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The EU's Recovery Plan: next steps to deliver on the European Green Deal

BRIEFING PAPER

Climate Action Network (CAN) Europe is Europe's leading NGO coalition fighting dangerous climate change. With over 170 member organisations from 38 European countries, representing over 1.500 NGOs and more than 47 million citizens, CAN Europe promotes sustainable climate, energy and development policies throughout Europe.

This briefing provides an assessment of the European Commission proposal 'The EU budget powering the recovery plan for Europe' and analyses a number of new and revised pieces of legislation for the Multiannual Financial Framework 2021-27 and Next Generation EU 2021-24.[1]

The assessment focuses on how far climate action and climate ambition has been integrated into the legislative and strategic set-up of the recovery plan, focusing on:

- the robustness of climate mainstreaming (including for example quantitative targets);
- if environmental safeguards have been added (fossil fuel exclusion being of primary importance);
- the integration of climate neutrality objectives in the national recovery and EU funds spending plans.

Finally it provides more detailed analysis and recommendations on a number of legislative proposals, including support for developing countries, to make the package fit to support a recovery aligned with the Paris Agreement.

Executive Summary

The Commission has delivered a proposal to relaunch the European economy in the wake of the COVID-19 pandemic. While answering Member States' calls for an EU-level response to counter the looming economic recession, the Commission claims that its recovery plan would focus on the 'green transition', making the 'European Green Deal' the roadmap for recovery.

In the short term, ambitious climate policies are urgently needed to limit temperature rise to the Paris Agreement's 1.5°C objective and to provide the framework for a resilient recovery in the EU. The EU must allocate recovery resources towards modernising most existing infrastructure

1 Communication 'The EU budget powering the recovery plan for Europe'; MFF legislation; sectoral legislation available at: https://ec.europa.eu/info/strategy/eu-budget/eu-long-term-budget/2021-2027_en

in energy, but also to greening urban development, buildings, transport, and agriculture; and supporting locally-led community initiatives. This is important to pave the way for an EU agreement by the end of this year on a substantially increased 2030 climate target of at least 65% emission cuts, to achieve climate neutrality by 2040, and to ensure recovery from the crisis is sustainable, supports green job creation, the just transition, and future-proofs the EU economy and livelihoods.

However, despite some positive elements, the proposal falls short of delivering opportunities to serve higher 2030 ambition and climate neutrality, or making the phase out of all fossil fuels the “new normal”.

The entire package, the ‘core MFF 2021-27’ plus the additional funds specifically tailored to support economic recovery until 2024 called ‘Next Generation EU’, has an overall climate mainstreaming target of at least 25%. However the legislation for the Next Generation EU does not specify at all how the new funds would contribute to achieving this overall 25% climate mainstreaming target. And as dedicated climate targets for each of the new programmes are missing, there is little clarity about how or whether this 25% target will be achieved. Moreover in one of the new funds under Cohesion Policy, REACT-EU, the established climate earmarking in Cohesion Policy since 2014, the reservation of funding for ‘the shift towards a low-carbon economy,’ has been removed. This must be turned back. Without binding climate action earmarking, many Member States might not invest sufficiently in energy efficiency, renewable energy, SMART electricity infrastructure or sustainable mobility.

When it comes to direct climate safeguards, neither Next Generation EU nor the new EU budget proposal explicitly exclude subsidies for fossil fuels.

The proposed increased size of the Just Transition Fund is a very positive addition, and with the appropriate legislative framework it can showcase what the EU recovery package can offer for longer term climate goals. For the new Solvency Support Instrument, however, where large companies are eligible for solvency support, the Commission’s proposal omits to oblige these beneficiaries to commit to green transition plans when receiving recovery cash. And when developing their ‘recovery and resilience plans’ Member States have the option, but not the obligation, to tackle climate action with their additional EU recovery grants and loans. A new ‘Strategic Investment Facility’ under InvestEU shall trigger private investments, which can include support for gas infrastructure and fossil fuel based hydrogen.

