mechanisms and also provides climate and environmental finance on its own.

InvestEU

InvestEU is an instrument that combines guarantees from the EU budget with loans from the EIB and other European and national public banks. InvestEU aims to use EUR 26.2 billion in guarantees to mobilise EUR 372 billion of total investments.

Its policy goals are sustainable infrastructure, which is defined in a very broad way from transport, energy and waterways to the supply of raw materials; research, innovation and digitalisation; access to finance for small and medium enterprises and small mid-cap companies; access to microfinance and finance for social enterprises, competencies and skills; and to develop and consolidate social investment markets. Projects that fall under these policy goals must address market failures or investment gaps and be economically viable, need EU backing in order to get off the ground, support wider EU policy objectives and attract private investors as much as possible.[44] There is also a just transition scheme across all policy objectives to finance projects that aim to deal with social, economic and environmental challenges deriving from the transition process to reach climate targets.

Around one-third of the guarantees are reserved for sustainable infrastructure, which is most relevant to the financing of the EGD. The digitalisation and SME policy objectives can each take up 25 per cent and the social investments 10 percent of the total guarantee. 75 percent of the guarantees from the EU budget are reserved for the EIB. The remaining 25 percent are available for other public banks in Europe to finance InvestEU projects.[45]

By January 2023, EUR 18.8 billion in guarantees were allocated, surpassing the intermediate goal of EUR 14.8 billion. However, the steering board raised concerns that this year's target would be difficult to reach.[46]

The EIB financed EUR 4,5 billion in InvestEU projects in 2023. Just Transition projects only take up a tiny fraction — EUR 60 million.[47] The objective is to mobilise EUR 10 to EUR 15 billion under the scheme, so there is still a long way to go.[48] Other than these general numbers on the amount of guarantees signed, it is difficult to assess the progress of InvestEU as there is no publicly available evaluation or progress report.

When looking at the projects, we can clearly see the predominant focus on attracting private investors and technological innovation. Moreover, from the few projects that contribute to a just

44 European Union, Frequently Asked Questions about the InvestEU Fund, *InvestEU*, 2023.

45 European Union, InvestEU, *InvestEU*, accessed 15 February 2024.

46 European Union, InvestEU steering board: minutes of meeting 10 held on 26 October 2023, *InvestEU*, 2023.

47 Information received upon request by the European Investment Bank on 26 January 2024. The numbers provided may still be revised by the European Investment Bank.

48 European Commission, The Just Transition Mechanism: making sure no one is left behind, *European Commission*, 2023.

Photo: Philippe Huguen

InvestEU's operation list[49] shows 94 approved projects. There is an important issue with geographical spread, as more than half the projects are in Spain and Italy. 39 of these projects fall under the sustainable infrastructure policy window. Many of them are with the private sector and 9 with commercial financial institutions. In total, the EIB financed EUR 4.5 billion in 56 InvestEU-related projects in 2023. 22 of the projects relate to sustainable economic activities, almost exclusively clean technologies and infrastructure projects. Across the other sectors, which concentrate mainly on health and digitalisation, the focus on technological innovation is equally predominant.

Only EUR 60 million of this financing was lent to projects that were part of the just transition scheme under InvestEU, of which EUR 40 million are categorised as climate finance. Projects included a solar plant in Greece; care centres, a hospital and retirement homes operated by private health company Vitalia Homes in Spain (owned by CVC capital, a private equity fund based in Luxembourg); and Austrian mobility technology company AVL for developing technologies for trains and cars.[50] It is highly questionable how the investment in privately owned and operated care facilities in Spain is going to contribute to the EU's Just Transition objective to 'leave no one behind'. Private operators in the health sector have a poor track record of prioritising the needs of patients, and Vitalia Homes' retirement homes had one of the worst mortality rates in the country.[51] There are several scandals related to private companies operating retirement homes across Europe.[52]

To illustrate the shortcomings of InvestEU's technological innovation and private sector focus, but also its potential as a mechanism to finance green public services, we will zoom in on one emblematic project with negative impact for a just transformation and a few projects and financing schemes which show the way forward.

49 European Union, InvestEU operation list, *InvestEU*, accessed 15 February 2024.

50 Information received upon request by the European Investment Bank on 26 January 2024. The numbers provided may still be revised by the European Investment Bank.

51 Álvaro Sánchez Castrillo, Uno de los grupos de residencias con más letalidad en Madrid en la primera ola se embolsa un millón por el 'geriátrico covid', *InfoLibre*, 22 February 2021.

