Climate Change and the EU Budget 2021-2027

Synthesis Report

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Executive Summary

We have a climate emergency. With the current commitments from countries around the world we are heading towards a 3°C hotter world and into uncharted territory of catastrophic change. Faced with this existential threat, the EU, its institutions and all Member States must prioritize urgent action in order to implement the Paris Agreement's goal to limit the increase in temperatures to 1.5°C.

All levers have to be mobilized within the next years to change course. This will need a substantial increase of climate action and EU climate spending. The goal is to reduce greenhouse gas emissions to almost zero and, at the same time, substantially increase the global potential for CO2 removal within three decades.

The EU's next budget cycle, the Multiannual Financial Framework (MFF 2021-2027), plays a critical role in the fight against climate change. It is a key policy tool to support the EU's long-term strategic agenda, including its climate objectives. It translates strategies and policy priorities into budgetary headings, programmes and ceilings, thereby creating a financial framework that guides investments at the regional, national and EU level. The next seven-year budget (proposed at € 1,135 billion or 162bn per year on average) has the potential to unlock investments in all climate-relevant sectors and catalyse the transition towards a net-zero greenhouse gas emission economy.

The MFF 2021-2027 is the last investment cycle to help change course, and a stronger climate performance is urgently needed to reach our 2030 climate targets. Additional investments in climate action of around €180bn to €270bn per year are needed to meet the current EU 2030 climate and energy targets, and more if these targets are increased upwards. At the same time, all direct and indirect fossil fuel subsidies must be removed. Fossil fuel subsidies in the EU are estimated to range from €39bn to over €200bn per year. The European Parliament in a recent resolution called "for the EU and the Member States to immediately phase out all European and national fossil fuel subsidies", because these are directly contradicting the Paris Agreement's efforts, specifically article 2.1c:

*"Making finance flows consistent
with a pathway towards low greenhouse gas emissions
and climate-resilient development."*

A European Green Deal requires a green EU budget and it is essential that we make use of the **last windows of opportunity to strengthen climate performance of the budget** that can help catalyse climate action funding in Member States and leverage private investments needed. The next MFF must be used to invest in the future, decarbonize our economy, while ensuring a just transition.

The ongoing budget negotiations and the programming processes need to learn the lessons from the past and take into account recommendations for the future. To make the EU budget a green budget is attracting political attention. The upcoming steps of developing ambitious Partnership Agreements (PAs), National Reform Programmes (NRP), National Energy and Climate Plans (NECP), CAP Strategic Plans (CAP SP), and Operational Programmes (OPs) are essential gateways to get green added value.

LESSONS FROM THE PAST

In general, we observe **a widespread dissatisfaction with the present system of EU funding for climate**, especially in net recipient countries. While there has been some important climate spending, a substantial part of EU money has been spent inefficiently and wastefully, and, in many cases, has even supported environmentally harmful investments.

In many instances, the use of EU funds contradicts EU climate policy objectives, indicating a **lack of proper project indicators, conditionalities and monitoring and control mechanisms**. Corruption is a serious problem in a range of countries.

There is a **significant lack in investment required to meet our national energy and climate plans**. Despite the many funding opportunities, e.g. in clean energy production, transport, or energy efficiency of buildings, the current MFF (2014-2020) is likely to miss the goal of spending at least 20 percent on climate-relevant measures. Due to some serious weaknesses in the tracking and monitoring of actual spending, climate expenditures are even overestimated. So, instead of tapping into the potential of a zero-emission transition, many EU-funded investments still support an energy-intensive, fossil fuels-based and natural resources exploiting economy of the past.

Despite the European Commission's efforts to promote an active involvement of public authorities, trade unions, employers, civil society organisations (CSOs) and other stakeholders, there has been **a lack of effective public participation and hence legitimacy of EU spending**. Among other things, inadequate transparency and information as well as insufficient funding of civil society organisations are major obstacles. In some countries, governments are actively obstructing public participation or neglecting their obligations to provide sufficient support as envisaged in the European Code of Conduct on Partnership. Public participation is intended to make spending more effective, increase transparency and support implementation, monitoring and assessment.

RECOMMENDATIONS FOR THE FUTURE

There is an urgent need for **a better climate performance of the next MFF (2021-2027)**. The overarching objective of "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" has to be anchored in all relevant processes, documents, agreements, strategies and plans. **The next MFF is the last investment cycle to change course**. From the lessons from the past we draw the following recommendations for the future: do the good, ban the bad and avoid the ugly!

Do the good!

- Scale up climate action and fund the just and zero-emissions transition: Allocate 40% of the next MFF to climate. The MFF is a lever to close the investment gap of around €180bn to €270bn per year needed. There are great economic and social opportunities in funding a just and zero-emission transition in all eligible sectors, prioritizing zero-carbon transport, renewable energy, energy efficient buildings, sustainable agriculture and consumption.
- Strengthen financial & strategic links between MFF, NECPs and European Semester: The implementation and review process of the National Energy and Climate Plans (NECPs) is closely linked to drafting and programming processes of the MFF. Implementation of Country-specific Recommendations (CSRs) relating to climate and energy in the European Semester context should be enforced via the MFF. This is a gateway to anchor climate action in all processes and improve their strategic alignment.

- Insist on 'climate proof' Partnership Agreements and Operational Programmes: Consistency and vertical coherence of programmes and spending plans with the EU's overarching strategies and climate goals have to be ensured in these documents.
- Develop the EU budget in an inclusive manner with enhanced public participation: CSO engagement is critical for EU spending legitimacy and efficiency. A participatory approach and implementation of the EU's partnership principle requires higher transparency and easy access to information. Dedicated funding is necessary to enable civil society organizations to play a stronger role e.g. in monitoring committees.

Ban the bad!

- Blacklist Paris incompatible funding and harmful subsidies: Blacklisting investments running counter to our climate objectives is key. 'Paris consistency' as a general principle must lead to the general exclusion of fossil fuel investments from EU spending and the phase-out of environmentally harmful subsidies.
- Reduce the risks of fraud, corruption, conflict of interest and misuse of funds: Better monitoring and control of EU funds should be done with close involvement of EU bodies, independent experts and civil society. In particular, the advisory and supervisory role of the European Anti-Fraud Office (OLAF) has to be strengthened with developed capacities and oversight mechanisms to protect the EU budget. Stricter conditionalities for EU funding must be set and national governments must be held responsible. Conditionalities have to be robust, precise, controllable, and in full conformity with the EU's aims. Strengthening and extending the rule-of-law conditionality is a key demand. Any Member State receiving EU funding must join the European Public Prosecutor's Office.

Avoid the ugly!

- Upgrade climate mainstreaming and tracking to increase effective climate spending: The European Commission should further develop its climate tracking methodology to ensure all EU climate spending is genuine and has green added value. Overestimation and 'green-washing' of expenditures due to an unsatisfactory methodology need to be ruled out.
- Improve climate proofing to make the entire EU budget Paris compatible: Climate proofing has to ensure that no spending contradicts our climate objectives. No funds should, for instance, be spent on fossil fuel infrastructure. Conditionalities have to ensure, among other things, compliance with the "energy efficiency first" principle and that specific decarbonisation pathways form a strategic basis at the centre of each EU budget spending plan.

The EU Budget is one budget of many needed to address the climate crisis. National and private spending and a wide range of public and private decisions will also be essential to ensure a transition to a climate neutral world. This requires that all public budgets phase out investments running counter climate objectives and remove all environmentally harmful subsidies, compensating low income households at the same time.

With society fighting for a greener budget across Europe across all levels of government, the EU budget represents an immediate and unique window of opportunity to catalyse climate action.

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1 Purpose, methodologies and project context

The purpose of this project is to **increase awareness** of the need to make the EU budget climate-proof. It engages national civil society organizations (CSOs) in a participatory process to exchange views and plan advocacy work so they can have an impact on the outcome of the next Multiannual Financial Framework (MFF) for the period 2021–27.

The project aims to promote the **strengthening of the climate performance** of the EU's policy framework by better targeting and increasing the level of climate spending at the national and regional level, i.e. in the legislative framework and Cohesion Policy's Partnership Agreements and Operational Programmes, and by ensuring the necessary conditionalities ("enabling conditions") for EU funding. It aims to play an important role in raising awareness in the Member States on the potential of the MFF as well as on climate-related issues. By enabling civil society organizations to contribute to the development of national spending plans, it will increase transparency and accountability of EU funds spending and improve the coordination of EU climate policies at the national level.

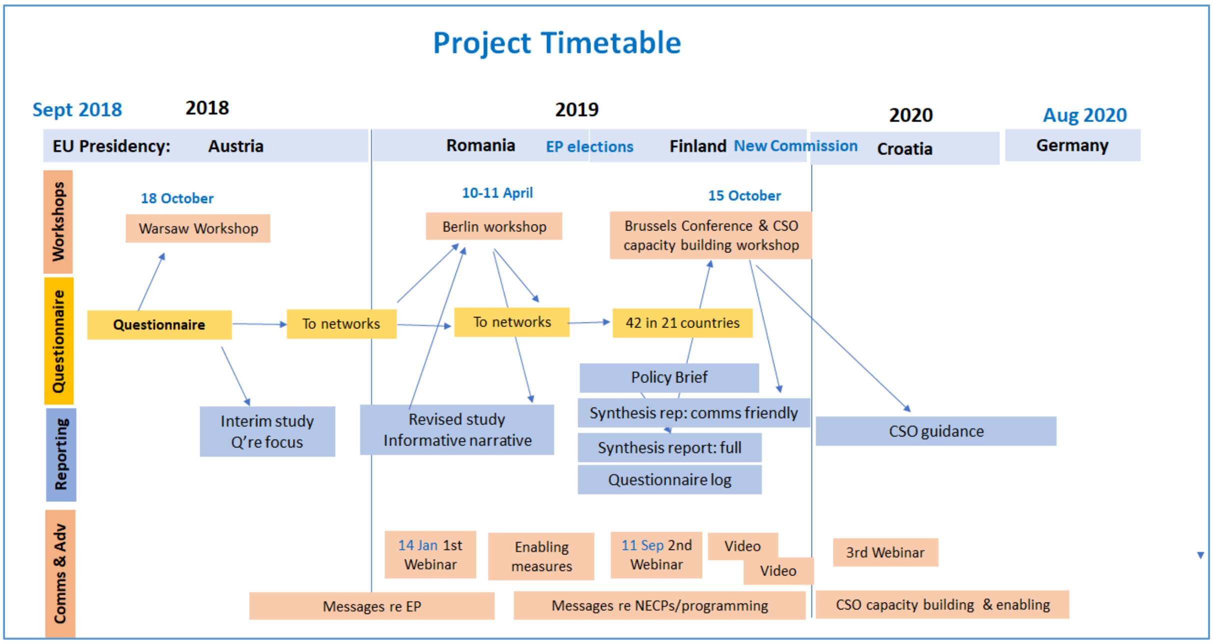
At the end of each chapter, outcomes of the Berlin workshop, responses to our questionnaire as well as additional literature and further reading material are presented in another subsection.

As part of the project, a two-day **workshop** was organized in Berlin in April 2019.[1] 25 representatives of civil society organisations (CSOs) from all over Europe discussed opportunities to improve the climate impact of the next EU budget, focussing on the state of negotiations, possibilities of involvement and barriers for CSOs. The summarized discussions and results are outlined at the end of each chapter.

The project team also developed a **questionnaire** for CSOs to explore their experience and perspectives on needs for EU funding (see Annex 1: Assessment of the responses from the questionnaire and conclusions drawn from them). The questionnaire was sent to over 4,000 experts and representatives of civil society asking their opinion on the implementation of the current MFF (2014-2020) and asking for suggestions for the next one (2021-2027). Altogether, 42 responses (including interviews) have been received from 21 countries and 3 international organisations (reasons for the relatively small number of responses are also discussed in Annex 1).

At the end of selected chapters, boxes with summarized questionnaire responses present the CSO expertise towards the discussed topic (Please see Annex 1 for the full questionnaire and an accompanying report). Additionally, a **box with literature and further reading material** is provided for more detailed reports, analyses and information on the covered topics.

[1] https://www.euki.de/en/news/mff-climate/



Graph 1: Wider project context - Key Tasks and Steps

2 The MFF and its relevance for climate change

2.1 The MFF

The EU's long-term budget, the **Multiannual Financial Framework (MFF)**, is the EU's main instrument for direct subsidies and objective oriented investments. It is a key policy tool to support the EU's long-term strategic agenda, including climate objectives. It translates strategies and policy priorities into budgetary headings, programmes and budgetary ceilings for seven-year periods, thereby creating a financial framework that guides investments at the regional, national and EU level. The next such period will be 2021-2027, about which the negotiations are in full progress.

The MFF can play a critical role in the fight against climate change by catalysing the transition towards a net-zero greenhouse gas emission economy. Investments in the energy sector, transport, housing and agriculture as well as resource use to reduce energy use, improve energy efficiency and transfer to renewable energies are crucial for achieving the 2030 climate and energy targets and the long-term goals defined in the Paris Agreement.