Regarding external action, the extra funding for Heading VI, Neighbourhood and the World, from Next Generation EU is a welcome step in the right direction, since developing countries’ development needs have increased significantly. EU institutions must at least maintain these levels of funding for Heading VI in subsequent negotiations. They must also ensure a stronger and more integrated approach to aligning the Neighbourhood, Development and International Cooperation Instrument (NDICI) with Agenda 2030, the Paris Agreement and biodiversity objectives to ensure the funding supports developing countries build resilient recovery plans. Some of the extra funding should be channeled into grant-based support, and the NDICI should be governed by a 50% climate and environmental target, stringent climate, environmental and social safeguards and assessment for compatibility with long term mitigation and adaptation objectives.

During the upcoming legislative process, both the Council and the European Parliament should ensure the introduction of an ambitious climate action framework, both in the 'core' MFF and the new recovery funds, by:

- establishing an upfront 40% climate action target for the entire MFF, including explicit targets for the new funds;
- explicitly excluding fossil fuels from all EU funding;
- requiring Member States to tailor all EU core and recovery funding plans to deliver on enhanced 2030 climate targets, and the transition to climate neutrality before mid-century.

Introduction: funding allocations in the EU budget (MFF) 2021-2027 and 'Next Generation EU' recovery instrument

The European Commission has put forward its proposals for an EU-wide recovery plan to alleviate the economic turmoil caused by the COVID-19 crisis.[2] Proposals centre around strengthening the Multiannual Financial Framework for 2021-27 to €1,100 billion through targeted reinforcements, and setting up an explicit recovery instrument for 2020-2024, 'Next Generation EU' with a value of up to €750 billion to bring the total potential EU budget to €1.85 trillion (see figure 1). Next Generation EU will raise money by temporarily lifting the own resources ceiling to 2% of EU Gross National Income, allowing the Commission to borrow €750 billion on the financial markets. This will be repaid over a long period of time throughout future EU budgets – not before 2028 and not after 2058. The package also includes proposals for a number of new own resources to fund repayments.