52 Investigate Europe, Grey Gold, *Investigate Europe*, 2023.

Northvolt Ett expansion and large scale battery plan

The new Skellefteå gigafactory plan including the first integrated circular battery production facility in Europe will benefit from a EUR 942.6 million lending package from the EIB. It envisions the expansion of the current Northvolt Ett gigafactory to produce lithium ion batteries — the first European-owned gigafactory plant — and the expansion of the adjacent recycling plant Revolt Ett.[53]

Photo: Northvolt

Before Skellefteå, there were only two Korean-owned gigafactories in Europe: one LG electric vehicle (EV) battery plant in Poland[54] (receiving EIB's loan of EUR 480 million)[55] and another owned by Samsung in Hungary.[56] Geopolitical competition, pressure to secure local supply chains and subsidise clean technologies and the growing European electric car industry, have now favourably converged to boost Northvolt's expansion plans. Northvolt's CEO, Peter Carlsson – a former executive of Tesla – says that the way to compete with Asian companies in the market is to scale up and speed up production of batteries.[57] European Commission Vice-President for the European Green Deal, Interinstitutional Relations and Foresight Maroš Šefčovič said that Europe's battery industry is a 'key battleground for global competitiveness'. Indeed, last year opportunities brought about by the Inflation Reduction Act resulted in a subsidy race between Europe and the U.S. In effect, Germany offered Northvolt a subsidy package worth about USD 1 billion to build a plant in the country. Overall, more than 30 new battery factories are planned in Europe.[58]

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53 This expansion financing takes place despite the fact that construction of Northvolt Ett started in 2019 but is still lagging behind: as of July 2023, only about one-third has been built and roads are still being constructed. Jackie Northam, 'Sweden's Northvolt wants to rival China's battery dominance to power electric cars', *NPR.org*, 1 July 2023.

54 European Commission, State aid: Commission approves €95 million Polish aid for expansion of LG Chem's electric vehicles battery plant, *European Commission Press corner*, 18 March 2022.

55 European Investment Bank, EV BATTERY GIGAFACTORY POLAND. Summary sheet, *European Investment Bank*, 26 March 2020.

56 Subsidised by Hungary. European Commission, State aid: Commission approves €89.6 million Hungarian investment aid to Samsung SDI's electric vehicle battery plant, *European Commission Press Corner*, 28 February 2023.

57 The European Investment Bank has supported Northvolt in this endeavour in its early years since 2018. European Investment Bank, Sweden: EU to support Northvolt's European battery project with InnovFin backing, *European Investment Bank*, 12 February 2018.

58 Jackie Northam, 'Sweden's Northvolt wants to rival China's battery dominance to power electric cars', *NPR*, 1 July 2023

Apart from the EIB and InvestEU, current debt financing to Northvolt is provided by a group of 23 commercial banks, the Nordic Investment Bank, as well as European and foreign export credit agencies.[59] It has been facilitated by long-term offtake contracts of over USD 55 billion with BMW, Scania, Volvo Cars and Volkswagen Group.

Such large public financing of the newest Northvolt gigafactory raises important questions about the genuine additionality of derisking private sector investments, and about relying on this economic strategy in Europe in the face of the cost of living crisis and renewed austerity policies. The EIB and InvestEU not only support large and rich corporations that have already made record profits, but have also adopted new business models in the face of decarbonisation pressures that are profit-oriented and do not deliver extensive social benefits. Moreover, the environmental damage and the socio-economic impacts on the public remain unaddressed.

The project is promoted as essential to achieving climate neutrality in Europe, but it is based on unsustainable levels of individual car use, as well as growing production, expansion and extractivism. This is happening as scientists continue to ring the alarm about the fantasy of decoupling material use and carbon emissions from economic growth.[60] The environmental impacts of gigafactories are serious – at least a million trees were already cut down to build the Skellefteå gigafactory – the equivalent of 70 football pitches[61] – with tonnes of stone also blown up and removed to build the plant.

The fact that there are no conditions related to labour rights, dividends, reinvestments, or environmental and social benefits set for companies receiving huge public funds is highly concerning. For example, Northvolt hired workers from across the world, leading to the arrival of at least 3,000 new residents to the local municipality, placing a strain on available healthcare, housing and other services.

Yet, neither the EIB or InvestEU financing comes with conditions to ensure for example collective bargaining rights or profit reinvestments into the needed public infrastructure for workers. The EIB did however also finance a project for public social and affordable housing in Skellefteå, which is part of the Public Sector Loan Facility.[62]

To move towards a just transformation, the financing of battery production capacity should be conditional on avoiding negative environmental impacts and upholding high social standards and working conditions across the whole supply chain. Supporting battery production must also examine what kind of mobility it is encouraging. Public financial support for battery production should most of all be used for the development of green public and collective mobility, rather than batteries for often large, individual use electrical cars which companies find profitable enough to invest in.