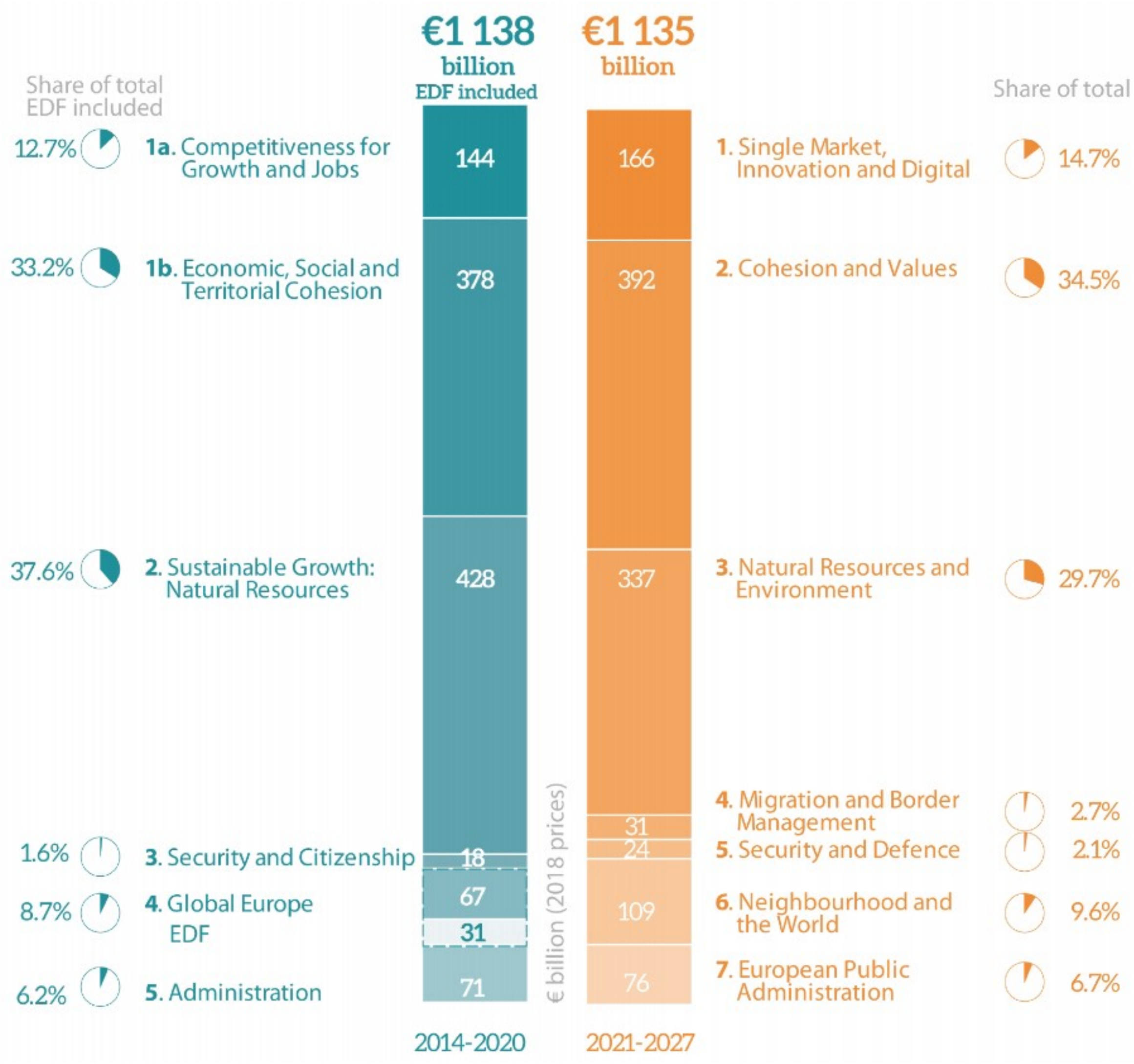
A stronger climate performance of the next MFF (2021-2027) is however urgently needed to reach the climate goals. According to some estimates, additional investments of around €180bn per year are needed to meet the EU 2030 climate and energy targets (European Commission 2018). At the same time, all direct and indirect fossil fuel subsidies must be removed (according to several interviewees this should be one of the preconditions for EU funding to Member States). Estimates of combined fossil fuel subsidies in the EU range from €39bn to over €200bn per year (European Commission 2014). The European Parliament in a recent resolution called "for the EU and the Member States to immediately phase out all European and national fossil fuel subsidies" (European Parliament 2018). Climate action thus has to be anchored more deeply in the budget and existing climate relevant features of the last MFF (2014-2020) need to be strengthened.

Overall, the 2021-2027 MFF (€1,135bn) is more or less of the same size in nominal terms as its predecessor (€1,138bn), but it has a new structure with more and different headings (see Graph 2 (EPRS 2018) for a comparison). The seven headings are the budgetary representation of the EU's political priorities and strategic focusses.

2.2 Policy Areas and Funds

Within the seven headings, or policy areas, there are 17 subheadings. They are shown in Table 1 on page 5 together with the nine most climate-relevant funds under the different subheadings in the MFF 2021-2027. The relevant funds are briefly described in the following.

Under the first heading ("Single Market, Innovation and Digital"), **Horizon Europe** is the EU's research and innovation framework programme. It can support financing of low carbon innovations and promote a low-carbon transition. Its climate impact can be strengthened further.



Graph 2: Distribution of the 2014-2020 and the 2021-2027 MFFs
Source: EPRS, based on European Commission data.

InvestEU is the EU's main instrument to leverage private investments. It combines a multitude of financial instruments to support investments in the EU and increase funding of investment projects. From a climate perspective, it has the potential to support more sustainable infrastructure investments, as intended by the creation of a dedicated investment window. An important step would be the exclusion of fossil fuel infrastructure investments and a stronger focus on energy efficiency to support the low-carbon transition.

The **Connecting Europe Facility (CEF)** supports growth, jobs and competitiveness by investing in cross-border infrastructure projects. It aims at developing sustainable, efficient and interconnected energy, transport and digital networks within the EU. CEF is thus a key instrument for a low-carbon transition on an international level. Fossil fuel subsidies are however not excluded, and climate-proofing of investments needs improvements.

Headings and Subheadings	Climate-relevant funds
I. Single Market, Innovation and Digital 1. Research & Innovation 2. European Strategic Investments 3. Single Market 4. Space	Horizon Europe InvestEU Fund Connecting Europe Facility
II. Cohesion and Value 5. Regional Development & Cohesion 6. Economic & Monetary Union 7. Investing in People, Social Cohesion & Values	European Regional Development Fund (ERDF) Cohesion Fund (CF)
III. Natural Resources and Environment 8. Agriculture & Maritime Policy 9. Environment & Climate Action	European Agricultural Guarantee Fund European Fund for Rural Development (EAFRD) European Maritime & Fisheries Fund (EMFF) Programme for Environment & Climate Action (LIFE)
IV. Migration and Border Management 10. Migration 11. Border Management	
V. Security and Defence 12. Security 13. Defence 14. Crisis Response	
VI. Neighbourhood and the World 15. External Action 16. Pre-Accession Assistance	
VII. European Public Administration 17. European Public Administration	

Table 1: Headings, Subheadings and climate-relevant funds in the MFF 2021-2027

Under the second heading ("Cohesion and Value"), the **European Regional Development Fund** (ERDF) supports economic and social cohesion in the EU by addressing regional imbalances. By concentrating on innovation and research, digitalization, small and medium-sized enterprises as well as a low-carbon economy, it is an important instrument for a low-carbon transition on a regional level. More funds should be dedicated to climate action. ERDF is one of the five **European Structural and Investment Funds** (ESIF). Similar to ERDF, the **Cohesion Fund** aims at reducing economic and social disparities between Member States.

Under the third heading ("Natural Resources and Environment"), two funds finance the EU's Common Agricultural Policy (CAP). The **European Agricultural Guarantee Fund** provides direct payments to farmers and market support. The **European Fund for Rural Development**, another ESIF, supports rural development programmes. The **European Maritime & Fisheries Fund,** also ESIF, supports fishermen, coastal communities and economies and sustainable aquaculture. LIFE (**Programme for Environment & Climate Action**) is the EU's only funding instrument exclusively aiming at the environment and climate action.

In addition to the above, important sources of climate finance include the European Investment Bank (EIB), the proposed Sustainable Europe Investment Plan under the new Commission President Elect, Ursula van der Leyen's, European Green Deal, capable of mobilising €1 trillion of private investment over the next decade, and the Just Transition Fund that will support people and regions most affected by the energy transition. In addition, there is the Sustainable Finance Action Plan aiming to mobile more private funding through the green taxonomy, InvestEU that will offer guarantees to facilitate investment, as well as National Funding and citizen investments. The climate part of the MFF will therefore be one of many sources of funding, but one which needs to be well targeted as it can not only provide funding, but will leverage a range of other funding, and also be an important catalyst for the just transition to climate neutrality[2].

2.3 Climate Mainstreaming and Climate Proofing

Climate action is horizontally integrated into the EU budget via two dimensions: climate mainstreaming and climate proofing. **Climate mainstreaming** is a quantitative approach aiming at increasing climate spending and making it more effective. Via climate spending quotas – within the overall budget as well as individual programmes – parts of the budget are directed towards climate action. The overall quota was 20% in the previous MFF. For the next MFF, the European Commission proposed a 25% quota while Parliament aims for a 30% target. A second important aspect of mainstreaming is the methodology of tracking climate-related expenditures. Measuring climate spending, and thus monitoring compliance with the quota, is not straightforward. Tracking methodologies are often criticised for overestimating the actual contribution to the target. The European Court of Auditors (ECA 2016), for example, recommends making climate mainstreaming more transparent and effective.

The second dimension of horizontal integration is **climate proofing**[3]. In the context of the MFF, climate proofing describes the more regulative process of monitoring all spending. While mainstreaming tries to channel and increase climate spending, climate proofing is about ensuring that spending does not contradict or impair climate objectives. It is put into practice e.g. through ex-ante conditionalities and exclusion criteria, the inclusion of the 'energy efficiency first' principle or the link to strategic and sectoral decarbonization pathways.

2.4 The status of negotiation and timeline

Preparations for the new EU budget post-2020 are underway and the legislative processes are at an advanced stage, though at different speeds. The negotiations are following parallel paths – with negotiations focusing on the funds, policies and programmes (e.g. LIFE, Regional funding, Common Agricultural Policy) as well as the EU Budget overall (see the Figure below and the table at the end of this section).

For example, there is now close to final agreement on the LIFE Regulation, which clarifies what the priorities are, what the rules are, and where in principle the money should go, but the actual allocated value is left blank, to be filled in. This is called a "partial general agreement".

There has been quite some progress on the regional funding, [at the time of writing the legislators are about to enter the final negotiations], but negotiations are still very intense around the CAP.

The horizontal objective of dedicating 25% of the entire EU budget to climate action and the requirement that the entire MFF has to be compliant with the Paris Agreement objectives are still under negotiation between Member States as part of the overall MFF discussion.

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[2] For wider discussion of needs for transformation of financing for climate, see https://www.finance-watch.org/wp-content/uploads/2019/10/Financing-the-European-Green-Deal_Sept2019_V2.pdf

[3] For more information on climate proofing see e.g. IEEP (2010): https://ieep.eu/uploads/articles/attachments/5c42ea77-6f36-45d7-9b68-a31fb797b771/Climate_proofing_EU_budget.pdf?v=63664509750

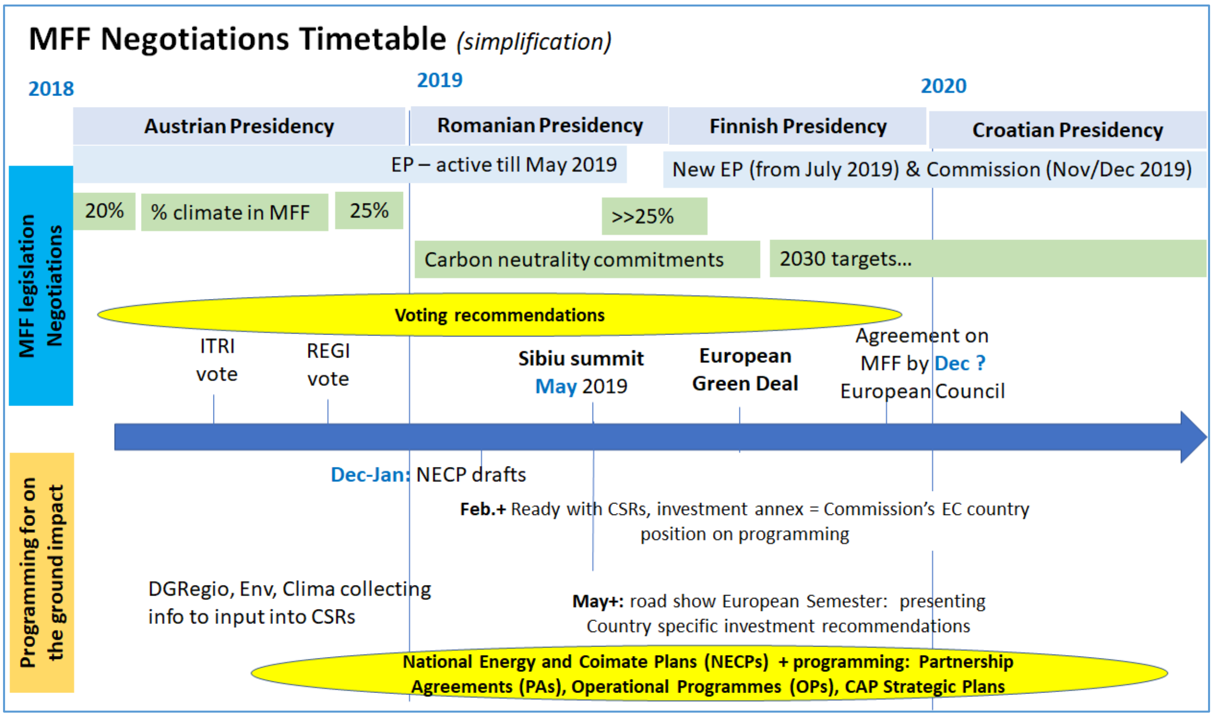

Figure 1 Negotiations timeline for the Multiannual Financial Framework from 2018 to 2020

Since the European Commission published its proposal on the MFF in May 2018 it has been on the agenda of multiple General Affairs Councils. It featured prominently at the Sibiu Summit on the Future of Europe in May 2019 during the Romanian Presidency, and the June European Council respectively. However, at the time of writing this report, September 2019, a compromise between net-contributing and the net-recipient Member States as well as the agreement on overall expectations of the specific added-value of the European project and the use of available resources has not been reached.

It is expected that an agreement on the overall MFF can be reached under the Finnish presidency. This is also the wish of the new Commission president elect, Ursula von der Leyen. However, complications around agreeing the CAP as well as BREXIT considerations that will impact the budget risk complicating this ambitious timeline.

The first steps on 'programming', i.e. the development of national and regional EU funds' spending plans, so-called Partnership Agreements and Operational Programmes is running in parallel in the course of 2019 negotiations, with 'programming guidelines' expected from Member States in the second half of the year.

In the course of the preparation and implementation of the MFF, the National Reform Programmes (NRPs) and the Country-specific Recommendations (CSRs) also play a serious role. The NRPs are documents issued by EU Member States to the European Commission on an annual basis (since 2011), detailing the specific policies they will implement, and their concrete plans to comply with the EU's country-specific recommendations and general fiscal rules. Under the so-called European Semester, each Member State submits their NRPs each April. The NRPs are assessed by the Commission in May. In June, the Commission provides country-specific recommendations to Member States as appropriate, which are discussed and then formally adopted by the Council in July. There have been many calls both from EU institutions and from CSOs to make a strong link between NRPs and CSRs on the one hand, and the MFF on the other hand. The European Commission, too, has made a proposal to strengthen the link between the MFF and the European Semester, At the same time, the implementation of the Clean Energy for all Europeans package has started in the Member States including the process of integrated National Energy and Climate Plans (NECPs). These national planning processes of the NECPs are an important element of the European effort of delivering the EU 2030 targets which requires all parties to submit their national plans, policies and measures with regard to GHG emission reduction, renewable energy and energy efficiency, and Long-Term Strategies by 2020. This makes 2019 also an important year for Europe to increase its ambition for both 2030 as well as the 2050 time horizon. The NECP framework and Cohesion Policy funding are closely interlinked, with recommendations stemming from the NECP process to be taken into account when EU funds are programmed and implemented.

Partnership Agreements and Operational Programs

A Partnership Agreement is a contract between the Member State and the EU. It is signed before the funding period starts. The Partnership Agreement defines the funding strategy of a state during an investment period and links the national investments to the European growth strategy.[4] They are legally binding.

The Partnership Agreements are further broken down into more detailed Operational Programs, which define how the money from the funds is spend during the programming period. These Operational Programs can refer to certain regional or to certain policy areas. They are prepared on the basis of the Partnership Agreements.[5]

2.5 Key issues

From the climate and environment perspective, the following issues are of particular importance:

- The commitment to climate and environment **mainstreaming** the level for both the MFF overall and within the funds – and whether the ways of ensuring this are robust (European Commission 2017).
- The question as to whether funding, e.g. for fossil fuels, that can run counter the Paris Agreement should be allowed (i.e. "**blacklisting**") and if so under what conditions.
- **Ringfencing** of budgets for certain applications – e.g. for nature protection, for agro-ecological practices under the CAP, for ecological restoration of our seas or the Thematic Concentration to the 'greener and low-carbon Europe' objectives under the Cohesion Policy funds.
- **Coherence** – e.g. in addition to compatibility with the Paris Agreement, also with Biodiversity commitment, and more widely the Sustainable Development Goals of the 2030 Agenda for Sustainable Development.
- **Allocations** – e.g. share of monies that are allocated to the first or second Pillar of the CAP. Under CP under the allocation to target 2, there is a risk of diluting the funding by allowing additional priorities (e.g. transport) to be included, which may displace positive allocations.