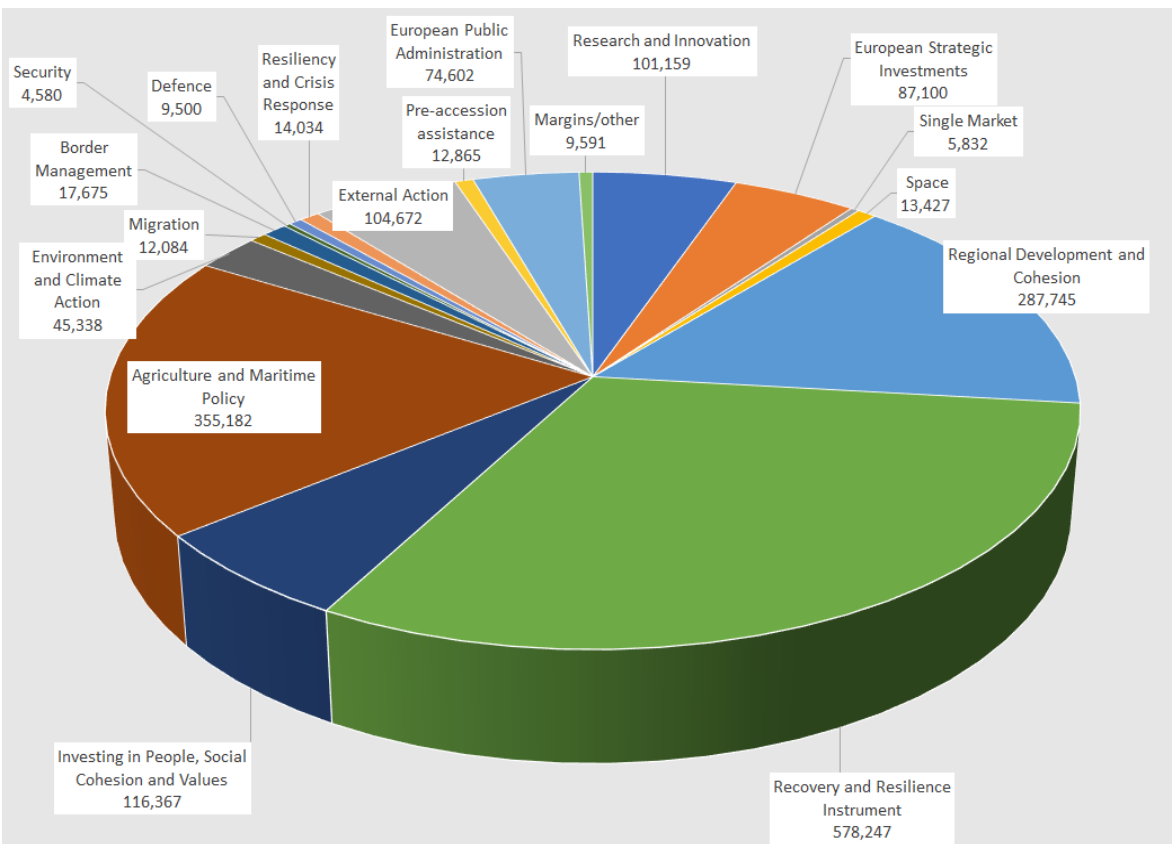

Figure 1: EU budget 2021 - 2027 including Next Generation EU; Million Euro; 2018 prices; Source: European Commission 2020; COM(2020) 442 final

2 https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/recovery-plan-europe_en The Commission Communications 'Europe's moment: Repair and Prepare for the Next Generation' and 'The EU budget powering the recovery plan for Europe' 27 May; revised legislative proposals in following days.

Out of the new recovery instrument, Next Generation EU, additional funding will be channeled mainly through existing EU programmes (see figure 2). For instance additional €13,5 billion will take HorizonEurope to €94.4 billion, with the stated intention to increase European support for health and climate-related research and innovation activities.

Similarly, €26 billion of new funding has been allocated towards a 'Solvency Support Instrument', an extension of the 'Juncker Plan', the 'European Fund for Strategic Investments' (EFSI) to support companies with liquidity. And €30.3 billion are paid-in guarantees for a new window under InvestEU for ' strategic European investment' to provide loans to private projects.

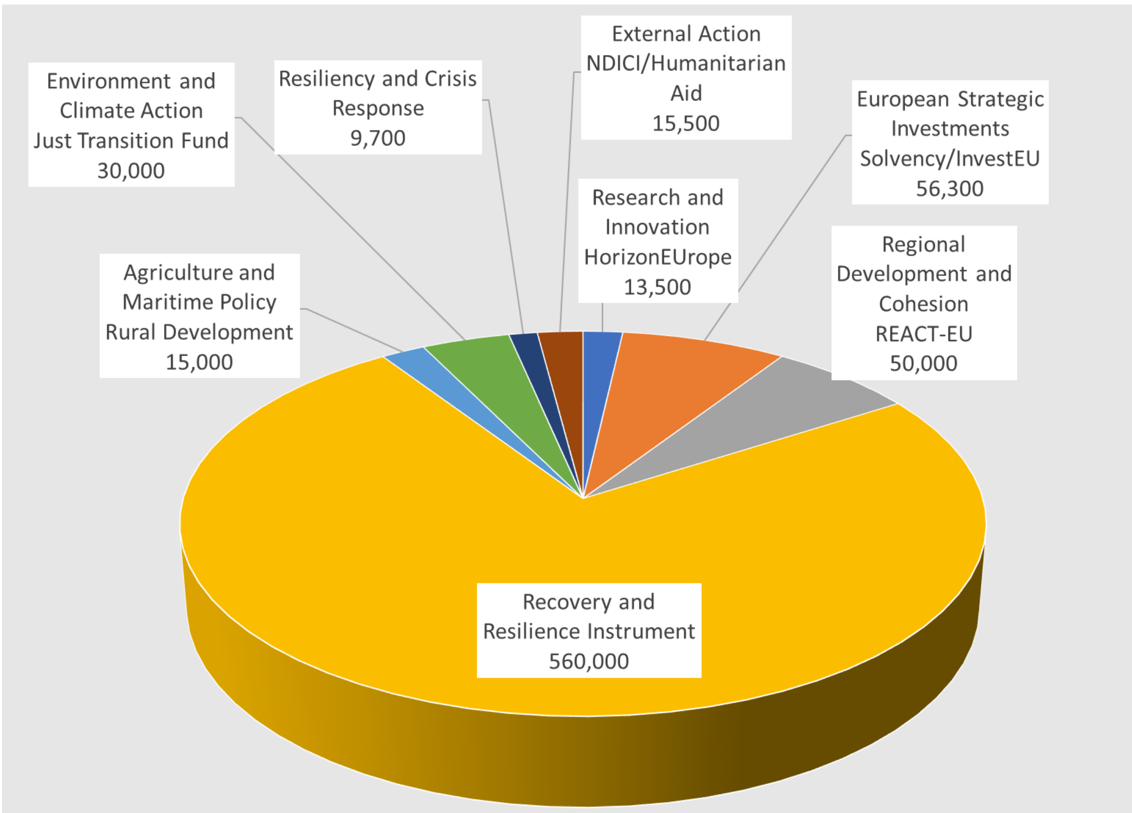

Figure 2: Next Generation EU; Million Euro; 2018 prices; Source: European Commission 2020; COM(2020) 442 final