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59 Northvolt, Northvolt raises $5 billion to enable expansion of first circular gigafactory in the western world, *Northvolt*, 16 January 2024.

60 Jefim Vogel, Jason Hickel, Is green growth happening? An empirical analysis of achieved versus Paris-compliant CO2–GDP decoupling in high-income countries, *The Lancet Planetary Health*, September 2023.

61 Richard Milne, 'Northvolt: the Swedish start-up charging Europe's battery ambitions', *Financial Times*, 14 March 2023.

62 European Investment Bank, Skelleteae affordable housing, *European Investment Bank*, 2023.

InvestEU projects contributing to delivering green essential services

Among the InvestEU projects we also find some interesting examples of collaboration between public banks, local governments and public service provision. We see several loans for railway infrastructure in Spain and Italy that amount to more than EUR 2 billion.[63] We also see several programs and projects dedicated to social housing. The EIB gave a EUR 60 million loan to Hanova, a social housing company for the building of affordable and energy efficient social housing in Hanover, Germany.[64] The Council of Europe Bank (CEB), which has an explicit social mandate, gave a EUR 100 million loan to Institut Català de Finances, which will in turn lend the money to municipalities and social organisations for buying, building and refurbishing social housing in Catalunya.[65] The CEB also provided a EUR 20 million loan to community, social and voluntary organisations in Ireland.[66] Finally, the European Bank for Reconstruction and Development (EBRD) also created a EUR 170 million sustainable infrastructure programme focused on green projects in cities in Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. The programme will finance energy and transport projects administered by municipalities or municipal-owned companies.[67] These examples show that, even though InvestEU primarily targets the private sector, such an instrument can finance vital essential and affordable services. Upscaling the support for financing these services and putting them more central to InvestEU's strategy would allow for the program to better contribute to a just transformation.


Photo: Cyrus Pellet

63 European Union, InvestEU operations - list, *InvestEU*, accessed 14 February 2024.

64 European Union, Project. Hannover Social and Affordable Housing, *InvestEU*, accessed 14 February 2024.

65 European Union, Social and Affordable Housing in Catalonia, *InvestEU*, accessed 14 February 2024.

66 European Union, Social Finance in Ireland, *InvestEU*, accessed 14 February 2024.

67 European Union, InvestEU Green Cities Framework, *InvestEU*, accessed 14 February 2024.

Public sector loan facility

The Public Sector Loan Facility is the instrument closest to the goal of financing essential public services. The program consists of EUR 10 billion of loans from the EIB supported by EUR 1.5 billion in grants from the EU budget to finance green public projects.[68] However, the implementation of the program is very slow. So far, the EIB has lent only EUR 330 million to 3 projects in Greece, Sweden and France. EUR 300 million of these loans are categorised as climate finance.[69] The Swedish project finances affordable housing near the giga battery factory by Northvolt to compensate for the lack of affordable housing in the area, which is a consequence of the inflow of staff to the factory who come from further afield. The project in France is dedicated to the financing of tram and soft mobility infrastructure in Nantes.[70] In Greece, the loan is a program financing multiple activities – energy efficiency measures in public buildings and street lighting, road safety, primary health centres and culture and tourism infrastructure including the restoration of a historical bridge and the modernisation of ski facilities.[71]

Even though many of these projects are positive from the point of view of financing green public services, some of them are questionable. There should be no place for financing ski resorts under any green public service financing programme. It is not an economic activity that would lead to a just transformation and is equally not an essential service people need for a decent daily life. The affordable housing project in the area of the Northvolt giga battery factory looks positive in itself, but has to be seen in the larger context of this factory's creation, which has caused significant social and environmental harm. Green public service development should be included as part of strategies and projects that unambiguously work towards a just transformation, not to provide minimal compensation for the negative impact of a large-scale green technology project. More generally, in order to adequately deal with unmet social needs through essential green public services – not only in Just Transition regions but all over Europe – the programme is limited in both its size and the geographical scope where it is allowed to operate.

Photo: Jason Blackeye

68 European Investment Bank, Just transition: EIB to provide up to €10 billion in support of regions most affected by the shift away from fossil fuels, *European Investment Bank*, 2023.

69 Information received upon request by the European Investment Bank on 29 January 2024. The numbers provided may still be revised by the European Investment Bank.