[4] European Commission Glossary: Partnership Agreement.
https://ec.europa.eu/regional_policy/en/policy/what/glossary/p/partnership-agreement
[5] European Commission Glossary: Operational programme.
https://ec.europa.eu/regional_policy/en/policy/what/glossary/o/operational-programme

- **Conditionality** – e.g. making spending dependent on the respect for environmental legislation and the achievement of climate and energy objectives, on a robust national legal framework and institutional system in all member states ensuring the efficient and decent use of EU money, and on gradual elimination of environmentally harmful subsidies from the national budget (including the internalisation of external costs).
- **Monitoring, reporting and evaluation** to ensure cost-effectiveness – i.e. by having a comprehensive reporting framework and an assessment of climate change financing needs. And ensure that actual spending and results should be monitored and evaluated. Here the “Rio markers” approach – of allocating funding to climate depending on type of activities – is important, as the rules of the allocation can make a huge difference: if too easy, then one can “achieve” high levels of climate spending when in reality there may be only a very weak correlation.
- Provision of **guidelines and criteria** that ensure climate and environment protection and exclude fossil fuel support, including indirect support (e.g. road construction or airport development).

The Funds and the climate related aspects are presented in the table on the next page, including insights into the key issues still under negotiation and what CSOs could usefully support via their contacts in their governments and in the European Parliament and institutions.

Focus of Negotiation	Status of the Negotiations	Key issues and CSO "asks" (related to climate change)
Overall MFF	Commission proposal of 25% climate action target for the post-2020 MFF, up from 20% from the current MFF. March GAC (General Affairs Council) debate on climate mainstreaming in the MFF: Broad commitment to move from 20% to 25% climate allocation. Only France supporting a 40% target, and Poland arguing for maintaining the current target. Conclusions envisaged for the end of 2019.	*CSO community:* • EU budget needs to become 100% climate proof to be Paris Compatible • To explore all potential opportunities to achieve 40%, binding minimum earmarking for climate action throughout the sector specific legislation should be established • The 'climate action tracking' methodology needs to be able to get a realistic picture about the volume and actual impact of climate action spending of the EU budget. • A robust national legal framework and institutional system in all member states ensuring the efficient and decent use of EU money. • Elimination of environmentally harmful subsidies from the national budget (including the internalisation of external costs) so that national funding does not go counter to EU funding.
<u>Cohesion Policy</u> **European Regional Development Fund (ERDF)** **Cohesion Fund (CF)**	The European Parliament adopted its positions on both regulations setting the common rules and the ERDF/CF, excluding fossil fuels, increasing the share of climate action and better climate proofing, and anchoring EU funds to the Paris Agreement, SDGs and National Energy and Climate Plans. The council is expected to reach its position in June. Negotiations between both institutions to finalise the legislation is scheduled for October 2019.	*CAN Europe:* Binding climate action earmarking should be set a legislative level: ERDF = 70%; CF = 60% ; ESF = 25% *EEB:* Support the French position of 10% earmarking of biodiversity within regional funding, to come on top of the 40% for climate funding. BD is essential both for mitigation and adaptation.
<u>Agriculture and rural development</u> **European Agricultural Guarantee Fund, EAGF** **European Fund for Rural Development (EAFRD)**	The European Commission published its proposal in June 2018. Since then, in February the Environmental committee that has shared competences on a number of key articles adopted its opinion, and the agricultural committee has followed and adopted its position beginning of April 2019. However, given the institutional changes (new EP	*EEB:* • Strengthen the provisions for environment and climate measures in the CAP negotiations - all spending dependent on the respect for environmental legislation + at least 50% of the total CAP budget should be ring-fenced for dedicated financing of actions related to climate, environment and nature conservation.

	and Commission) and the absence of vote in plenary before these changes, it remains uncertain if the new Parliament will pick up the work where it is left and whether the promises of the European Green Deal will lead to a reconsideration of the budget.	• Drive CAP negotiations to strengthen Member States' accountability and hence confidence that the CAP will deliver on the environment and the climate. • No subsidies harmful to environment and climate are part of the CAP post 2020. • The methodology for "tracking climate expenditures" across the CAP under pillar 1 needs to be improved, only accounting for actual and substantiated climate benefits.
LIFE - Programme for Environment & Climate Action (LIFE)	Partial General Agreement reached: awaiting vote in Plenary 4th April. This is expected to be a formality. No agreement yet on the level of budget (Heads of State to agree after the EU elections) Commission Position: 0.3% of the EU Budget for LIFE; the EP asked for an increase to 0.6%	*CSO community*: Satisfied with the modalities of the LIFE regulation, the major outstanding issue is the overall budget. *EEB* and wider CSO community argue for 1% of the EU budget is allocated to Biodiversity and Climate and 15bn for biodiversity.
European Maritime & Fisheries Fund (ESIF)	The plenary of the European Parliament voted on 3 April on the post 2020 European Maritime, Fisheries and Aquaculture Fund (EMFAF). Potential harmful subsidies for fleet renewal have been explicitly re-introduced, and it is possible that this will lead to an increase of fishing capacity with negative impacts on the marine environment. On the other hand, the EP now asks for an increase in spending for nature protection, restoration and marine knowledge – to the tune of 25%, some of which will help support ecosystem resilience to climate change.	*EEB:* Transform the European Maritime and Fisheries Fund into a true ocean conservation fund by excluding any subsidies that aggravate overfishing. Instead, ring-fence funds for the ecological restoration of our seas. Activities for nature protection, restoration and marine knowledge include the management and monitoring of Natura 2000 areas; compensations to fishers for the collection of lost fishing gears and marine litter; investments in ports to provide adequate reception facilities; actions to achieve good environmental status; the implementation of spatial protection measures; the protection of sensitive species; or the collection, management and use of data to improve the knowledge on the state of the marine environment.
Horizon Europe (HEU)	Adopted, the HEU contains a Climate mainstreaming commitment of at least 35% and 'climate impact pathway monitoring'. 'Paris Agreement' is in the Programme's objectives and specific missions focus on carbon neutral and smart cities, industrial decarbonization and on climate adaptation can be developed.	*CAN:* 50% of research & innovation funding should be earmarked towards tackling climate action.

InvestEU Fund	Member States and the European Parliament concluded their negotiations on InvestEU. It includes a sustainability proofing mechanism, now up to Commission to provide robust guidelines on the screening and proofing. It contains s 55% target of the sustainable infrastructure window investments to be Paris-aligned.	*CAN:* A climate action objectives for all investment windows of 60%; exclusion of fossil fuels; climate proofing of all investments.
Connecting Europe Facility (CEF)	All negotiations on the CEF have been finalised. It includes the Energy Efficiency 1st principle. Among the energy objective falls to “Facilitating decarbonisation of the economy, promoting energy efficiency and ensuring security of supply’ while keeping consistency with NECPs, 60% of the CEF should serve climate objectives; gas infrastructure however have not been excluded. The upcoming review of the TEN-E guidelines though has the potential to bring the CEF completely in compliance with the Paris Agreement.	*CAN:* Binding climate action earmarking for the different CEF strands should be set a legislative level: Transport: 80%, Energy: 100%, Digital: 20%; exclusion of fossil fuels.

2.6 Berlin workshop outcomes and further readings

Berlin workshop: Current status and potential for influence

- There is a difference between the allocation and the actual spending of funds. In many countries, spending on climate action is far below what it should be according to the plans.
- The proposal of the commission to dedicate 25% of the EU budget on climate action (up from 20%) is a step forward; however it needs to be seen in perspective.
- A large part of EU funds is paid within the Common Agriculture Policy (CAP) or spent on railway infrastructure. Thus, there are limited funds left for other initiatives.
- 40% of the CAP budget is dedicated for climate action. However, the quality of these spending is questionable, due to symbolic spending and direct payments to farmers.
- Within the Common Agriculture Policy climate proofing is insufficient. The environmental and climate framework of the fund should be updated.
- Even more important than spending 25% of the budget on climate action is that the other 75% are not invested in harmful projects such as e.g. fossil fuel infrastructure. The whole budget must be in line with climate goals.
- The total amount of the climate budget and the quality of spending (e.g. tracking and implementation) are still under fierce discussions between the Member States, with contradicting priorities.
- For the first time ever, the European Commission has excluded fossil fuels from investments under the regional development fund, with some exceptions. However, Member States re-introduced support for fossil fuels in their position.
- More thorough checks whether funds are used wisely and are directed towards effective climate action are necessary on a national level. Net recipients usually disagree with a stricter earmarking.
- Net payers strive to reduce their overall contributions to under 1% of their GNI.
- At the moment, the biggest opportunities for influence are the development of new Cohesion Policy spending plans. Additionally, the Common Agriculture Policy will go to the plenary and can still be changed. For all other funds, major changes are unlikely.
- The objectives set in the partnership agreements are not always ambitious, so that some of the states do not efficiently contribute to the EU climate goals.

Literature and further readings (Chapter 2):

- **CAN Europe (2018)**: "EU Budget - Delivering on climate goals". www.caneurope.org/finance/eu-budget
- **CAN Europe (2018)**: "Assessment and recommendations on the integration of climate action in the EU budget". www.caneurope.org/publications/reports-and-briefings/1646-assessment-and-recommendations-on-the-integration-of-climate-action-in-the-eu-budget
- **CAN Europe (2018):** "The EU budget post-2020 can serve higher climate ambition". www.caneurope.org/publications/reports-and-briefings/1544-briefing-the-eu-budget-post-2020-can-serve-higher-climate-ambition-feb-2018
- **DG CLIMA (2017)**: "Climate mainstreaming in the EU budget". publications.europa.eu/en/publication-detail/-/publication/1df19257-aef9-11e7-837e-01aa75ed71a1
- **DIW (2018)**: "Vorschlag der EU-Kommission zum Budget 2021 bis 2027: Vergebene Chancen". www.diw.de/documents/publikationen/73/diw_01.c.601198.de/18-41-3.pdf
- **E3G (2018)**: "An EU budget for climate action: accelerating the low-carbon transition in Central Eastern Europe". www.e3g.org/library/eu-budget-for-climate-action-accelerating-low-carbon-transition-in-CEE

- **E3G (2018)**: “EU Budget: Multiannual Financial Framework - Aligning EU finances with sustainable development”. www.e3g.org/showcase/eu-budget-multiannual-financial-framework/
- **European Commission (2014):** “Enhancing comparability of data on estimated budgetary support and tax expenditures for fossil fuels: final report.” ec.europa.eu/environment/enveco/taxation/pdf/201412ffs_final_report.pdf
- **European Commission (2017): “**Climate mainstreaming in the EU Budget: Preparing for the next MFF.” ieep.eu/uploads/articles/attachments/a3dcb063-3236-418d-9bd3-18f776724e50/Final%20report_Climate%20mainstreaming%20in%20the%20EU%20budget_2017.pdf
- **European Commission (2018):** “Sustainable finance: Commission's Action Plan for a greener and cleaner economy”. europa.eu/rapid/press-release_IP-18-1404_en.htm
- **European Court of Auditors (ECA) (2016)**: “Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short”. www.eca.europa.eu/Lists/ECADocuments/SR16_31/SR_CLIMATE_EN.pdf
- **European Parliament (2018): “**European Parliament resolution of 14 March 2019 on climate change – a European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy in accordance with the Paris Agreement (2019/2582(RSP)”. www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2019-0217+0+DOC+XML+V0//EN&language=EN
- **European Parliamentary Research Service (EPRS) (2018):** “Multiannual Financial Framework 2021-2027: Commission proposal – Initial comparison with the current MFF”. www.europarl.europa.eu/RegData/etudes/BRIE/2018/621864/EPRS_BRI(2018)621864_EN.pdf
- **Green Growth Group (2018)**: “Financing EU climate action – reinforcing climate spending and mainstreaming in the next Multiannual Financial Framework (MFF)”. www.bmu.de/fileadmin/Daten_BMU/Download_PDF/Europa___International/green_growth_group_financing_climate_action_bf.pdf
- **Institut Jacques Delors (2019):** “New beginnings - An EU budget in support of the next commission’s agenda“. www.delorsinstitut.de/2015/wp-content/uploads/2019/08/9-BUDGET-Rubio.pdf

3 Past funding of the MFF and lessons to learn

3.1 Past Climate Funding (MFF 2014-2020)

20% of the current EU budget (MFF 2014-2020) are dedicated to climate-related spending. According to the European Court of Auditors[6] (ECA), this target corresponds to around 212 billion euros, which is three times the amount of the MFF 2007-2013. The 20% target is not the same for each heading, but applies to the overall volume of the 2014-2020 budget. Table 2, which is based on the ECA report, shows the contributions of the most relevant budget areas and funds to the target.

Budget Area (Heading - Fund)	**Planned expenditure 2014-2020** (billion euro)	**Planned target of climate funding 2014-2020**	**Planned climate funding 2014-2020** (billion euro)
1a - Research (Horizon 2020)	74.9	≥35.0%	16.6
1b - Cohesion Fund (CF)	63.3	28.4%	18.0
1b - European Social Fund (ESF)	91.4	1.2%	1.1
1b - ERDF	200.3	18.5%	37.0
2 - European Agricultural Guarantee Fund (agricultural direct payments)	288.0	16.3%	47.0
2 - EAFRD	99.5	57.5%	47.2
2 - EMFF	6.4	15.6%	11.0
2 - LIFE	3.5	49.3%	1.6
…	…	…	…
EU BUDGET	**1062.6**	**≥20.0%**	**212.5**

Table 2: Climate-related budget areas in MFF 2014-2020
Source: European Court of Auditors (2016)

In terms of planned climate funding, the European Agricultural Fund for Rural Development (EAFRD), one of the five ESIF, is currently the largest contributor (€47.2bn planned). In total, ESIF contribute €114.3bn, more than half of planned climate funding, or 11% of the total budget.

A substantial fraction of this sum includes climate change adaptation and risk prevention measures (€41.9bn[7]). €62.8bn are budgeted under the ESIF theme "Low-Carbon Economy", which includes planned investments in all sectors to support the shift towards a low-carbon economy.

However, planned expenditures do not automatically translate into actual investments. In fact, only a fraction of the planned sums has been decided on or actually spent. As shown in Figure 2, 63% had been allocated to selected projects, but only 18% had been paid out by the end of 2018. Interestingly, these figures vary considerably by Member States (see Figure 3).

[6] European Court of Auditors (2016): "Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short".
https://www.eca.europa.eu/Lists/ECADocuments/SR16_31/SR_CLIMATE_EN.pdf
[7] European Comission (2019): "Climate Change Adaption & Risk Prevention".
https://cohesiondata.ec.europa.eu/themes/5

The ECA warned in 2016 already that there is a serious risk of falling short on the climate spending target. Higher ambition, meaning higher shares of climate-related expenditures are required for 2019 and 2020, the last two years of the current MFF.