'REACT-EU' will provide a top-up for cohesion support to Member States, with a budget of €55 billion. This will be available from 2020 and be distributed across EU Member States according to a new allocation key taking into account the impact of the crisis. A previous 'Reform Support Programme' under the European Semester is now becoming the new 'Resiliency and Recovery Facility', the main funding for recovery plans, with €560 billion for all kinds of public investments.

The European Agricultural Fund for Rural Development (EAFRD), Pillar II of the Common Agricultural Policy (CAP), receives an additional €15 billion 'to support the green transition', and the Just Transition Fund would receive €40 billion, made up of €30 billion from Next Generation EU and €10 billion from the budget for 2021-27.

There is also recognition of the need to increase resources for developing countries, with an additional €15.5 billion from Next Generation EU for external action, increasing the Neighbourhood, Development and International Cooperation Instrument by €10.5 billion to €86 billion, and humanitarian aid by €5 billion to €14.8 billion. €1 billion from the current financial framework for 2020 is also allocated to the External Action Guarantee in the Western Balkans.

The largest share of the new recovery instrument goes to boost public investment in the form of grants and loans. €451 billion (out of the €750 billion of the recovery instrument) will be provided in the form of grants to finance public investment. €250 billion will be available for lending to the Member States to finance public investment (see figure 3 for estimates on national allocations). These back-to-back loans will be repaid gradually over 20 years by the beneficiary Member States.