70 European Investment Bank, Tramway de Nantes and mobilite douce, *European Investment Bank*, 15 February 2023.

71 European Investment Bank, ESDS: socio-economic transition of Western Macedonia, *European Investment Bank*, 2023.

Photo: European Investment Bank

EIB climate and environmental finance

The EIB declared its intention to stop financing fossil fuel infrastructure and become the 'EU Climate Bank' in 2019 and developed its own strategy, 'The Climate Bank Roadmap', in 2020. This strategy pledged to allocate more than 50 per cent of the EIB's lending activity to climate action and environmental sustainability by 2025 while complementing the EGD's EUR 1 trillion investment with the bank also leveraging another EUR 1 trillion in climate finance by 2030. The EIB plans on investing EUR 30 to EUR 35 billion a year in climate action until 2025, while ensuring its other lending is aligned with the goals of the Paris Agreement. The bank calculates that through co-financing and leveraging private investments, it will mobilise EUR 100 billion annually.[72]

The EIB's climate and environmental sustainability finance amounted to EUR 44 billion in 2023, with the large majority (EUR 40 billion) of these investments happening within the EU. This equals 60 percent of all EIB loans in 2023 and the bank claims to be well on track to meet its objective of mobilising EUR 1 trillion in climate finance by the end of the decade.[73]

However, to get a better idea of the EIB's impact in achieving a just transformation we have to look behind these numbers. It is concerning that many projects which the EIB finances, including with its climate finance, have negative environmental consequences. This is illustrated by the Northvolt battery factory and some of the large solar plant projects financed in Spain.[74] The EIB also has an accountability problem when it comes to the environmental impact of projects it finances. On several occasions, the bank has not disclosed environmental impact reports. In two

72 Daniel Mertens and Matthias Thiemann, Draft chapter 'The European Investment Bank as the EU's Climate Bank', *Govtran.eu*, accessed 14 February 2024.

73 European Investment Bank, 2023 EIB Group annual results, *European Investment Bank*, accessed 14 February 2024.

74 Carlos Berbell, Iberdrola se juega en el Tribunal Supremo el futuro de la mitad de la mayor planta fotovoltaica de Europa, *Confi Legal*, 24 April 2023.

recent cases, the EU Ombudsman ruled that the EIB committed maladministration by invoking invalid reasons to not provide this information. In one decision, the EU Ombudsman referred to a judgement by the Court of Justice of the European Union and has asked the EIB to provide the environmental and social impact analysis before projects are signed. This is crucial to allow citizens and civil society to engage before investment decisions are made.[75]

Another indirect negative impact of the EIB's lending relates to the companies and financial institutions receiving loans from the bank. In its PATH Framework, the bank decided to no longer finance companies that extract new unconventional oil and gas or begin new coal operations. The Framework also requires companies to make decarbonisation plans. The one exception to this rule is for 'innovative' projects. This exception was partly expanded at the end of 2022 to support REPowerEU. This allows companies like oil majors which still extract new unconventional oil and gas like shale gas or tar sands to benefit from EIB financial support for renewable energy or electrical vehicle-charging infrastructure until the end of 2027. In the summer of 2023, the EIB's support for REPowerEU was increased from EUR 30 to 45 billion and the scope of activities falling under support for RepowerEU was enlarged to include clean technology and critical raw materials projects that contribute to improving the competitiveness and EU access to critical raw materials.[76]

The EIB's PATH Framework also sets conditions for financial intermediaries, but they are very weak. Banks and investment funds currently only have to comply by disclosing information about how exposed they are to the physical and financial risks related to climate change. This very low threshold is not sufficient for several reasons. As the supervisor of the EU's biggest banks, the European Central Bank performed a climate stress test for the first time in 2022 and voiced its concerns about the lack of progress by EU banks in mapping these risks and developing a strategy to manage them.[77]

In November 2023, a mid term review of the EIB's Climate Bank Roadmap was conducted, but besides a few technical changes and the adaptations towards reporting requirements in line with new regulations, there were no major changes. Some small advances were made – the EIB no longer finances fossil fuelled vessels and lowered the threshold of CO2 emissions for urban transport projects to be eligible. However, the implementation of the taxonomy, an EU classification system that defines criteria for economic activities that are aligned with a net zero trajectory by 2050 and broader environmental goals, is also hampered.[78]

This strategy of mobilising private money means that the EGD and Climate Bank trillions are dependent on public-private partnerships and the consent of investors to implement its climate strategy.[79] This has important consequences for the type of projects and social distribution of the benefits of the EIB's public lending. If a large part of the EIB's climate and environmental finance

75 European Ombudsman, Decision on how the European Investment Bank (EIB) handled a request for public access to the summary of a project it is financing on the modernisation of an electricity distribution network in Poland (case 3/2023/OAM), *European Ombudsman*, 17 July 2023;
European Ombudsman, Decision on how the European Investment Bank discloses environmental and social information on projects prior to decisions on funding (case 2252/2022/OAM), *European Ombudsman*, 20 November 2023.