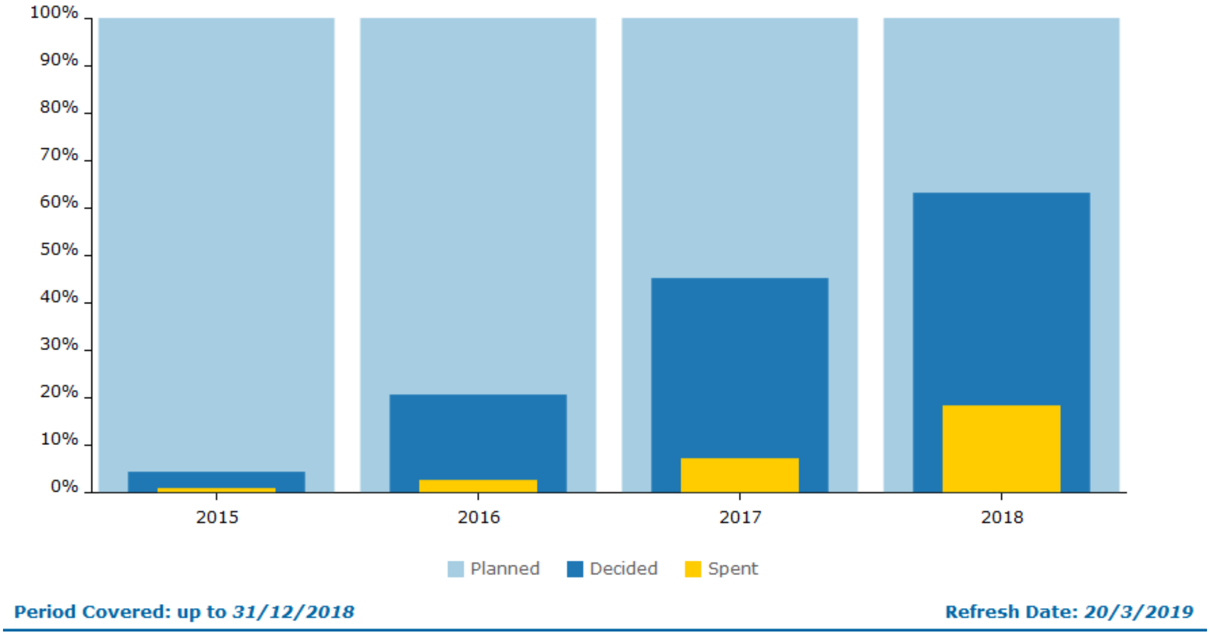

Figure 2: Implementation Progress (total cost) for Low-Carbon Economy (excluding multi thematic allocations)
Source: https://cohesiondata.ec.europa.eu/themes/4

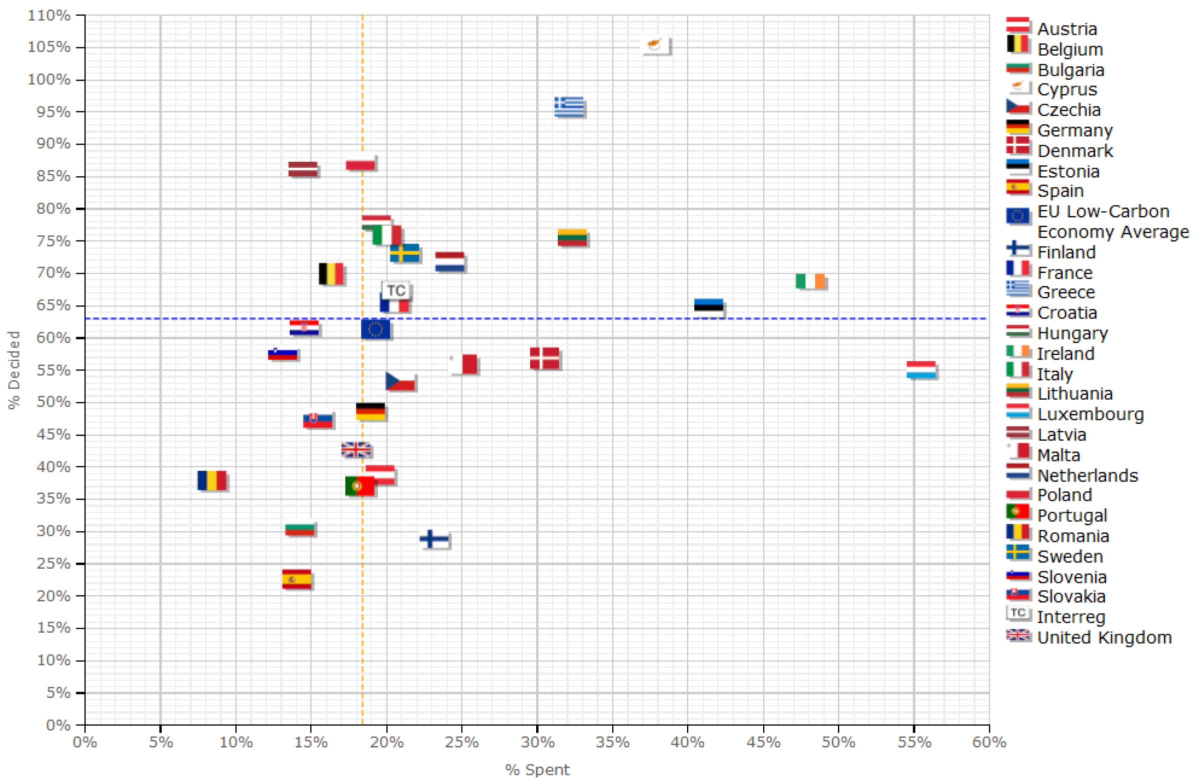

Figure 3: Implementation by Member State for Low-Carbon Economy – total cost of selection and spending as % of planned (scatter plot, excluding multi-thematic allocations)
Source: https://cohesiondata.ec.europa.eu/themes/4; Period Covered: up to 31/12/2018; Refresh Date: 20/3/2019

There are many examples of innovative and successful climate investments. For instance, the interregional INNERS project (INNovative Energy Recovery Strategies) analysed the energy performance of 344 waste water treatment plants in six Member States in North-West Europe, with the goal of recovering energy from the urban (waste)water cycle.[8] In Germany, EU funds co-financed a project (e-SolCar), which achieved breakthrough innovations for integrating car batteries into the electric grid, allowing them to support grid stability.[9] In Belgium, ESIF money helped implementing a new process for recycling bulky post-consumer plastic waste.[10] Another project, which has received EU funds from different sources, is the pan-European MEGA-E (Metropolitan Greater Areas Electrified) project. Its goal is to deploy ultra-fast charging stations in at least 10 European metropolitan areas.[11]

Such examples show that there are ample opportunities for effective climate spending.

The great challenge is to channel EU funds to such projects, increase ambition in all Member States and avoid misuse.

3.2 Lessons to learn

According to the **European Anti-Fraud Office (OLAF) Report from 2017**[12], there are continuing bad trends related to EU structural funds: corruption, conflicts of interest and fraud. Moreover, there have been attempts to defraud research and refugee-related funds, and environmental and energy operational programs. In total, OLAF has recommended that the EU recovers around €3bn.

Those problems are very evident in Central and Eastern European Member States. **Bankwatch's 2015 report**[13] analysed the EU funds in nine Member States from CEE and concluded that "the potential of the EU funds to catalyse the clean energy transition in Central and Eastern Europe from 2014 to 2020 remains largely untapped." The document says that EU-funded investments mostly promote the energy-intensive and fossil fuels-based economy which is not sustainable. Moreover, it doesn't motivate those states to reduce their GHG emissions by 2020 in sectors which are not in the European Emissions Trading System such as transport, buildings, agriculture and waste.

The report finds that "climate change mitigation is being included mainly at a rhetorical level in the strategic planning and programming documents (Partnership Agreements)." Climate mainstreaming exists only in documents, but it is mostly absent via safeguard mechanisms during the investment phase and not ensured by proper substantial investments.

Road infrastructure has received more than 50% of transport funding, while sustainable transport beyond railways is marginalised. Coal boilers still receive EU subsidies and gas infrastructure is encouraged because it provides "energy security". "Instead of utilising

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[8] European Commission (2019): "Capturing energy within urban water cycle" https://cohesiondata.ec.europa.eu/projects/row-5nsy-xbcq~2qtk
[9] European Commission (2019): "Battery on Wheels": e-SolCar, the integration of electric vehicles into the power grid. [Website]". https://cohesiondata.ec.europa.eu/projects/row-jewa_kfr7~9mju
[10] European Commission (2019): "Belgium's Walloon Region creates innovative process for recycling bulky plastics" https://cohesiondata.ec.europa.eu/projects/row-vqhn~mckm-bj2g
[11] European Investment Bank (2018): "Netherlands: European support for e-mobility transition with EV-charging operator Allego" https://www.eib.org/en/infocentre/press/releases/all/2018/2018-340-european-support-for-e-mobility-transition-with-ev-charging-operator-allego.htm
[12] European Anti-Fraud Office (2017): "The OLAF report 2017". https://ec.europa.eu/anti-fraud/sites/antifraud/files/olaf_report_2017_en.pdf
[13] Bankwatch & Friends of the Earth Europe (2015): "Climate's enfants terribles". https://bankwatch.org/sites/default/files/enfants-terribles.pdf

Cohesion Policy as a burden sharing instrument in the context of climate change, EU funds are still mainly employed to maintain a carbon-intensive energy mix, locking countries into fossil fuel dependency, with negative long-term implications for the climate and the countries' economic and social development."

An important **report by the European Court of Auditors** ("Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short", ECA 2016) stressed the need for more ambitious climate action within the different EU funding programmes in order to achieve the 20% target in the 2014-2020 funding period. It also emphasized some serious weaknesses in the tracking and monitoring of actual spending – explicitly mentioning the overestimation of climate expenditures in the European Agricultural Fund for Rural Development. The ECA repeated their concerns regarding CAP measures (most notably direct payments to farmers) in **another report (ECA 2019)** saying that "they are neither appropriate for addressing many environmental and climate concerns, nor the most efficient way of ensuring a viable income" [to the farmers]. Looking at the next MFF (2021-2027), the ECA recommend, among other things, a more comprehensive reporting framework, "realistic and robust assessment of the climate change needs and on each area's potential to contribute to the overall target" as well as "more and better-focused climate action funding".

A **report by Ecofys and DIWEcon (2018)** for the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety stresses the need for improvements regarding the definitions of climate-spending coefficients. According to the authors, "the EU's current system leads to overestimated spending on climate action". More generally, they criticise the "insufficient transparency regarding the different methodologies used to calculate the climate quotas". Concerning the next MFF, funding of carbon-intensive projects should be phased out.

3.3 Insights from the questionnaire

The project team developed a questionnaire for CSOs to explore their experience and perspectives on needs for EU funding. The questionnaire, replies and summarized insights can be found in Annex 1: Assessment of the responses from the questionnaire and conclusions drawn from them.

3.4 Berlin workshop outcomes, questionnaire responses and further readings

Berlin workshop: Responses and solutions to the problems

Participants at the workshop in Berlin discussed responses and solutions to the above-mentioned problems of past and current funding. The responses focus on short-term coping strategies, whereas the solutions present long-term plans to avoid problems in the future.

<u>Responses to address the problems:</u>

- Strengthen role of national court of auditors
- Start national court cases against misuse of funds
- Outsource commissions' reports to neutral parties to get more objective information
- Add alternative indicators / success factors to evaluate the climate performance
- Demand clear objectives and measure in the programming processes
- Eliminate exceptions from defunding fossil fuel investments
- Build solidarity and understand differences among Member States
- In depth communication and information between CSOs
- Highlight positive (Best Practice) and negative examples
- Push for civil society role and push back against national CSO weakening

- Intensify circular economy projects

Solutions to avoid future problems:

- Harmonize the legal framework between the EU and Member States (mainly on environmental issues)
- Implement conditionalities for receiving funds:
  - Strong partnership agreements with concrete indications and its implementation
  - Implementation of National Reform Program
  - Implementation of country-specific recommendations
  - Joining the European Public Prosecutor’s office
  - Strong NECP and their implementation
- Suspend national authority over funds in case of misuse
- Increase control of EU institutions, specifically the commission over projects
- Define the beneficiaries of projects more in depth
  - Build mechanisms to support small projects and local actors
  - Improve project evaluation criteria & transparency
- Increase the reach, capacity and responsibility of the European Anti-Fraud Office
- Share best practice, similarities adapted for similar regions or countries
- Introduce early warning system for underspending
- Include government, businesses and CSOs in the monitoring process
- Ensure CSO capacity
  - Upfront financing of CSOs
  - Public dialogue
- Alternative: No operational programs and EU control; instead control of conditionalities and funds tied to fulfilling conditionalities

Question 3:

In your opinion, what have been **the main advantages and disadvantages** of past EU funding relating to climate and environment in your country? Please give examples of successful investments that may inspire other countries.

Main advantages:

- Investments in infrastructure for prevention of natural disasters, renewable energy and environmentally friendly mobility
- Financial support for environmental activities that otherwise would not have received (national) funding.
- Research funding has helped Member States to focus their policies better towards fields in accordance with EU objectives.

Main disadvantages:

- Unfavourable market distortion which has allowed businesses to exist only because of “live-support” from EU funding, which is wasteful spending, meaning among others that less funding is available for climate protection.
- Weak monitoring which has led to ineffectiveness, fraud and corruption
- Funding for environmentally harmful activities (including, among others, subsidies for fossil fuel related infrastructure, e.g. roads, airports, gas pipelines).

Question 4:

What **lessons from past EU funding** relating to climate and environment in your country have been learnt that are critically important to address in future funding processes?

Projects need to have climate indicators and should comply with the goals of the EU for decarbonisation and environmental protection. Thus, big infrastructure projects should be closely monitored and evaluated so that they don't contribute to the harm our societies have already made to the nature. Energy efficiency projects have been very beneficial for both the society and the environment. However, corruption, fraud and mismanagement are reported by CSOs to be the main reason for the inefficiency of the funds.

Question 6:

Please give examples of where funding has been **particularly successful or represented low value for money** (i.e. poor practice).

Successful:

- Cycling, rail and sustainable mobility infrastructure projects,
- Funding for energy efficiency;
- Support for policy and research studies on renewable energy, climate and environment,
- Nature conservation projects

Low value for money:

- Expressways S2 in S79 in Warsaw, Poland
- Common Agricultural Policy projects which have led to concentration of land into the hands of a few owners, and damaged the environment
- Inefficient biofuel plant
- Support for natural gas investments, i.e. Baltic connector
- Budapest M4 metro construction – huge overpricing, poor management, wastefulness.

Question 7:

Which of these areas have **not received sufficient EU support to date**, but should have?

CSOs recognize the successfulness of all of the mentioned projects in Q6 and say that there should be more funding for them so that a bigger portion of the population will be able to benefit.

Some of the areas in which more support is needed are:

- Research targeted at successful climate policy-making.
- Tackling energy poverty.
- Protection of biodiversity.
- Deforestation and desertification.