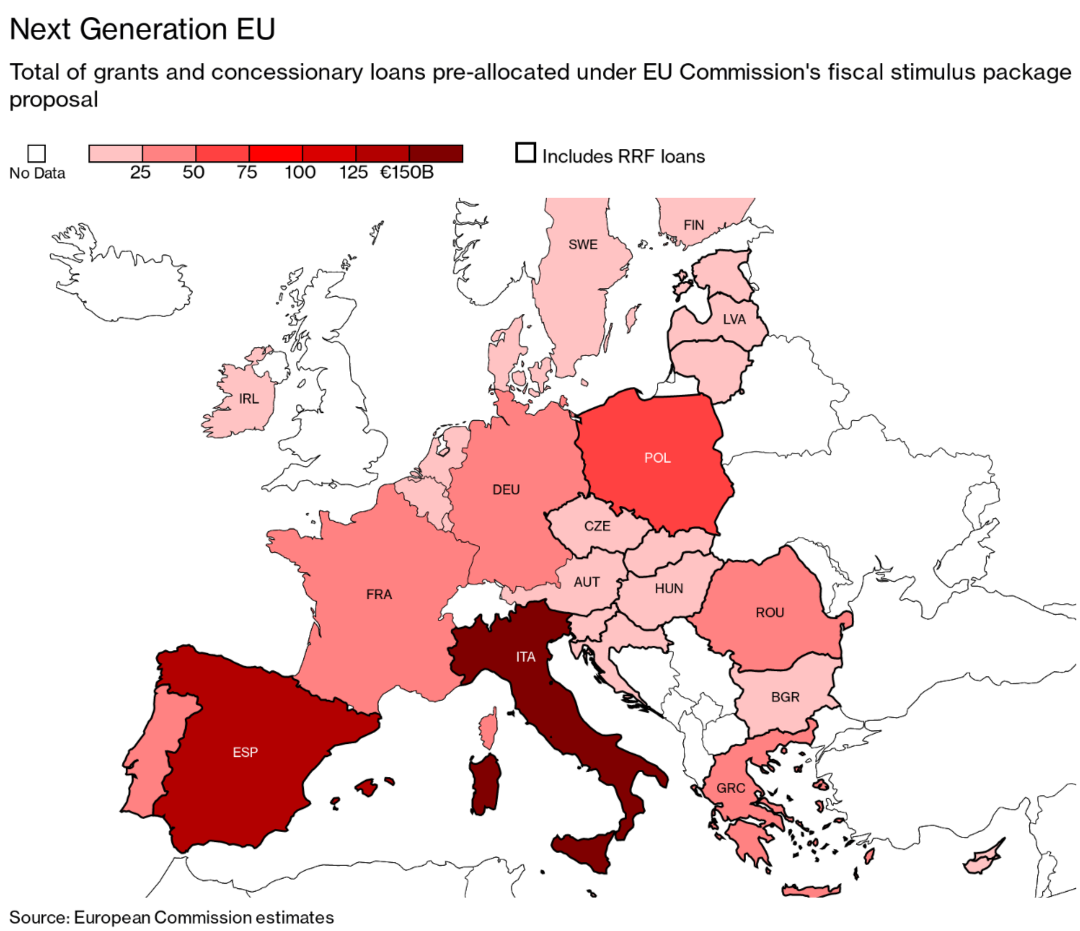

Figure 3: Next Generation EU country allocations; source European Commission

I. The MFF 2021-27 and Next Generation EU

The boost in funding for these programmes, which are of high strategic importance to the green transition, is hugely important, and offers significant potential to 'build back better' from the crisis. However while the Communications from the Commission state the intention to deliver on the European Green Deal, to support the green transition, and to build resilience, the overall governance of the MFF and the new instrument is sorely lacking to deliver on these objectives, missing the opportunity to strengthen climate provisions, and even introducing damaging flexibilities in some programmes.

An overall climate mainstreaming target of at least 25% has been proposed for the entire MFF, including the recovery instruments. And the Communication on the recovery package states that 'Public investments in the recovery should respect the green oath to "do no harm".' However neither the target nor the safeguarding provisions are specified in the legislative proposal for Next Generation EU. And without dedicated climate targets or clear safeguards for each of the new programmes there is little clarity about how or whether climate action targets will be achieved.

Recommendations*:*

- To maximise opportunities to support green recovery, earmarking towards the 'green and just transition' should increase to a 40% target across the MFF and recovery instrument; moreover climate earmarking targets should be clarified for each programme (see figure 4).Clear exclusion criteria for fossil fuels and fossil gas across the whole package (MFF and the recovery instruments) should be applied.
- All plans to be submitted by Member States in order to receive EU funding - either from the 'recovery and resilience facility', regional development funding or the Just Transition Fund - should include climate neutrality goals and describe their EU funds' transformational impact to support climate and environmental objectives. Funding should be conditional to supporting coherent national, regional, or company level green transition plans, which are time-bound, science-based, and align with the Paris Agreement's 1.5°C goal.

Climate mainstreaming scenarios MFF 2021-2027										
(EUR billion - 2018 prices) TOTAL MFF+: EUR 1,850 bn	progrmme amount	30% climate action		40% climate action		Comparison with climate spending 2014-2020	EC proposal			
							%	amount	share in total climate action	legal base
Horizon Europe	94.4	33.0	35%	56.6	60%	24.7% (35% target Horizon 2020)	35%	33.0	7.1%	aspiration
ITER (International Thermonuclear Experimental Reactor)	5.0	5.0	100%	0.0	0%	n.a.	100%	5.0	1.1%	EC estimate
InvestEU Fund	31.6	12.6	40%	19.0	60%	40% (infrastructure window)	30%	9.5	2.0%	aspiration (with 60% target for infrastructure window)
Connecting Europe Facility - Transport	12.9	13.9	70%	10.3	80%	52.6%	60%	11.9	2.6%	aspiration
Connecting Europe Facility - Energy	5.2			5.2	100%					
Connecting Europe Facility - Digital	1.8			0.4	20%					
Solvency Support Instrument	26.1	1.3	5%	1.3	5%	n.a.	0%	0.0	0.0%	no mentioning
European Regional Development Fund	196.9	98.4	50%	137.8	70%	18.7%	30%	59.1	12.7%	thematic concentration
Cohesion Fund	40.7	22.4	55%	32.5	80%	28.2%	37%	15.1	3.2%	EC estimate
REACT EU	50.0	15.0	30%	20.0	40%	n.a.	20%	10.0	2.2%	no mentioning
Recovery and Resilience Facility	560.8	151.4	27%	224.3	40%	n.a.	20%	112.2	24.2%	no mentioning
European Agricultural Guarantee Fund (EAGF)	258.3	103.3	40%	103.3	40%	14.8%	40%	139.3	30.1%	aspiration (with 30% for RD)
Europ. Agricultural Fund for Rural Dev. (EAFRD)	90.0	45.0	50%	72.0	80%	59.7%				
European Maritime and Fisheries Fund	5.9	2.4	40%	3.0	50%	15.8%	30%	1.8	0.4%	aspiration
Environment and Climate Action (LIFE)	4.8	2.9	61%	2.9	61%	46.7%	61%	2.9	0.6%	aspiration
Just Transition Fund	40.0	20.0	50%	20.0	50%	n.a.	100%	40.0	8.6%	aspiration
Neighbourhood, Development, Int. Coop.Instr.	86.0	21.5	25%	38.7	45%	18.5%	25%	21.5	4.6%	aspiration
Pre-Accession Assistance	12.9	2.1	16%	5.8	45%	13.6%	16%	2.1	0.4%	aspiration
Share Climate Action: bn EUR; %		550.3	30%	753.1	41%	19.7%	25%	463.3		