76 European Investment Bank, Press release 'EIB to support Green Deal Industrial Plan with €45 billion in additional financing', *European Investment Bank*, 12 July 2023.

77 European Investment Bank, The EIB Group PATH framework. Supporting counterparties on their pathways to align with the Paris Agreement, *European Investment Bank*, November 2023.

78 European Investment Bank, Mid-term review of the EIB Group Climate Bank Roadmap, *European Investment Bank*, 27 November 2023.

79 Daniel Mertens and Matthias Thiemann, Draft chapter 'The European Investment Bank as the EU's Climate Bank'.

Photo: Markus Spiske

must come from private investors, most projects must be sufficiently profitable to be attractive for private investors. This makes it more difficult to finance green essential services, as despite there being many projects which have long-term economic viability, efforts to provide affordable services and create short term or high levels of profitability often contradict each other. On top of this, under such a strategy, private investors are the main beneficiary of the advantageous public loans provided by the EIB, instead of the lower and middle income households that suffer most from the cost of living crisis.

Moreover, the EIB also avoids taking risks. The bank keeps very low reserves to digest losses from the loans it has given. The bank defends this strategy by stating that this is needed to keep its AAA status, the highest level of creditworthiness, which allows the bank to borrow very cheaply on financial markets. However, other public investment banks like the EBRD take a lot more risk, keep reserves for loan losses that are ten times higher than the EIB and while still having a AAA status. The EIB also makes a lot of profit. On average, it makes EUR 2.5 billion profits per year, even though its mandate states the bank's goal is non profit.[80]

This strategy means that it evaluates projects more or less in the same way as a commercial bank – normal projects are assessed on their ability to generate income, applying the same methods and standards most commercial banks use to evaluate projects. Projects that can benefit from a guarantee or grant from the EU- such as from InvestEU or other governments have slightly more relaxed requirements on profitability. This does not only mean that the EIB takes very little risk if it doesn't get a government guarantee. It also results in the environmental and social benefits of projects which benefit from such a guarantee being calculated in terms of economic value. This makes the EIB unable to consider positive social and environmental benefits which can not be expressed in terms of their economic value. In combination with its priority to attract

80 Counter Balance, Restructuring the EIB to meet the EU public's needs, *Counter Balance*, 16 June 2023.

private investors, this leads to the bank giving more than half of its loans to corporations and mostly commercial financial institutions.[81]

Finally, there is also the issue of the very high minimum threshold of projects at EUR 25 million. This leads the EIB to operate a lot with financial intermediaries, absorbing one third of the EIB's annual lending. 70 percent of climate measures operate on the regional or local government level, according to a report by the Council of European Municipalities and Regions.[82] For many local governments, the EUR 25 million threshold is too high and they are unable to access EIB loans. The commercial financial institutions that use EIB money to give loans to smaller projects have little interest in financing local governments or public services.

The EIB has a market-orientated and rigid way of providing public climate and environmental finance, which does not fully use its financial firepower to finance a just transformation. If the bank would take more risk, pursue less profits and prioritise projects that combine long-term economic viability with serious qualitative social and environmental benefits, a lot more projects to provide green essential services could be financed. The European Commission is calling on the bank to take on more risk, but wants the bank to do this to do more derisking of private investors for clean technology development and competitiveness.[83]

This road will not decarbonise societies, limit biodiversity loss or achieve a just transformation. Instead, the EU's grant and guarantee mechanisms used to support green public lending by the EIB and other European public banks should be scaled up and geared towards the public-public collaborations seen in some of the projects mentioned. Increased collaborations should also coincide with less top down decision making and aim to achieve quantitative lending targets and more democratic public investment. This investment should seek to involve both regional and local governments and other local actors – including civil society – in the design of local projects. There is much unused potential for financing green essential services all over Europe. EU finance mechanisms must be used to push public banks to cooperate more for a just transformation and make sure projects with commercial partners have strong social and environmental conditions. These mechanisms must also be part of larger and well planned strategies to decarbonise the economy which protect the environment and limit use of resources.

81 Counter Balance, Press release 'New EIB President must channel bank's power into rebuilding crumbling public services', *Counter Balance*, 12 September 2023.

82 CEMR, Powering the Future: Driving Europe's Climate and Energy Policies through Regions and Municipalities, *CEMR*, 2023.

83 European Commission, 2023 Strategic Foresight Report, European Commission, *European Commission*, accessed 14 February 2024.

CONCLUSION

Political backlash against the current climate agenda is highly worrying given the urgency of the environmental emergency, but we have to keep in mind many people – especially in lower and middle income households – are currently suffering from the cost of living crisis. This has had a huge impact on people's livelihoods and the EGD or NextGenerationEU currently offer little compensation to them. To protect the environment and limit climate change we need to go beyond the current EGD and the way it is being financed, but this is only possible if we can find a broad base of popular legitimacy for such an agenda.