Question 8:

To what extent is **EU funds spending in your country part of an overarching national climate protection** strategy and framework, what role does it play within national climate funding and did it help?

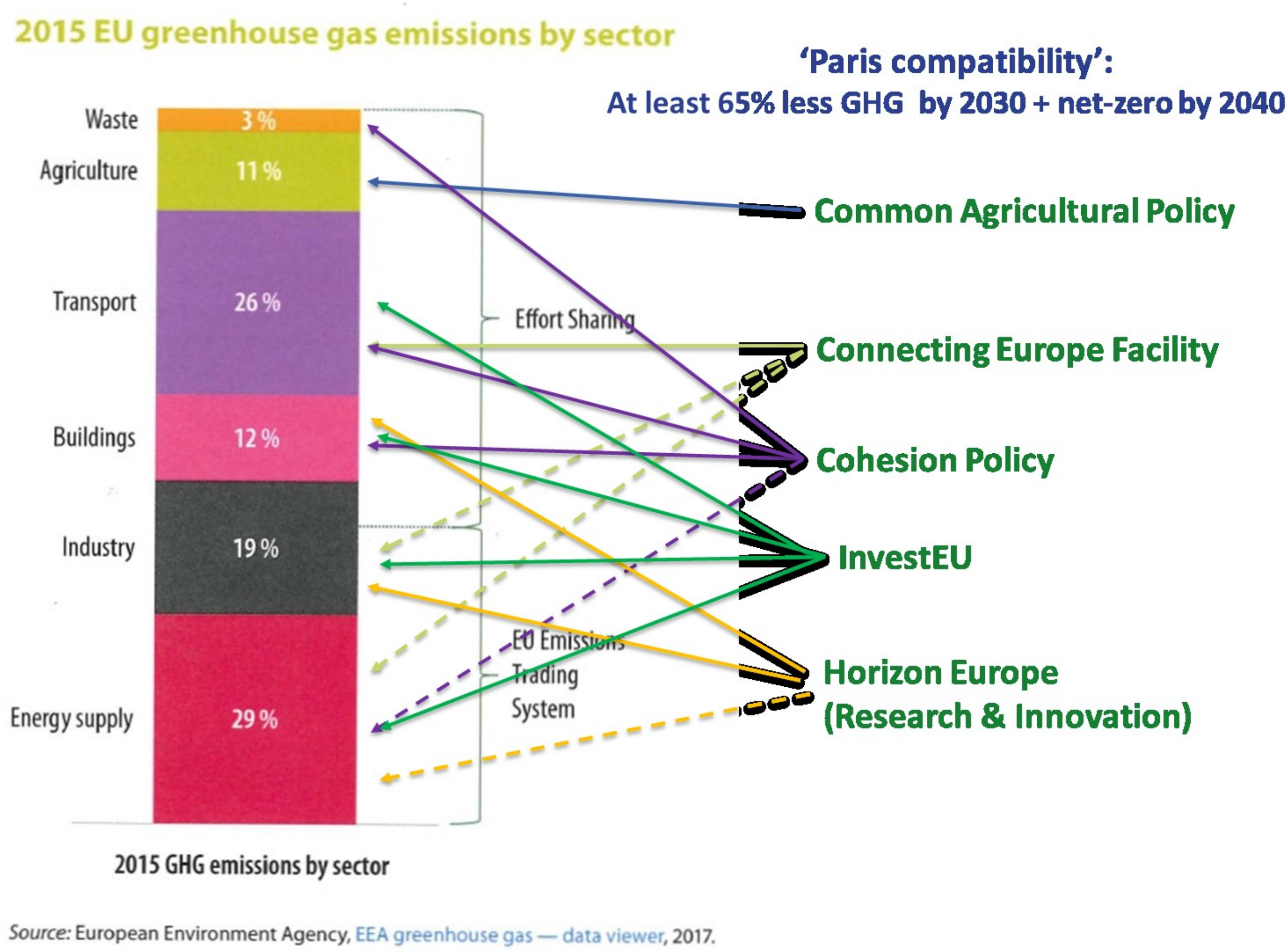
Depending on the Member State, CSOs answered both positively and negatively to this question. In both donor and recipient Member States the funding has contributed to the national climate protection strategy, however big infrastructure projects have in many cases put in danger the biodiversity of the regions, have damaged the ecosystems' balance, and contributed to more fossil fuel use. In recipient Member States the EU funding has led to less national climate funding as governments see the funds as enough for the moment, and withhold national funding for project for which they expect EU money.

Literature and further readings (Chapter 3):

- **DG CLIMA (2017)**: "Climate mainstreaming in the EU budget". publications.europa.eu/en/publication-detail/-/publication/1df19257-aef9-11e7-837e-01aa75ed71a1
- **Ecofys and DIWEcon (2018)**: "Making the Most of Climate Action Financing in the European Union". www.bmu.de/fileadmin/Daten_BMU/Pools/Broschueren/financing_climate_action_eu.pdf
- **European Commission**: „European Structural and Investment Funds Data". cohesiondata.ec.europa.eu/themes/
- **European Commission (2018)**: "EU Budget 2014-2020 - Programmes' Performance Overview". ec.europa.eu/budget/library/biblio/documents/2019/Programmes_performance_overview.pdf
- **European Court of Auditors (ECA) (2016)**: "Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short". www.eca.europa.eu/Lists/ECADocuments/SR16_31/SR_CLIMATE_EN.pdf
- **European Court of Auditors (ECA) (2019)**: "ECA remarks in brief on the Commission's legislative proposals for the next multiannual financial framework (MFF)". www.eca.europa.eu/Lists/ECADocuments/RB_MFF/RB_MFF_EN.pdf
- **Friends of the Earth Europe, CEE Bankwatch Network (2015):** "Climate's Enfants Terribles - how new Member States' misguided use of EU funds is holding back Europe's clean energy transition". bankwatch.org/wp-content/uploads/2016/01/enfants-terribles.pdf

4 Future needs for a climate MFF

A mapping of the key EU financing instruments to the key EU greenhouse gas emissions by sector (Graph 3) shows that for most sectors, a check of Paris compatibility has to be carried out in a cross-instrument manner. Sectors like building or transport are subject to up to three different funds. The agriculture sector is fully depending on the provisions in the Common Agricultural Policy, which has often been criticised for its failure to ensure effective climate action. A special role falls to the Commission for the Connecting Europe Facility which is crucial for specific projects in the transport, industry and energy supply: a failure to apply a check for Paris compatibility can create significant long-term lock-ins.



Graph 3: EU greenhouse gas emissions by sector and key EU financing instruments
Source: European Environment Agency, EEA greenhouse gas - data

4.1 Investment needs estimates

Different estimates for future investment needs have been identified in relation to both the delivery of the EU's 2030 climate and energy targets, as well as the long-term decarbonisation of the European economy towards net-zero in the context of the objective of the Paris Agreement. Interpretations on the impacts of these investments need to take into account that also in no-action scenarios, ignoring the necessity to tackle climate change, significant investment needs for the replacement of aging infrastructure or deployment of basic infrastructures in unsupplied regions exist. This urgent need to direct new investments in climate proof areas has been coined as *Shifting the Trillions*. The following chapter gives an overview and comparison of the most common estimations.

The OECD global estimates for annual investment needs in infrastructure (transport, water and sanitation, telecommunications, energy supply, transmission and distribution, and demand side) are put at USD 6.3 trillion (around 8% of global annual GDP) in a Paris Agreement non-compliant reference scenario. Moving towards climate action globally is estimated to demand an additional 10% of USD 0.6 trillion, with major shifts from supply to transmission and demand side measures.[14]

For the European economy the Commissions High-Level Expert Group on Sustainable Finance has quantified the current investment gap (defined as required additional yearly funding) for the delivery of the 2030 climate and energy framework at €180bn (around 1% of GDP). In the 2030 timeframe, demand-side investments in energy efficiency in households and businesses constitute three quarters of the investments identified.

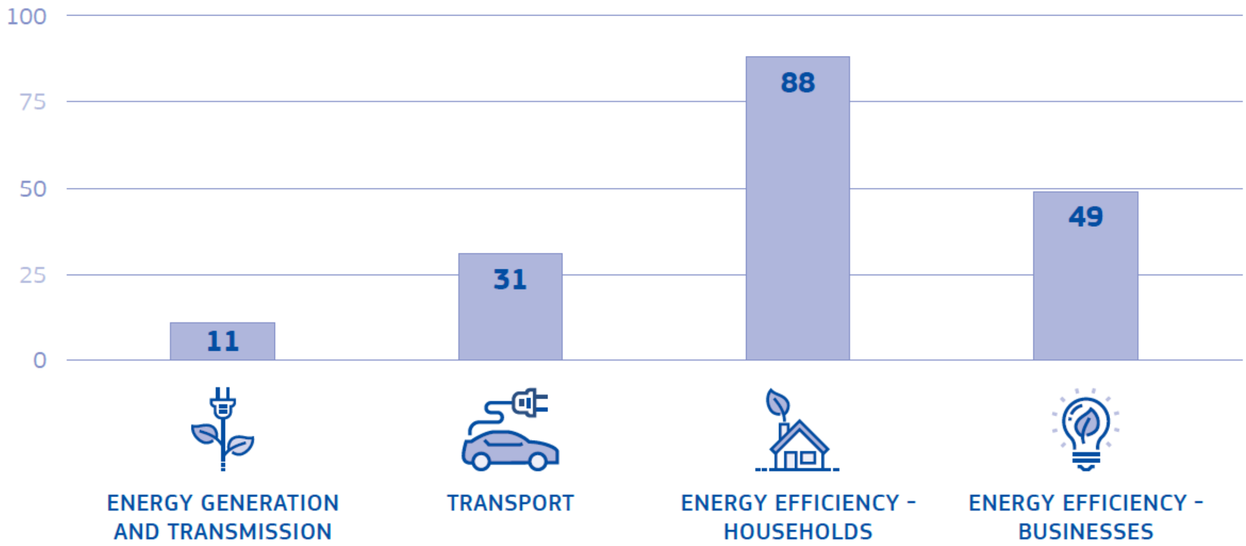


Figure 4 Annual Investment needs for reaching the EU's 2030 climate and energy targets (EUR billion), European Commission second high-level conference on sustainable finance 21 March 2019

These estimates are underpinned by sectoral assessments, carried out as part of the Commission's impact assessments put forward as part of the legal proposals for the 2030 climate and energy framework, especially on renewable energy and energy efficiency. The quantification is carried out primarily based on the PRIMES energy system modelling complemented with sectoral and economic modelling tools including the E3ME and GEM-E3 models to assess macroeconomic and sectoral economic impacts.

Both reports also came to the conclusion that the investments needed to protect the climate will be overall advantageous for the economy, too.

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[14] OECD (2017): "Investing in Climate, Investing in Growth". http://dx.doi.org/10.1787/9789264273528-en

4.2 Renewable energy investments

Reaching our renewable energy target by 2030 would require an estimated average investment in renewable energy generation of €66bn per year[15] (about 0.3% of EU GDP), according to the sources below:

Source	2030 RES-share	Yearly average	Type of investment
Renewable energy Directive II impact assessment - SWD(2016) 418 final	27%	€66bn	renewable electricity only
EC and IRENA - REMAP 2018	34%	€65bn	renewable energy

Table 3 : Investment needs in renewable generation in the EU according to different sources

In the REMAP 2018 scenario, the incremental, accumulated investment additional to the Reference Case would amount to €387bn until 2030[16], representing an average annual contribution of 0.3% of the current EU-28 gross domestic product, before accounting for additional activity triggered in other sectors. The fact is that overall cost assumptions remain the same between both studies; with however different RES deployment. The overall macroeconomic benefits would however be more significant because of this multiplier effect. Additionally, the contribution of renewable energy to local economy would be a substantial trigger to job creation, developing local skills and added value.

4.3 Energy efficiency investments

Europe has committed to an energy efficiency target of 32.5% by 2030. A close approximation of the investment needs can be derived from the Commissions scenario for a 33% objective which has calculated an average investment in supply and demand side and energy efficiency measures of €196bn per year[17]. This is an estimate including capital costs.

Source	2030 EE-objective	Yearly average	Type of investment
Energy Efficiency Directive impact assessment - SWD(2016) 405 final	33%	€196bn	Total energy related investment expenditures
Difference to BAU at a 27% energy efficiency target	33%	€73bn	Direct efficiency investments

Table 4 : Investment needs in energy efficiency in the EU according to the EED impact assessment

When looking at the energy system as a whole, the total energy system expenditures that would be necessary to reach the EU target by 2030 could range between €379bn and €503bn

[15] Ranging from USD 73bn (€65bn) to €1 trillion from 2015 to 2030 for renewable power only
[16] IRENA and the European Commission, REMAP 2018
[17] Including demand side investments in residential, tertiary and industrial facilities and supply side investments in Power plants, steam boilers and power grid investments.

annually between 2021 and 2030[18]. This order of magnitude corresponds to the baseline scenario of the 2050 Long-Term Strategy presented by the European Commission in 2018[19]. It is to be noted that these figures encompass the energy system as a whole, and therefore go beyond energy efficiency measures. These expenditures are broken down as below:

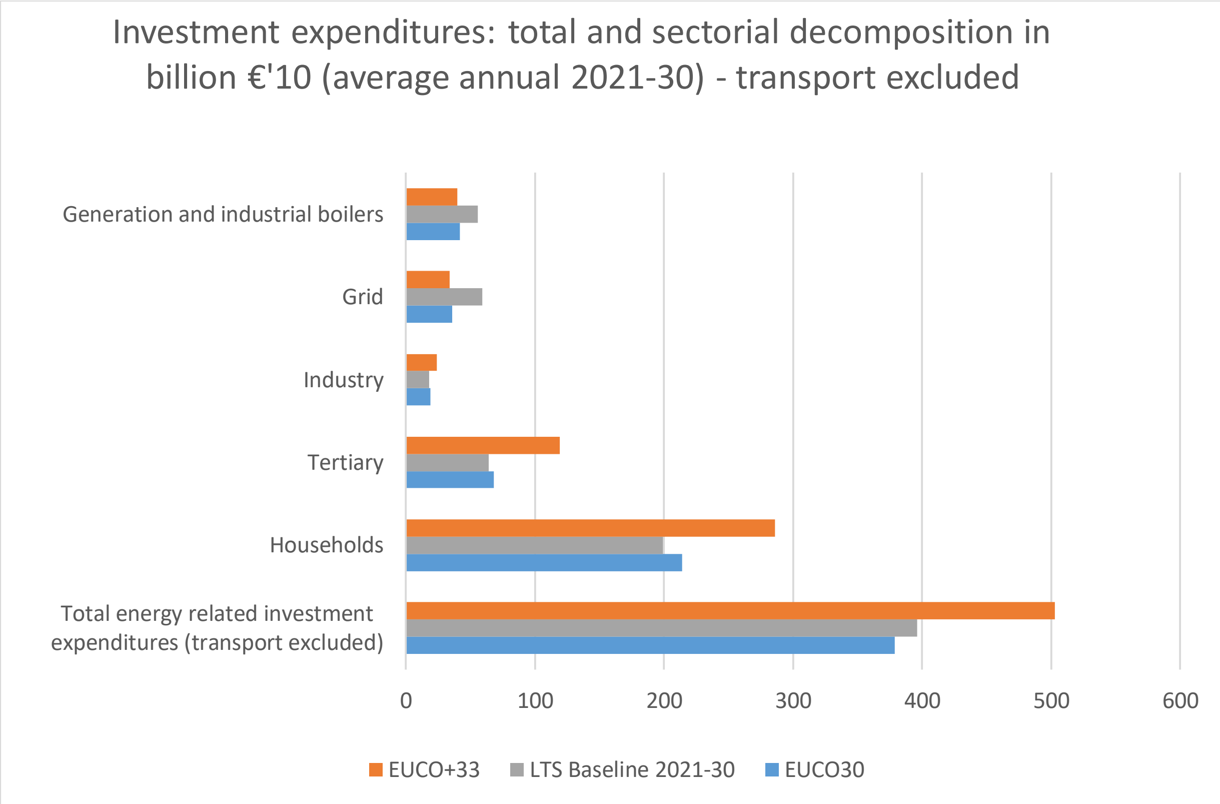

Figure 5: Investment needs in the energy system by 2030 (source: EC - EE Impact Assessment 2016 and 2050 Long-Term Strategy)

In addition to these identified investments, additional renewable will generate positive externalities in terms of decrease of imported fossil fuels, reduced technology costs, the reduction of damages of air pollutant emissions from the combustion of fossil fuels on human health and agriculture crops and the reduced environmental cost of CO_2 emissions in the context of climate change. These externalities might even outpace the cost of renewable energy deployment, with total savings of between €46bn and €119bn (USD 52bn and USD 133bn) per year in 2030[20].