Figure 4: Climate mainstreaming scenarios 2021 - 2027; Source: own calculations; EC 'fiche 33', July 2018.

II. Immediate liquidity for companies

The Commission proposes two funding instruments based on existing legislation with the objective to provide for immediate liquidity aid for companies: 'REACT EU' based on adapted Cohesion Policy rules, and a Solvency Instrument anchored in the European Fund for Strategic Investments (EFSI).

The Solvency Support Instrument – extending the Juncker Plan until 2024

Aimed at offering solvency/liquidity support in the form of equity or quasi-equity to companies, the European Fund for Strategic Investments (EFSI), part of the current 2014-2020 MFF, would be amended to incorporate the 'Solvency Support Instrument' as a third window, next to the infrastructure and SME windows. This instrument will be implemented by the European Investment Bank Group in order to mobilise capital to support eligible companies negatively impacted by the COVID-19 crisis. Otherwise healthy companies in sectors, regions and countries most affected economically, are eligible, targeting countries with limited state aid. The target is to mobilise up to €300 billion in the real economy under the solvency support window. 60% of the instrument should be committed by the end 2022 and all approvals done by 2024. And by 2026 all contracts should be signed.

Whereas the Commission states that the overall climate action target of the EFSI would be maintained, which currently exists of the 40% climate action target for the 'Infrastructure and Innovation Window', there is very little climate conditionality on beneficiary companies. The Annex to the regulations sets non-binding recommendations for recipient companies, for example they are ‘encouraged’ to comply with environmental safeguards set by the Steering Board, and ‘Companies with a certain level of exposure to a pre-defined list of environmentally harmful activities, in particular the sectors covered by the EU Emissions Trading System (EU ETS), shall be encouraged to put in place, in the future, green transition plans’ (Annex 2, 6,d).

Recommendations: The requirement for companies to put in place green transition plans and to comply with environmental safeguards should become a binding pre-condition to receiving support. The ‘green transition’ plans should be time-bound, science-based decarbonisation plans aligned with the Paris Agreement’s 1.5°C goal.

Recovery Assistance for Cohesion and the Territories of Europe - REACT-EU

A second instrument to address short-term liquidity shortage is an instrument for crisis response and crisis repair called REACT-EU, delivered through simplified and highly flexible Cohesion Policy funding. In April 2020 the Commission has launched the Coronavirus Response Investment Initiatives (CRII and CRII+) to provide 100% co-financing and exceptional flexibility to enable Member States to use ‘2020 non-utilised’ regional development funds to support the most exposed sectors, such as healthcare, SMEs and labour markets, and help the most affected territories. The CRII and CRII+, and its prolongation via REACT-EU, are built on the existing 2014-2020 Cohesion Policy rules. However, an important climate safeguard of these existing 2014-2020 Cohesion Policy rules, namely the earmarking requirements to spend EU funds on climate action have been suspended. At the same time, fossil fuel infrastructure, in particular for fossil gas, is eligible under 2014-2020 rules.