A few months before the European elections, this is not at all obvious. The intensifying geopolitical competition for clean and other technologies has increased the focus of many European policymakers on pursuing technological innovation and competitiveness, as is shown by the Green Deal Industrial Plan.[84] The popular scepticism towards a climate strategy which does not provide answers for people's essential needs may very well result in a European Parliament and Commission with little appetite for keeping climate high on the political agenda. People in Europe are worried about the cost of living crisis. Meanwhile, austerity is set to return with the reactivation of economic governance rules and public investment capacity curbed by the end of the NextGenerationEU investment plan.

A way forward for a stronger climate agenda in Europe must be found, but it will depend on the political will to build popular legitimacy by providing public investment capacity within and across EU Member States. This public investment should learn from current investment shortcomings and pursue a just transformation by promoting a different economic model. Public investment must prioritise adapted finance for crucial climate and environmental measures that are not necessarily profitable. It should also deliver essential needs for households, such as environmentally friendly and affordable housing, energy, transport and healthcare. Investments in green industries should not blindly pursue competitiveness, but be aligned with the provision of essential services and contain strong social and environmental conditions. To ensure the needs of lower and middle income households across the EU are being taken into account, the concept of a Just Transition – which currently only targets areas affected by the green transition – should be broadened towards a comprehensive social strategy all over Europe.

But the key does not only lie in different policies, but also in the way of doing politics. A public finance strategy that aims for a truly just transformation must provide citizens and civil society, but also local governments, with the adequate access to information, mechanisms and resources to meaningfully participate in defining and designing the plans for such a transformation in their region. Involving citizens and local governments in the planning process is crucial for both building legitimacy and being able to implement climate policy, as local and regional governments have full or partial competence over the majority of the climate measures that need to be implemented.

84 European Commission, Green Deal Industrial Plan, *European Commission*, 2023.

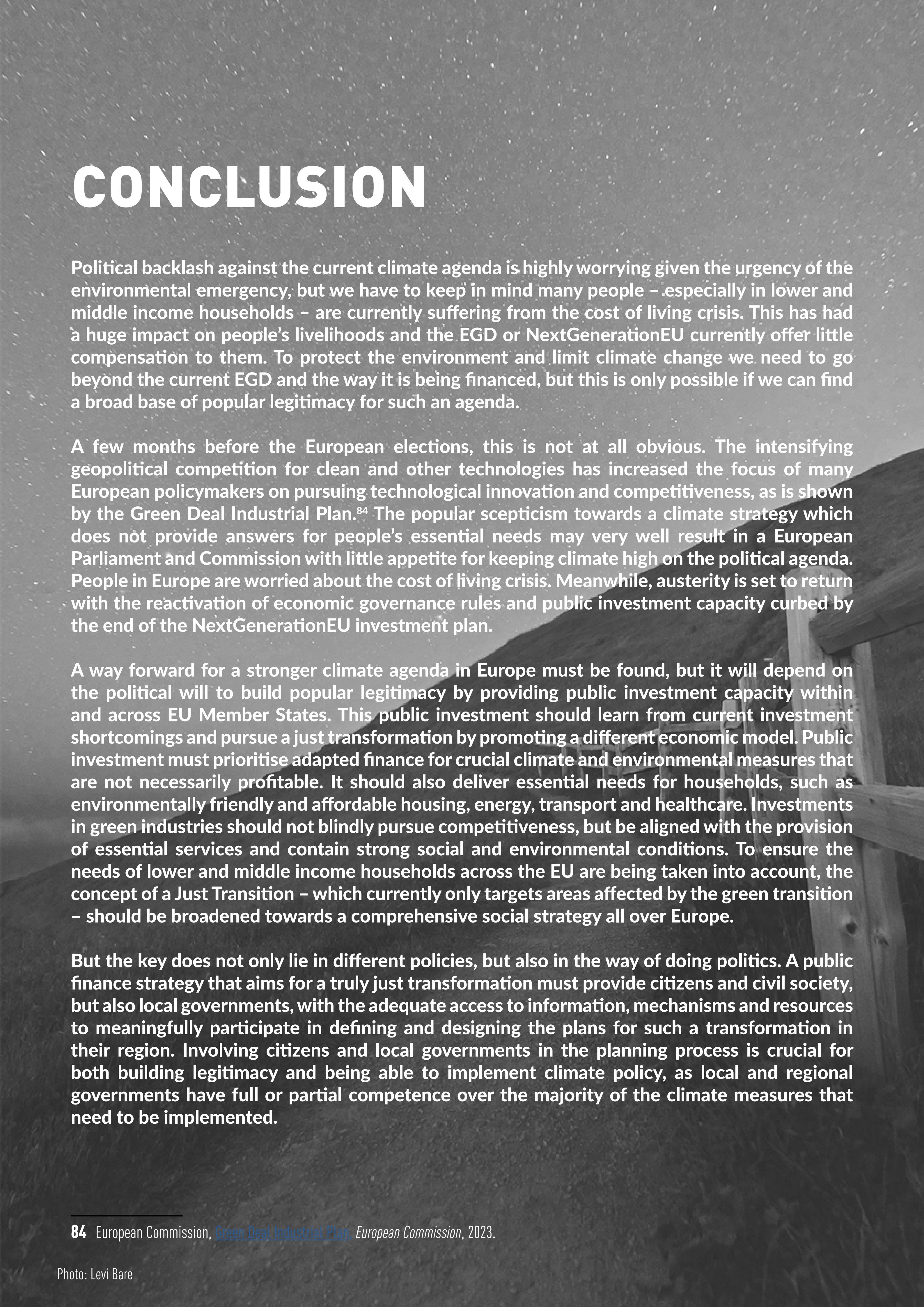
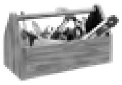