Notes:

- In this analysis, the transport sector has been excluded from the overall energy system investment comparison for the 2030 to 2050 timescale. In the period from 2021 to 2030 investments in transport equipment for mobility purposes (e.g. rolling stock but not

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[18] European Commission (2019): "Commission Staff Working Document – Impact Assessment". https://ec.europa.eu/energy/sites/ener/files/documents/1_en_impact_assessment_part1_v4_0.pdf, assuming resp. 27% and 28% RES, 30% and 33% EE by 2030.
[19] European Commission (2018): "A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy". https://ec.europa.eu/clima/sites/clima/files/docs/pages/com_2018_733_en.pdf
[20] IRENA and the European Commission, REMAP 2018

infrastructure) and energy efficiency are expected to be negative compared to the BAU of the EUCO27 scenario. For the period from 2031 to 2050 the investment identified in the transport sector includes the replacement of individual vehicles (including fuel switching and potential technology lock-in) and is not directly related to clean transport. Therefore, the additional investment in the transport sector (above €700bn average depending on the scenario) is one order of magnitude above the rest of the energy system investment and has been excluded from this analysis.

- EUCO30 and EUCO+33 scenarios do not take into account the most recent updates of the Clean Energy for All European Package and from the 2050 Long-Term Strategy (LTS), especially in the field of renewable deployment and technology costs assumptions. It is therefore recommended to consider these figures with care and to use LTS baseline for without a reference to the underlying assumptions.
- Nb. The investments identified do not preclude the risk of having projects financed which are related to contradictory impacts on environmental objectives, if the projects are done without full regard to the existing environmental acquis.

4.4 Priorities and recommendations for future EU funding

From the responses to the questionnaire and interviews as well as personal discussions with experts several proposals have emerged for improving EU funding in the next MFF 2021-2027. These recommendations are presented in Annex 1: Assessment of the responses from the questionnaire and conclusions drawn from them.

4.5 Berlin workshop outcomes, questionnaire responses and further readings

Berlin workshop: Needs and opportunities for future funding focus

The OECD calculated that additional investing of only 10% on climate action can make a difference to stop climate change. Around €170–180bn of additional funding are necessary to close the gap for the 2030 climate & energy targets. A systemic change thus needs to happen within the next 10 – 15 years.

In the European context: The biggest investment need is in the building sector (almost 50%), followed by energy efficiency, transport and energy generation and transmission.

In the questionnaire, experts focused primarily on financing of transport, renewable energy, education and awareness-raising, and the agricultural sector. Only one person mentioned grids and nuclear. The results show that we need to invest in a broad range of industries, but the awareness is very much focused on a few.

Investment in the transport sector is specifically high. It is also the sector in which respondents see the highest necessity for investment. However, it is rarely asked whether investments actually pay off in terms of greenhouse gas emissions.

The workshop participants stress that the Paris Agreement should be the baseline for any scenario or program. This will help to keep the debate goal-oriented.

The biggest part of investments has to be done by the private sector. Public investments should attract private funding to sustainable projects and technologies.

Question 9:

In your opinion, which are the **main areas and objectives that the future EU funding** should focus on in order to support your country to deliver on the Paris Agreement objectives to limit global warming at 1.5C? Please give specific examples of promising areas of investment.

First of all, CSO's agree that the EU should stop funding activities which increase fossil fuel use. Then, promising areas of investment are renewable energy infrastructure, energy efficiency of buildings, subsidies for changing the way people heat their homes. Additional investments could be for rail and cycling infrastructure, electric public transport, electro-mobility infrastructure.

Question 11:

A proposal for the MFF is now being negotiated: What would be your **proposals for improving EU funding** in general, and specifically for climate change mitigation and adaptation? Please be specific as regards recommendation for a constructive way forward.

CSOs generally agree that the funding process should be better monitored to ensure that fraud, corruption and mismanagement are reduced to a minimum. Proper (environmental and climate) indicators and a controlling body on the EU level are recommended. Better involvement of CSOs in the monitoring committees, among others by providing them with the necessary finances for this work. Environmental risk-assessment is strongly needed for all projects, especially bigger infrastructure ones.

Literature and further readings (Chapter 4):

- **CAN Europe (2017)**: "CAN Europe Position on the EU budget post-2020". www.caneurope.org/publications/can-europe-positions/1368-can-europe-position-on-the-eu-budget-post-2020
- **Birdlife, CEE Bankwatch Network, CAN Europe (2017)**: "A Vision for the Next EU Budget". www.peoplesbudget.eu/wp/wp-content/uploads/vision-post-2020-MFF.pdf
- **CEE Bankwatch Network (2018)**: "What future for our finances? Position on the EU Budget after 2020". bankwatch.org/wp-content/uploads/2018/07/Position-on-the-MFF-Bankwatch.pdf
- **CEE Bankwatch Network (2018b)**: "Cohesion at crossroads: What we need from the next EU budget". bankwatch.org/blog/cohesion-at-crossroads-what-we-need-from-the-next-eu-budget
- **E3G (2018)**: "Sectoral legislation in the post-2020 EU budget: ensuring effective climate spending". www.e3g.org/library/sectoral-legislation-in-the-post-2020-eu-budget-effective-spending
- **Ecofys, DiW Econ (2016)**: "How can EU climate financing be improved to achieve the 2030 climate and energy targets?". www.navigant.com/-/media/www/site/insights/energy/images/diweconecofys2016discussionpapereuclimatefinance.pdf
- **European Policy Center (2019):** "Paris-proofing the next Multiannual Financial Framework". www.epc.eu/documents/uploads/pub_9267_paris_mff2.pdf

- **European Parliament (2018):** "Interim Report on the Multiannual Financial Framework 2021-2027". www.europarl.europa.eu/doceo/document/A-8-2018-0358_EN.pdf
- **Navigant (2019):** "Aligning EU budget expenditures with the objectives of the Paris Agreement - Recommendations for sound and consistent Climate Proofing of the Multiannual Financial Framework 2021–2027". www.navigant.com/-/media/www/site/downloads/energy/2019/navigant_climateproofing_finalreport.pdf

5 Operationalizing the MFF: aligning strategies, anchoring climate action, linkages to NECPs

The legislative process to establish the general budget is already in advanced stages. This includes decisions or proposals regarding the fundamental political priorities of the budget (seven headings), financial size of these headings and the allocation to the various spending programmes included, the rules of the funds (eligible spending), climate quota etc.

The next important step is the operationalization of the MFF. To put the budget in practice and ensure that spending is in line with the overarching strategies and climate goals, a complex governance process is required. EU funds, of course, do not simply flow from Brussels to their final recipients. For example, the European Regional Development Fund (ERDF) is delivered via around 300 national, regional and interregional programmes. ERDF, like the majority of the budget, is under shared management, meaning that Member States organise the final allocation and spending, while different Directorates-General are also involved in the implementation.

To ensure consistency and vertical coherence of programmes and spending with, for example ESIF objectives, an administrative mechanism called **programming** is an integral part of MFF processes. Member States, together with the European Commission, prepare **Partnership Agreements** (PA), a reference document which outlines the countries' overarching strategies and investment priorities. In addition, a country's PA is followed by a list of more detailed national, regional and sectoral (transport, environment, energy efficiency, etc.) plans, known as **operational programmes** (OP), which show how funds are planned to be spend during the 2021-2027 period. OPs translate PAs into more specific objectives, concrete plans and financial allocations as well as descriptions of management and control systems.

OPs often have a regional focus. Germany, for example, has 16 OPs – one for every federal state – for the MFF 2014-2020. Additionally, there are many cross-border, transnational and interregional operational programmes, like the many Interreg programmes.

5.1 Public Participation in the Programming Process

Since the 2014-20 programming period, participation of regional, local, and urban public authorities, trade unions, employers, civil-society and non-governmental organisations (CSOs and NGOs) and other stakeholders has been actively promoted by the European Commission. Partnership is intended along the whole process to make spending more effectively, increase transparency and support implementation, monitoring and assessment.

A central document regulating the requirements for Member States with regard to the involvement of public stakeholders is the **European Code of Conduct on Partnership** (ECCP) [21]. It is a legally binding regulation, which was first adopted in January 2014, and provides common standards for the involvement of the public in ESIF programming. The ECCP was first foreseen by the **Common Provisions Regulation** (CPR) [22], which set the governing conditions and principles for cohesion policy funding in the MFF 2014-2020 period.

[21] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014R0240

[22] The CPR in force: eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R1303 The Commission proposal for the new CPR: eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2018%3A375%3AFIN

The partnership principle, which was already in the 2007-2013 legislation, is significantly strengthened by the ECCP.

Based on the Commission's proposal, a draft **CPR**, with new rules for cohesion policy for 2021-2027, was adopted on 22 January 2019 by the European Parliament's Committee on Regional Development and jn March by the EP plenary. Next to the regulation's importance for its seven shared management funds (European Regional Development Fund, the Cohesion Fund, European Social Fund Plus, European Maritime and Fisheries Fund, Asylum and Migration Fund, Internal Security Fund and the Border Management and Visa Instrument), the EP also acknowledges the public's dissatisfaction with the implementation of the ECCP so far (European Parliament 2019). The European Commission's proposal (European Commission 2018a) explicitly states that partners shall be involved in the preparation of PAs and throughout preparation and implementation of programmes, and this will take place, among others, through participation in so-called **monitoring committees**. These committees comprise regional, economic and social partners with the task of contributing to the planning, implementation and monitoring the implementation of ESIF funding. The proposal also states that Member States shall organise partnerships with at least these partners: "(a) urban and other public authorities; (b) economic and social partners; (c) relevant bodies representing civil society, environmental partners, and bodies responsible for promoting social inclusion, fundamental rights, rights of persons with disabilities, gender equality and non-discrimination." A "Review of the European Code of Conduct on Partnership (ECCP)" (European Commission 2018b) by the European Commission also suggests strengthening the partnership principles; it also provides a number of concrete proposals to this end, based, among others, on the comments of social partners. The principle of partnership thus gives CSOs the opportunity and legal right for participation during the whole programming process (see also chapter 6).

5.2 MFF and NECPs

Another essential entry point for public participation is the link between programming and the drafting, implementation and review process of the **National Energy and Climate Plans** (NECPs). The fact that the MFF's programming and the NECP drafting processes are running in parallel creates the opportunity to strengthen their linkages. This is important for several reasons.[23] Firstly, the NECPs provide the national plans for achieving the 2030 climate and energy objectives. This requires huge investments in the energy, transport, building sector and so on. This is a huge financial challenge and the MFF is a highly important source for such funding. EU funds can help finance the necessary investments required by the NECPs. In fact, the draft Common Provision Regulation specifically creates this **financial link**, stating that Member States should take account of their NECPs […] for their programmes, as well as for the financial needs allocated for low-carbon investments." Investment decisions are hence meant to be guided by the NECPs.

More specifically, the European Commission says that there should be a stronger link e.g. between the Structural and Investment Funds and the NECP process. NECPs should be taken into account for the Partnership Agreements (Article 9 CPR) and for the Operational Programmes (Article 18), two main documents for the national operationalisation of the MFF.

Secondly, the NECP template requires Member States to list the projected use of EU funds. This implies that Member States should consider in concrete terms how EU financing can help implement their NECPs. This encourages a **strategic alignment** between NECPs and the MFF.

[23] For more information see e.g. Ecologic (2018)

Thirdly, NECPs can be used as a **conditionality** for EU funding. Actually, that is the case for Cohesion Policy already, but it is so far only a simple check that a NECP does exist. Conditionalities like this could be used more widely (i.e. in other funds like e.g. InvestEU or Connecting Europe Facility) and more strictly. EU funds could incentive higher climate ambition and better climate strategies.

Strengthening the link between both processes might therefore help anchoring climate action in both and improve their strategic alignment regarding climate policy.

5.3 Conditionalities

Another key instrument trying to ensure effective and efficient use of EU money are so-called **Ex-ante Conditionalities**[24] (ExAC). Their introduction in ESIF was one of the major reforms during the 2014-2020 programming period. ExAC are policy, regulatory and institutional conditions, which try to address systemic weaknesses of implementation. They specify sector-specific and horizontal requirements that have to be met by the Member States to be eligible for funding. This way the EU can anchor EU level priorities within the programmes.

In practice, ExAC try to e.g. reduce investment bottlenecks, incentivise structural change and policy reforms by Member States or define eligibility criteria. More specifically, the ESIF framework (in the 2014-2020 period) comprised 48 ExAC (European Commission 2017):

- 7 general ExAC in the CPR concerning horizontal aspects of programme implementation
- 29 thematic ExAC in the CPR concerning sector-specific conditions for relevant, eligible investment areas
- 8 Fund-specific ExAC for the European Agricultural Fund for Rural Development (EAFRD)
- 4 Fund-specific ExAC for the European Maritime and Fisheries Fund

ExAC obviously address very different aspects of funding and very different policy objectives. For example, there are at least four conditionalities that directly contribute to the EU priority "Energy Union and Climate", namely "energy efficiency", "cogeneration", "renewable energy", "risk prevention and risk management", and "smart energy distribution". The thematic ExAC 4-1 "energy efficiency" e.g. states that "Actions have been carried out to promote cost-effective improvements of energy end use efficiency and cost-effective investment in energy efficiency when constructing or renovating buildings", and lists several criteria for fulfilment (European Commission 2014c).

Conditionalities thus have the potential to anchor climate action in the budget. ExAC should ensure that funding does not go against the EU's economic, social or environmental objectives. And although ExAC are only linked to ESI funding, they can have a much wider effect. According to the European Commission (2017), "ExAC provided an incentive for Member States to implement structural changes and policy reforms, including those linked to the relevant country-specific recommendations".