REACT-EU provides a top-up to Cohesion Policy funding of €55 billion, with €5 billion for 2020 and €50 billion for 2021-2022, with a view to deploying resources quickly to the real economy through the existing operational programmes. Funds should be primarily used to support health services, to provide support in the form of working capital or investment support to SMEs, investments contributing to the transition towards a digital and green economy, investments in infrastructure providing basic services to citizens, and economic measures in the regions which are most dependent on sectors most affected by the crisis. The 'normal Cohesion Policy-post-2020' would run in parallel.

The climate action potential of REACT-EU is extremely poor: introducing full flexibility to shift among priorities and funds, the cancellation of thematic concentration for climate action or of the binding share for urban development, the non-applicability of ex-ante conditionalities, and the eligibility of fossil fuels are making this instrument a threat to climate action.

Recommendations: In order to ensure that immediately available funding does support the ‘green transition’, a Thematic Concentration as established by the Common Provisions Regulation is needed. REACT – EU should contribute to the overall climate mainstreaming target with 40% of its resources, fossil fuels should be explicitly excluded.

III. Long-term and infrastructure investments to support the green transition of EU's economies

Apart from liquidity support, the Commission moved forward a couple of amendments to existing infrastructure financing funds, including InvestEU and the Just Transition Fund, to better address challenges stemming from the need of economic recovery. A new 'Recovery and Resilience Facility' will channel the largest part of recovery funding to Member States.

Recovery and Resilience Facility

A 'Recovery and Resilience Facility' (RRF) will provide €310 billion in grants and €250 billion in loans, available until end of 2024, upon request by Member States. This demand driven instrument should offer large scale financial support for public investments and public reforms, to support 'economic, social and territorial cohesion, resilience and adjustment capacity, mitigating the social and economic impact, green and digital transitions, restoring the growth potential, employment, sustainable growth.' The RRF has been designed in the tradition of the former 'Reform Support Programme' and the 'Budgetary Instrument for Convergence and Competitiveness,' programmes to enable macro-economic structural reforms of Member States. Thus the RRF is governed under the European Semester and would need to contribute to address the country-specific recommendations laid out during the regular European Semester cycle.

Maximum financial contribution per EU Member State		
	Share as % of total	*Amount (million)*
BE	1.55	5203.35
BG	1.98	6624.70
CZ	1.51	5054.76
DK	0.56	1861.71
DE	6.95	23275.85
EE	0.32	1085.36
IE	0.39	1306.59
EL	5.77	19312.74
ES	19.88	66579.13
FR	10.38	34757.03
HR	1.98	6618.58
IT	20.45	68482.82
CY	0.35	1169.19
LV	0.70	2344.60
LT	0.89	2989.05
LU	0.03	109.49
HU	1.98	6629.54
MT	0.07	244.44
NL	1.68	5614.95
AT	0.95	3187.62
PL	8.65	28966.05
PT	4.16	13944.47
RO	4.36	14591.84
SI	0.55	1829.23
SK	1.98	6634.37
FI	0.71	2373.13
SE	1.24	4159.41
Total	100.00	334950.00

In order to apply for funding Member States must design national 'recovery and resilience plans', including milestones and targets of reforms and investments. A first draft of plans and accordant draft budgets have to be submitted to the Commission by mid-October 2020 and need to be adopted by the Commission by 30 April 2021, annexed to the National Reform Programme. The Commission will assess submitted plans according to a scoring scheme laid out in the Annex to the regulation.

The EU's 'recovery bazooka', while embedded in a strong narrative to deliver on the green transition, lacks the means and provisions to ensure recovery funding is put into the transition towards climate neutrality. As the scoring scheme for assessing national recovery plans by the Commission reveals, it is not obligatory to include climate action objectives into given recovery planning. The link to National Energy and Climate plans remains weak and aspirational only. An explicit climate mainstreaming target is missing, and fossil fuels are not excluded from the scope of funding.

Recommendations: The RRF should have a 40% climate mainstreaming target and comprehensive fossil fuel exclusion. The inclusion of 2030 and mid-century climate action objectives should be obligatory for national recovery plans, and in the accordant assessment by the Commission.

Just Transition Fund

The Commission intends to ramp up the Just Transition Fund (JTF) from €7.5 billion in its January proposal to now €40 billion, of which €10 billion under the core MFF and €30 billion through Next Generation EU, available for the years 2021-2024.