Photo: Levi Bare

RECOMMENDATIONS



The Recovery and Resilience Facility

The RRF has shown investment needs are far greater than what the EU budget can provide. Given that the RRF will end in 2026, a similar instrument must be made available after this. The RRF has now reached its halfway point, yet there is still time to address several shortcomings identified in this report. These are as follows:

Speed up the process while not lowering ambition

In order to implement all measures in time, Member States need to rapidly speed up their efforts to implement the measures for the green transition. This means prioritising and streamlining the design of calls for proposals including by increasing the capacities of the staff involved. This can and should be done without reducing levels of ambition, as is currently happening through certain measures being reduced or removed entirely. Additional resources should be available to national authorities, such as capacity building and technical assistance programmes, to assist them with successfully implementing more ambitious measures which they may have limited experience with. The Commission should also potentially consider – depending on the state of implementation by 2026 – extending the timeline of the RRF to ensure that measures, particularly green ones, are implemented to a high quality.

Focus on ensuring better implementation

The RRF relies almost entirely on milestones and targets as a means of assessing the progress of implementation and disbursing funds accordingly. This puts significant pressure on properly assessing these as a means of verifying the quality of implementation, including compliance with environmental legislation and correct application of the ‘do not significant harm’ principle. With the short timeline outlined above, sufficient time must be given for spending EU funds and carrying out the relevant environmental and other assessments in order to do so. The short timeframe should not be used as a justification to approve payment requests despite poor or insufficient documentation of their achievement, on the basis of simply wanting funds to be implemented. The reforms and investments will have significant and long term consequences for many years to come. Poorly and hastily implemented measures now will only cause bottlenecks further down the line and impede the realisation of the Green Deal objectives.

Ensure adequate public participation during implementation

The highly centralised nature of the RRF, whereby decisions are largely taken bilaterally between Member States and the Commission, has led to issues with transparency and public participation. This is compounded by the very short deadlines, which make it harder to hold meaningful public consultations, in particular with civil society organisations and local authorities. Yet public participation, especially during the implementation process, is crucial to ensure investments are meeting their intended priorities, allows for public ownership and reduces cases of fraud and corruption.

Revise plans to increase green ambition

The structure of the RRF allows for considerable flexibility to revise plans when political or economic circumstances warrant it. If planned correctly, this can be a key opportunity to rectify poorly planned measures such as funding for gas and other fossil fuels and investments in false solutions – as well as providing more support for insufficiently covered sectors like the environment. However, when such revisions take place, the Commission must ensure that this is used to raise rather than lower green ambition.

Start a debate now about what comes next

The RRF is strictly time bound – all funds, whether grants or loans, must be disbursed to Member States by the Commission before the end of 2026. This means all agreed milestones and targets will need to be fulfilled by then. This poses several questions for the period after 2026:

What about the money that is not spent?

Unlike other EU funding programmes such as cohesion policy, which can be spent up to three years after the end of the programming period, the RRF will be strictly ending on 31 December 2026. The money not claimed as a result of any delay in implementing all measures (which is currently being observed), will not be disbursed to Member States. Adding to the fact that some money from available loans was not claimed by Member States, this means the total amount of the RRF will be smaller than initially expected. It also poses the question about how to make use of the money in the future.

What about the post-RRF funding gap?