The Commission's CPR proposal envisages to replace ExAC with "enabling conditions". In the Annexes to the proposal the enabling conditions are described in detail. The CPR proposal also envisages (similarly to the CPR in force) the establishment of "a performance framework

24 European Comission Glossary: "Ex ante conditionalities". https://ec.europa.eu/regional_policy/en/policy/what/glossary/e/ex-ante-conditionalities

which shall allow monitoring, reporting on and evaluating programme performance during its implementation, and contribute to measuring the overall performance of the Funds.”

5.4 Berlin workshop outcomes, questionnaire responses and further readings

Berlin workshop: Government needs for effective funding

The relationship between Member States and the European institutions is extremely complicated. Most elements of cooperation are based on national sovereignty. Some have a legally binding character but are nevertheless hard to enforce (e.g. climate targets, Partnership Agreements in the MFF).

The use of EU funds is thus difficult to govern. Workshop participants remarked that misuse of funds should be sanctioned in some way by the EU. Possibilities are currently limited though. There have been legal gaps between EU and national legislation for years and they should be fixed. While some responsibility lies with the EU, Member States are often to blame for poor implantation or corrupt use of funds.

One instrument to better align national spending of EU funds with EU objectives are the NECPs. Through NECPs climate change, renewable energy and energy efficiency are now officially linked. Before, all three had different plans that were not connected. At the beginning of 2019, Member States had to submit their drafts, which are then assessed by the European Commission and handed back with recommendations. So far, these plans are not satisfactory from a climate perspective: the targets are usually unambitious, the plans have many loopholes and empty sections, some goals are implausible. The same is true for the programming process: governments did not always allow for sufficient public consultation with stakeholders like CSOs. Transparency is often low. Final NECPs are due at the end of the year 2019. They have to take into account the Commission’s recommendations. Public participation is also foreseen in this process. So, there is a window of opportunity for CSO involvement and further improvements of the NECPs.

Question 12:

*What level of **EU monitoring or control** of EU-funded projects in your country would be needed to ensure added-value, proper implementation to enhance climate protection? Please also comment on whether and how this could be possible.*

Several CSOs urge improving the EU monitoring and control, in particular by establishing a new regulatory EU body which would have the sole purpose of monitoring projects. Most of the participants in the interviews mention as well that there should be economic and environmental assessment of the projects up to 5 years after they end. All of the projects should comply with the goals of the Paris Agreement, and in no case go against them.

Question 13:

*In your opinion, should **conditionalities for funding be set so that they would need to be fulfilled** by your government in order to receive EU funding, and if so, what would you recommend as appropriate conditionalities?*

All of the participants agree that strict conditionalities should be put in place and that they are essential for the efficiency of the funding programs. Some of the interviewed participants propose conditionalities related to the Paris Agreement obligations, energy savings and GHG emissions quotas. Member States should provide evidence that the investment projects will achieve clear and well-defined results for climate targets and conservation of natural resources. Several CSOs are of the opinion that the strict implementation of the Partnership Agreement and the National Reform Program as well as the Country-Specific Recommendation should be an indispensable requirement for EU funding.

Question 14:

In your opinion, if conditionalities are set and any of these conditionalities are not fulfilled by the national government, should ***all or part of EU funding be suspended*** *until their fulfilment?*

Most participants say that funding should be suspended until the conditionalities are fulfilled. However, others express concerns that this kind of action would harm successful projects, and thus in the long term result in some states lagging behind others in EU's socio-economic and environmental goals.

Literature and further readings (Chapter 5):

- **CAN Europe (2019):** "Future EU funds for the regions set to become climate-proof". www.caneurope.org/publications/press-releases/1726-future-eu-funds-for-the-regions-set-to-become-climate-proof
- **Ecologic (2018):** "Bringing Paris into the future MFF: how to maximise the benefits of EU funding for the achievement of EU climate objective". www.ecologic.eu/sites/files/publication/2018/2145-mff_necps_connection.pdf
- **European Commission**: "Programming and implementation ". ec.europa.eu/regional_policy/en/policy/how/stages-step-by-step/
- **European Commission (2014a):** "Commission Delegated Regulation (EU) No 240/2014 of 7 January 2014 on the European code of conduct on partnership in the framework of the European Structural and Investment Funds". https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0240&from=EN
- **European Commission (2014b)**: "Partnership agreements on the European structural and investment funds". ec.europa.eu/info/publications/partnership-agreements-european-structural-and-investment-funds_en
- **European Commission (2014c)**: "Guidance on Ex ante Conditionalities for the European Structural and Investment Funds PART II". ec.europa.eu/regional_policy/sources/docgener/informat/2014/eac_guidance_esif_part2_en.pdf
- **European Commission (2017)**: "The Value Added of Ex ante Conditionalities in the European Structural and Investment Funds". ec.europa.eu/regional_policy/sources/docgener/studies/pdf/value_added_exac_esif_en.pdf
- **European Commission (2018a)**: "Proposal for a Regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, and the European Maritime and Fisheries Fund and financial rules for those and for the Asylum and Migration Fund, the Internal Security Fund and the Border

Management and Visa Instrument". ec.europa.eu/commission/sites/beta-political/files/budget-may2018-common-provisions_en.pdf

- **European Commission (2018b)**: "Review of the European code of conduct on partnership (ECCP)". publications.europa.eu/en/publication-detail/-/publication/d26c92e2-9abc-11e8-a408-01aa75ed71a1/language-en
- **European Parliament (2019)**: "Common Provisions Regulation - New rules for cohesion policy for 2021-2027". www.europarl.europa.eu/RegData/etudes/BRIE/2018/625152/EPRS_BRI(2018)625152_EN.pdf
- **Institute for European Environmental Policy (IEEP) (2010)**: "Strategies and Instruments for Climate Proofing the EU Budget". ieep.eu/uploads/articles/attachments/b3c410a5-434f-4864-b599-90c4e33a68a9/IEEP_-_Interim_report_-_Climate_proofing_EU_budget.pdf?v=63664509728

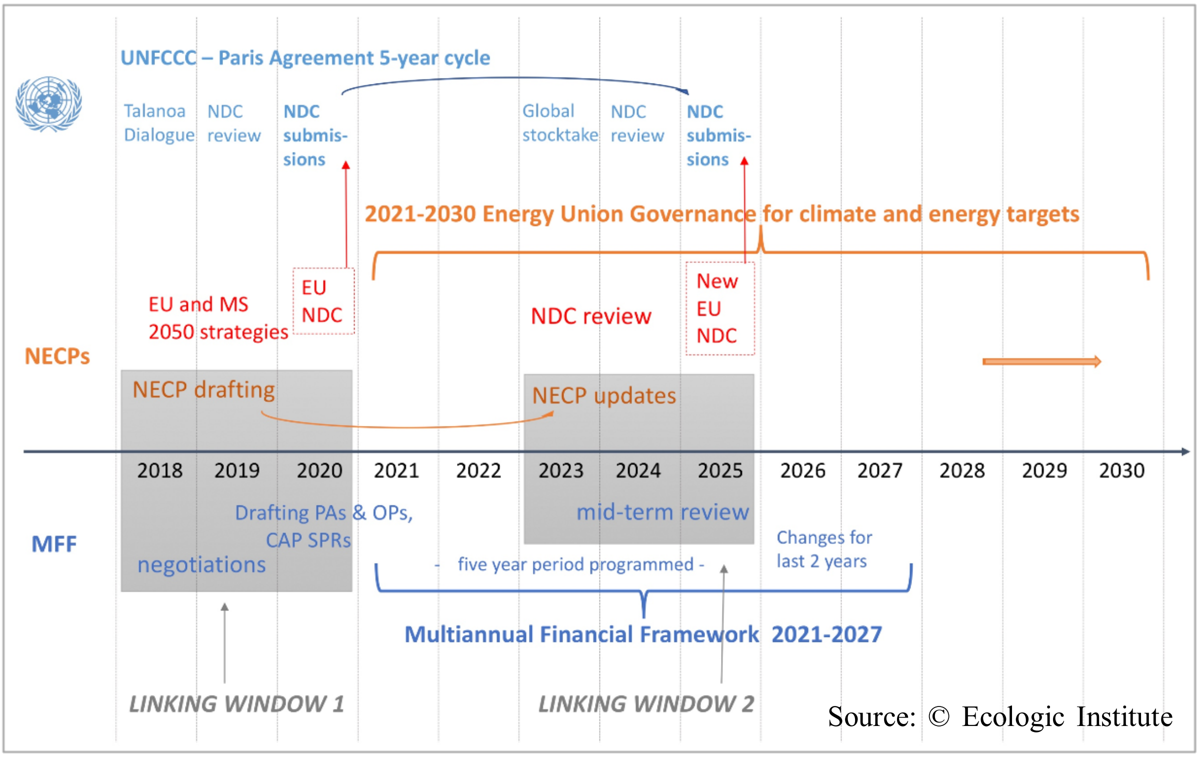
6 Public Participation

The negotiations on the EU's MFF 2021-2027 and the operationalization of the budget offer ample opportunities for public participation and civil society engagement. Partnership is foreseen along the various processes – from preparatory stages through implementation to project evaluations. The European Commission (2018) is "committed to listen more closely to citizens and stakeholders, as part of the Commission's Better Regulation Agenda".

As summarized by Birdlife, CEE Bankwatch Network and CAN Europe (2017), the EU budget should be developed in an inclusive manner, **which requires transparency and easy access to information, a participatory approach and partnership**, to support efficiency and legitimacy of EU spending.

As mentioned in chapter 2, preparations for the new EU budget post-2020 are already underway and the legislative processes are at an advanced stage. Negotiations over the EU budget have reached final stages. Final agreement on the MFF is likely in the second half of 2019, but windows for public participation are mostly closed.

Programming and NECP drafting, however, still offer opportunities to act on the development of national and regional EU funds' spending plans (Partnership Agreements and Operational Programmes) as well as National Energy and Climate Plans during the next months and years. Graph 4 visualises these main strands in the NECP and MFF timeline within the wider policy context, highlighting the linkages between both.



Graph 4: NECP and MFF timeline - interaction points in drafting and review phases
Source: Ecologic Institute 2018. https://www.ecologic.eu/sites/files/publication/2018/2145-discussion-paper-on-options-for-mff-and-link-to-necp s-20181015.pdf

The previous chapter 5 already mentioned the main entry points and legal bases for public participation during the upcoming MFF processes. The **principle of partnership** gives CSOs the opportunity and legal right for participation during the whole programming process. **Drafting of the NECPs** is another essential entry point, because public participation is envisioned during the NECP drafting process. The EU Governance Regulation requires participation of other Member States, stakeholders and the wider public. Participation processes should thus have already started, which creates the opportunity for CSOs to get involved in the creation of the NECPs and call for a stronger link to the MFF.

A central body for public participation during the implementation of funding are the aforementioned **monitoring committees**, which comprise regional, economic and social partners. Their tasks include defining project selection criteria and "assessing the effectiveness and quality of OPs, approving criteria for financing under each OP, making periodical reviews of OPs and their progress towards specific targets, examining the results of implementation to assess whether those targets have been met, where necessary, proposing revisions to OPs, including changes related to their financial management"[25].

Civil society however often lacks the capacities to get involved in these committees. This is evident from our questionnaire (see e.g. question 11). Respondents agree that the funding process should be better monitored to ensure that fraud, corruption, mismanagement and/or inefficient use of EU funds are reduced to a minimum. Many also ask for a better involvement of CSOs in the monitoring committees, among other things by providing them with the necessary support.

The European Code of Conduct on Partnership envisages a strengthening of the institutional capacities of relevant partners, stating in chapter VI, article 17 (European Commission 2014): "1. The managing authority shall examine the need to make use of technical assistance in order to support the strengthening of the institutional capacity of partners, in particular as regards small local authorities, economic and social partners and non-governmental organisations, in order to help them so that they can effectively participate in the preparation, implementation, monitoring and evaluation of the programmes. 2. The support referred to in paragraph 1 may take the form of, inter alia, dedicated workshops, training sessions, coordination and networking structures or contributions to the cost of participating in meetings on the preparation, implementation, monitoring and evaluation of a programme."

National and regional governments often neglect this obligation. This is also why Birdlife, CEE Bankwatch Network and CAN Europe (2017) ask for a dedicated funding line to support civil society engagement. If the managing authorities do not provide sufficient support, direct EU funding might bridge the gap.

For every citizen there is also the opportunity to participate in **open public consultations** online to express her or his views**.** The Commission has set up questionnaires in all EU languages on its website[26] for "the future sectorial legislation that will accompany the proposal for the Multiannual financial framework post 2020**".**

6.1 Berlin workshop outcomes and further readings

The objectives and goals put forward in the Partnership Agreements and operational programmes of the Member States are not very ambitious. It is vital to impact the NECPs, otherwise there will be no change in the EU funding strategy and no step towards effective climate action.

[25] European Commission Glossary: "Monitoring committee". ec.europa.eu/regional_policy/en/policy/what/glossary/m/monitoring-committee

[26] European Commission: Stakeholder consultations. ec.europa.eu/budget/mff/budgetforfuture/consultations_fr.cfm

According to the European Code of Conduct civil society should be included in all stages of the process. Governments have the responsibility to enable the civil society and to be transparent. This however, is not enforceable. Thus, the participants looked at challenges for CSO participation and ideas to increase their influence.

Berlin workshop: Challenges for CSO participation and ideas for improvement

Challenges:

- Lack of transparency from the governments in the programming proceses and execution of the spending programs
- Lack of capacity on the side of the CSOs (e.g. IT, language)
- Lack of access to information
- No cooperation on the side of national governments
- Limited influence of CSOs: Governments ask uncritical or even self-founded CSOs for contribution and do not involve critical or independent CSOs in the processes
- Cut of fund: Goverments cut spendings for all or specific CSOs
- Public perception of CSOs (in donor countries) is low
- Communication with Brussels is in need of improvement
- Climate action work does not add any financial value for CSOs, thus it is an administrative burden, that many CSOs cannot afford

Ideas for Improvement:

- Strengthening of CSO networks
  - New strategy to connect different CSOs across the EU
  - High ambition coalition on national level
- Implementation of measure-oriented projects to increase impact
- Increase of financial means of CSOs:
  - Cooperate with private companies (build coalitions)
  - Explore new sources of funding
  - Increasingly use EU funding
- Improvement of visibility and perception of CSOs
  - Cooperate with public figures
  - Cooperate with the media
  - Use social media strategically
- Cooperation with private businesses, outreach to businesses to offer the knowledge and see what they can ask in return
- Concentration on a specific topic: it is easier to get funds, raise awareness and develop expertise for a very specific aspect. It is possible to do project-oriented, vision-oriented collaborations with other stakeholders
- Raising awareness of the misuse of EU money in the net donor countries to increase pressure on net recipient countries
- Publishing of concrete reports with specific investment needs, e.g. Bankwatch report about shadow operations, so civil society can legitimately ask for it
- Collection of all operations program websites for comparison
- Collection of lessons learned: which told to push the opinions and change majorities has worked and is useful

Literature and further readings (Chapter 6):

- **Birdlife, CEE Bankwatch Network, CAN Europe (2017)**: "A Vision for the Next EU Budget". www.peoplesbudget.eu/wp/wp-content/uploads/vision-post-2020-MFF.pdf

- **European Commission (2014):** "European code of conduct on partnership in the framework of the European Structural and Investment Funds". eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014R0240
- **European Commission (2018)**: "Stakeholder consultations". ec.europa.eu/budget/mff/budgetforfuture/consultations_fr.cfm

7 Conclusions and Recommendations

The current commitments from countries around the world are not enough. We are heading towards a 3°C hotter world and into uncharted territory of catastrophic change. This existential threat requires action on all levels. The EU, its institutions and all Member States must prioritise urgent action in order to implement the Paris Agreement's goal to limit the increase in temperatures to 1.5°C and to make "finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" (Article 2.1c).