Because of the asynchronicity of the RRF and the Multiannual Financial Framework (MFF) (the former ending in 2026, while the latter will end in 2027), there will be one year in which Member States can only rely on the MFF and its traditional funding programmes (including cohesion policy). This means EU funds will be almost cut in half at the end of 2026, and less money will be available to plan and invest in the fight against climate change and biodiversity loss – despite it being more needed than ever to direct funds towards climate action and environmental protection.

The discussion on the future MFF (post 2027) will start in 2025, for an entry into force in 2028, and will be dependent on highly complex negotiations between EU institutions and Member States which are often uncertain and subject to political bargaining. In the past, agreements on the MFF came a few months before the start of the new programming period. This puts at risk the needed continuity of funds and resources to invest in the green transition.

As a result, the EU and Member States must start reflecting early enough, long before the RRF ends, on what investments are needed and how to make sure sufficient resources will be allocated.

What should the post-RRF and the next MFF look like?

The RRF running in parallel to other EU funds (from the MFF to other sources like ETS revenues) will be an occasion to learn from those experiences of having multiple funds potentially which can fund the same kind of investments. This will be an opportunity to simplify the landscape of EU funds and put in place common rules for all funds in the future, so that no funds can be used in contradiction to each other.

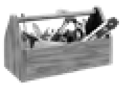
Moreover, reflection on both the level of resources needed and on the opportunity to continue with the RRF approach of borrowing money by the EU for the benefit of all Member States is required.

The European Scientific Advisory Board on Climate Change, an independent body providing the EU with scientific knowledge and expertise, rightly suggests in its recent report on how to put the EU on the track towards climate neutrality that the Commission should consider continuing with a RRF like instrument after 2026[85].

Not only does this ensure a continuity of available funding, but it also allows for the predictability of resources which will not be conditional on negotiations based on each Member State's contribution to the EU budget. However, this approach must be conditioned by reforming the RRF and removing ambiguous elements, such as the absence of addressing unequal regional development in Member States or the lack of clear rules for public participation and transparency.

Better monitoring of Member States, and assisting them to better plan the investments, is needed to make sure that the resources will go where the needs are. The RRF with its current design and practices must be revised to live up to its promises.

85 Edenhofer, O., Jacobsen, J. B., Díaz Anadón, L., van Aalst, M., Cartalis, C., Dessai, S., Eory, V., Hertwich, E., Kitzing, L., López-Gunn, E., Nilsson, L. J., Riahi, K., Rogelj, J., Schrijver, N., Soussana, J.-F., Towards EU climate neutrality: Progress, policy gaps and opportunities, *European Scientific Advisory Board on Climate Change*, 2024.



InvestEU4thePeople

Guarantees from the EU budget and loans from public banks with favourable conditions can play a significant role in providing more investment capacity for projects that deliver essential needs for people.

As we can see from some of the projects that target the construction and renovation of social housing, the roll out of local public transport or renewable energy – programmes like InvestEU have more potential to scale up such funding. To achieve this, the strategy should focus more on a just transformation instead of clean tech and competitiveness.

This can be done by using the EU guarantees and financing from the EIB and other EU, national or regional public banks to target the financing of projects and programmes that deliver essential services and have long-term economic viability. In order to achieve this the following actions should be taken:

Create dedicated funding streams for people's well-being

The EIB must created dedicated funding streams for environmentally friendly, high quality and affordable housing, water, energy, transport, food, healthcare and education.
The allocation of this funding should be based on a mapping of where social needs and lack of access is highest across the Union.

Favour public-public cooperation instead of private investors

The current strategy of using public money to attract private investors is an unfair distribution of public investment capacity based on taxpayer money.
If we leverage public funding capacity by fostering cooperation between public financial institutions and local governments, we can better ensure the financing of projects that are less attractive to private investors but have high social and environmental benefits.

The EIB as a central hub

The EIB has a significant size and access to cheap funding on capital markets.
In order for the EIB to play this role, it should:

- put financing public services high on its priorities.
- improve the banks' climate and environmental criteria for projects and promoters.
- increase its lending. Comparison with other public banks shows that it can do this without jeopardising its access to cheap funding.
- increase cooperation with other EU and national public banks and other public financial institutions.
- adapt its services better to the capacity of local governments and other local non profit actors and initiatives. This can be done by lowering the minimum size of loans and by providing more and better adapted technical support.

CITIZENS'
OBSERVATORY
FOR GREEN DEAL FINANCING

The Citizens' Observatory for Green Deal Financing advocates at the EU and national levels for more transparency and a just distribution of EU funds.
The observatory aims to promote the voices of local communities in seven Member States through a series of workshops, public events, virtual tours, roundtables, reports and other activities.
More information here: bankwatch.org/citizens-observatory