The European 2030 energy and climate targets are a critical milestone on this pathway. To achieve these intermediary targets we have to make significant progress in all sectors in all Member States. The EU's next budget cycle, the Multiannual Financial Framework (MFF 2021-2027), plays a critical role in this regard. It is a key policy tool to support the EU's long-term strategic agenda, including its energy and climate objectives. It translates strategies and policy priorities into budgetary headings, programmes and ceilings, thereby creating a financial framework that guides investments at the regional, national and EU level.

The MFF 2021-2027 is the EU's last full investment cycle to initiate and substantiate the necessary changes. It is essential that we make use of the last windows of opportunity to strengthen climate performance of the budget and leverage private investments.

Climate funding to date and lessons from the past

As discussed in chapter 3, the MFF 2014-2020 has been financing some important climate projects in the past years. It is an important source for such investments in many European countries. But despite the many funding opportunities, e.g. in clean energy production, transport, agriculture, or energy efficiency of buildings, **the current MFF (2014-2020) is likely to miss its goal of spending at least 20 percent on climate-relevant measures.** Underspending on climate mitigation and adaption is a missed opportunity and a serious risk to our national energy and climate plans.

Besides the problem of underfunding, **actual climate expenditures are even overestimated**. Due to some serious weaknesses in the tracking and monitoring of actual spending, projects' climate contributions are often not adequately measured, leading to a systematic overestimation of climate funding (ECA 2016). So, instead of tapping into the potential of a zero-emission transition, many EU-funded investments still support an energy-intensive, fossil fuels-based and natural resources exploiting economy of the past.

The widespread dissatisfaction with the present system of EU funding for climate, especially in net recipient countries, can also be explained with **inefficient and wasteful use of EU money**. In many cases, it has been used to support environmentally harmful investments (e.g. airports, gas and road infrastructure), contradicting EU climate policy objectives and the many pledges to phase-out fossil-fuel subsidies. In a range of countries, corruption is a serious problem. This indicates a lack of proper project indicators, conditionalities and monitoring and control mechanisms.

Despite the European Commission's efforts to promote an active involvement of public authorities, trade unions, employers, civil society organisations (CSOs) and other stakeholders, there has been **a lack of effective public participation and hence legitimacy of EU spending**. Among other things, inadequate transparency and information as well as insufficient funding of civil society organisations are major obstacles. In some countries, governments are actively obstructing public participation or neglecting their obligations to provide sufficient support as envisaged in the European Code of Conduct on Partnership.

Public participation is intended to make spending more effective, increase transparency and support implementation, monitoring and assessment.

Together this has resulted in the past and current MFFs not realising the potential for being a lever for a green and just transition. Wide-reaching reforms on many levels are necessary to significantly improve the budget's climate performance.

OPEN WINDOWS OF OPPORTUNITY

The MFF is a legal negotiated process and there are still open windows of opportunity to tweak its ambitions, focus and rules. After having finalized a number of EU budget related legislation (HorizonEurope, CEF and InvestEU even passed the trilogues, while Cohesion Policy and Neighbourhood and Development funds been adopted in plenary, waiting for the negotiations with Member States) the European Parliament is finalising its post-election setting-up processes and then continuing with remaining files.

Member States are currently still deadlocked in the negotiations over the next EU budget. EU leaders are not only caught up in the size of the next EU budget for the years 2021-2027, open issues are listed in a so called 'negotiating box' (square brackets), including a paragraph on climate action: Proposed, though not yet agreed is to spend at least 25% of the MFF on climate. This should be increased to 40%. Further on, 'Paris consistency' as a general principle must lead to the general exclusion of fossil fuels. All relevant funds legislations have to be adopted accordingly.

11. The role of the EU budget in supporting the effective implementation of EU wide policy objectives should be further enhanced, notably by strengthening the link between the EU budget and the European Semester [including the implementation of the European Pillar of Social Rights,] as well as in the areas of [migration,] environment and climate change.

12. Reflecting the importance of tackling climate change in line with the Union's commitments to implement the Paris Agreement and the United Nations Sustainable Development Goals, programmes and instruments should contribute to mainstream climate actions and to the achievement of an overall target of [at least 25]% of the Union budget expenditures supporting climate objectives. As a general principle, all EU expenditure should be consistent with Paris Agreement objectives. An effective methodology for monitoring climate-spending[, including reporting and relevant measures in case of insufficient progress,] should ensure that the next MFF as a whole contributes to the implementation of the Paris Agreement.

MFF negotiating box 14 June 2019

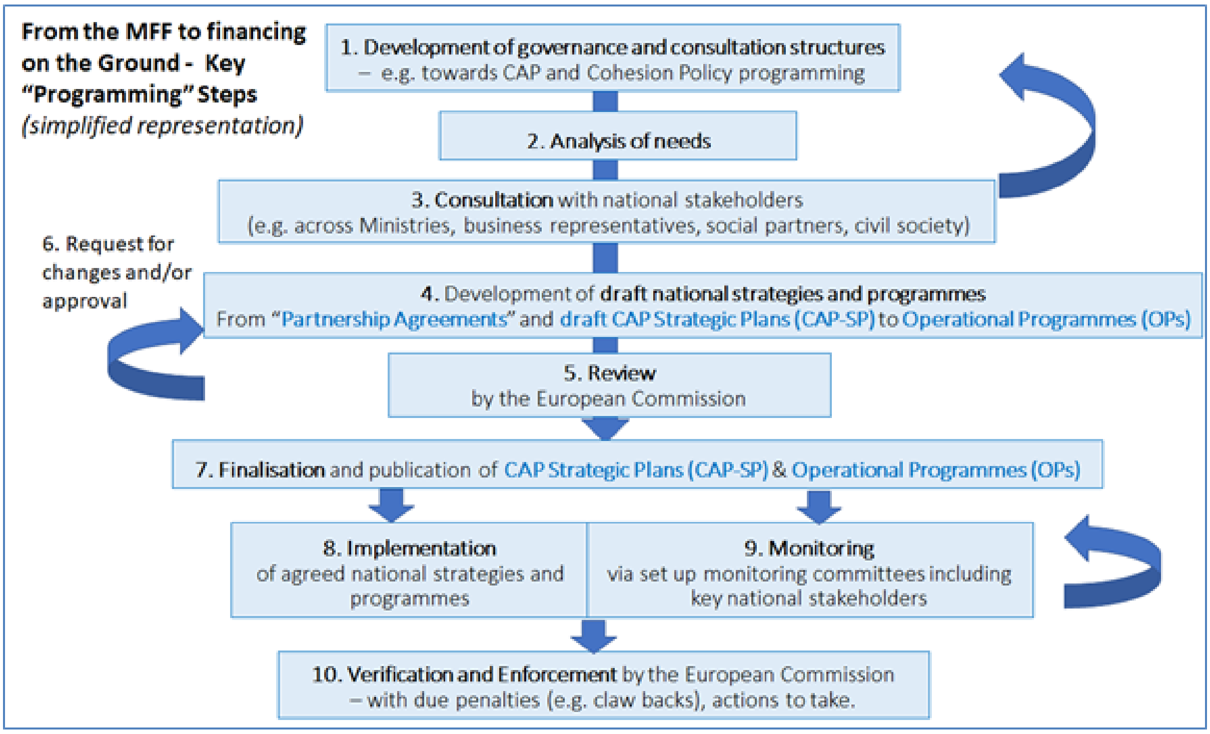
Last year the Commission proposed an EU budget with higher climate ambition, through increased spending for climate action and the exclusion of fossil fuels from the future Cohesion Policy. The European Parliament embraced this vision when it took its stance on the European Regional Development Fund, acknowledging the need to increase financial support to help the EU's lesser developed regions leap from polluting to clean energy infrastructure. However, Member States take a different stance, in favour of financing fossil fuels and against a focus on the green objectives: The European Commission's proposal for the future Cohesion Policy's Regional Development Fund (ERDF) had foreseen the earmarking (called 'Thematic Concentration') of a certain share the ERDF on the objective 'transition to a green, low-carbon

Europe'. This objective includes the necessary measures to finance multiple elements of sectoral decarbonization pathways. In the current funding period planned allocations for clean energy infrastructure are rather modest. In order to fully untap the transformational potential of EU funds to catalyse the just energy transition in all regions, a strong Thematic Concentration on the zero-emission economy is required. This is why a 40% Thematic Concentration on 'green' objectives for all regions is needed, and all fossil fuels need to be excluded.

An important way forward lies in the planning and operationalising, or programming, of a climate budget (see chapter 5). Partnership Agreements (PAs), National CAP Strategic Plans (CAP-SP), Operational Programmes (OPs) and National Energy and Climate Plans (NECPs) are being drafted. These documents lay out Member States' strategic plans, objectives and investment priorities as well as detailed plans for how EU money will be spend during the period 2021-2027. Anchoring climate action in these processes, taking into account the future needs for a climate MFF (see chapter 4) has the potential to make a real difference. These are essential gateways to get green added value.

The programming period is key to ensure EU funds are allocated to projects and activities that truly support climate ambition. The graph below outlines key steps in which environmental and civil rights groups can make their voice heard before national governments submit their programming guideless in early 2020.

The first three steps are about creating the conditions, buy-in and information base. Steps 4 to 7 about the development, review and finalisation of key strategic planning documents such as the Partnership Agreements, the Operational Programmes and the CAP Strategic Plans. The subsequent steps are about implementation, monitoring and verification, which in turn feeds back to future review or development of key strategic documents. This is an idealised and simplified schematic. In practice some countries follow this more than others, and the steps are often done in parallel (e.g. 1, 2, 3 and 4) rather than purely sequentially.



The ongoing budget negotiations and the programming processes are open for civil society engagement (see chapter 6). CSOs have the chance to make sure that lessons from the past are taken into account and that recommendations for the future are heard. They can make a difference and the call for a green budget is attracting political attention.

RECOMMENDATIONS: THE GOOD, THE BAD AND THE UGLY

From the lessons from the past and the urgent need for a better climate performance of the next MFF we draw recommendations for the future, which follow the line: do the good, ban the bad and avoid the ugly!

Doing 'the good' implies scaling up climate action, improving climate spending effectiveness, anchoring climate objectives in all relevant processes, and ensuring good public partnership:

- To change course on the climate emergency all levers have to be mobilized within the next years. For the next MFF 2021-2027 this means that **we need a substantial increase of climate action and EU climate spending** with the goal of reducing greenhouse gas emissions to almost zero. Additional investments in climate action of around €180bn to €270bn per year are needed to meet the EU 2030 climate and energy targets. While the EU budget alone cannot fill the current investment gap to avert the climate crisis, it is the key leverage to unlock additional public and private investments. The next seven-year budget of € 1,135 billion is the last full investment cycle to change course for these intermediary targets. There are great economic and social opportunities in funding a just and zero-emission transition in all eligible sectors, prioritizing zero-carbon transport, renewable energy, energy efficient buildings, sustainable agriculture and consumption.
- We have to **anchor our climate objectives** in all relevant processes, documents, agreements, strategies and plans. 'Climate proof' Partnership Agreements and Operational Programmes are a requirement for consistency and vertical coherence of programmes and spending plans with the EU's overarching strategies and climate goals. Beyond that, the financial and strategic links of the MFF with related processes, most importantly the NECPs and the European Semester, have to be strengthened. The implementation and review process of the National Energy and Climate Plans (NECPs) is closely linked to drafting and programming processes of the MFF. Implementation of Country-specific Recommendations (CSRs) relating to climate and energy in the European Semester context should be enforced via the MFF. This is a gateway to anchor climate action in all processes and improve their strategic alignment.
- Developing the EU budget in an inclusive manner with **enhanced public participation** is critical for EU spending legitimacy and efficiency. A participatory approach and implementation of the EU's partnership principle requires higher transparency and easy access to information. Dedicated funding may be necessary to enable CSOs to play a stronger role e.g. in monitoring committees.

Banning 'the bad' is a call for blacklisting funding running counter our climate objectives, phasing out harmful subsidies, and reducing the risk of corruption, fraud and misuse of EU funds:

- **Blacklist Paris incompatible funding and harmful subsidies** running counter to our climate objectives is key. 'Paris consistency' as a general principle must lead to the general exclusion of fossil fuel investments from EU spending and the phase-out of environmentally harmful subsidies. Fossil fuel subsidies in the EU are estimated to range from €39bn to over €200bn per year. The European Parliament in a recent resolution called for an immediately phase out all European and national fossil fuel subsidies.[27] An analysis by the European Environmental Agency[28] from 2016 shows that we are heading towards significant excess capacities of fossil fuel-based power generation in 2030. The EU and its Member States are still throwing money at past technologies instead of investing in a sustainable future.

- **Reduce the risks of fraud, corruption, conflict of interest and misuse of funds** through better monitoring and control with close involvement of EU bodies, independent experts and civil society. In particular, the advisory and supervisory role of the European Anti-Fraud Office (OLAF) has to be strengthened with developed capacities and oversight mechanisms to protect the EU budget. Stricter conditionalities for EU funding must be set and national governments must be held responsible. Conditionalities have to be robust, precise, controllable, and in full conformity with the EU's aims. Strengthening and extending the rule-of-law conditionality is a key demand. Any Member State receiving EU funding must join the European Public Prosecutor's Office.

Avoiding 'the ugly' targets ineffective and inefficient spending, faulty measurement of projects' climate contributions, overestimation of climate spending and climate-proofing the entire budget:

- In order to increase effective climate spending the European Commission has to **upgrade climate mainstreaming and tracking.** The EC should further develop its climate tracking methodology to ensure all EU climate spending is genuine and has green added value. Overestimation, faulty allocation of climate markers and 'green-washing' of expenditures due to an unsatisfactory methodology need to be ruled out. In many funds, agriculture and rural development in particular, the level of climate finance is significantly overestimated[29]. This does not help the climate and distracts valuable funds from projects with real contributions.
- **Improved climate proofing has to ensure that no spending contradicts our climate objectives.** To make the entire EU budget Paris compatible funds cannot be spent, for instance, on fossil fuel infrastructure, exploration or generation, air transport and other carbon-intensive transport infrastructures, and unsustainable agricultural practices. Conditionalities have to ensure, among other things, compliance with the "energy efficiency first" principle and that specific decarbonisation pathways as strategic basis are at the center of each EU budget spending plan.

[27] http://www.europarl.europa.eu/doceo/document/TA-8-2019-0217_EN.html

[28] https://www.eea.europa.eu/highlights/decommissioning-fossil-fuel-power-plants

[29] https://www.eca.europa.eu/Lists/ECADocuments/SR16_31/SR_CLIMATE_EN.pdf

8 Annex 1: Assessment of the responses from the questionnaire and conclusions drawn from them