Allocation Just Transition Fund		
M EUR,		
BE	380	0.95%
BG	2,693	6.73%
CZ	3,413	8.53%
DK	185	0.46%
DE	5,152	12.88%
EE	736	1.84%
IE	176	0.44%
EL	1,726	4.32%
ES	1,806	4.52%
FR	2,142	5.36%
HR	387	0.97%
IT	2,141	5.35%
CY	210	0.53%
LV	398	1.00%
LT	568	1.42%
LU	19	0.05%
HU	543	1.36%
MT	48	0.12%
NL	1,296	3.24%
AT	282	0.71%
PL	8,000	20.00%
PT	465	1.16%
RO	4,449	11.12%
SI	538	1.35%
SK	954	2.39%
FI	968	2.42%
SE	324	0.81%
Total	**40,000**	**100.00%**

The Just Transition Fund is the first pillar of the Just Transition Mechanism, aimed at supporting the most carbon intensive regions of the EU in their efforts to transition towards climate neutrality. The Just Transition Mechanism itself has a 3-pillar construction, with grants coming from the Just Transition Fund integrated into Cohesion Policy and implemented under 'shared management', a Just Transition Scheme under InvestEU attracting private investments, and a public sector loan facility in the European Investment Bank.

The Just Transition Mechanism is supposed to mobilise €150 billion. The InvestEU 'Just Transition Scheme' supports investments in just transition regions through any of the InvestEU policy windows. And the public sector loan facility is composed of a grant of €1.5 billion from the EU budget and a loan component of up to €10 billion from the European Investment Bank.

The Just Transition Fund is supposed to support the diversification and modernisation of local economies to mitigate economic impacts of phasing out carbon intensive industries, to address the decontamination of polluted sites and land, to promote the circular economy and to provide for upskilling and reskilling of workers and services for jobseekers. To certain extend investments into energy efficiency and renewable energy are eligible as well, whereas fossil fuels have been excluded from the Just Transition Fund scope, though remain possible under the other two Just Transition Mechanism- pillars.

The EIB's public sector loan facility would mobilise between €25 billion and €30 billion of public investment to the benefit of areas such as energy and transport infrastructure, district heating networks, public transport, energy efficiency measures, social infrastructure and other projects that can directly benefit the communities in the affected regions and reduce the socio-economic costs of the transition.

In order to obtain support from all pillars of the Just Transition Mechanism Member States will have to draw up Territorial Just Transition Plans that need to demonstrate the delivery on climate neutrality objectives and have to be consistent with their National Energy and Climate Plans (NECPs).

Recommendations: Beefing up the Just Transition Fund is the counterpart to the REACT-EU proposal: it can serve as showcase for the Union's climate ambitions by closely linking EU funding to transitioning to climate neutrality, while the other EU recovery proposals rather supporting a business-as-usual approach.

The negotiations on the Just Transition Fund legislation are still ongoing. The main climate action conditionalities, namely the fossil fuel exclusion and the concept of Territorial Just Transition Plans laying out the transition to climate neutrality, are challenged by some Member States and some MEPs. These climate safeguards have to be maintained.

Whereas the Just Transition Fund is limited to a certain number of (NUTS-3) regions, other Cohesion Policy funds, the European Regional Development Fund (ERDF) and Cohesion Fund (CF) are best placed to trigger the decarbonisation of many sectors of the society. Here as well, the legislative negotiations haven't finished yet. To unleash the full potential to catalyse the transition towards climate neutrality, fossil fuels must be excluded and a 40% earmarking target for the 'transition to a green, climate neutral economy' must be established.

InvestEU Programme

The Commission has tabled a new version of the InvestEU Programme, the EU's key feature for de-risking projects to crowd in private finance. InvestEU provides for a guarantee that will increase the risk-taking capacity of the European Investment Bank Group and national promotional banks as well as other implementing partners in support of economic recovery.

Compared to its proposal from May 2018 the new InvestEU Programme adds a 'Strategic Investment Facility' in the form of an additional, fifth window, 'strategic European investments'. This window is equipped with a €31 billion guarantee, leveraging €150 billion investments into 'Important Projects of Common European Interest', such as healthcare; 'critical infrastructure'; key green and digital technologies; environment; energy; transport; security and defence; and the maintenance of 'critical infrastructure' and manufacturing, supply and stockpiling of 'critical goods'.

Together with the other four windows (sustainable infrastructure; research, innovation and digitisation; SMEs; social investment and skills) InvestEU would trigger a total of €1 trillion in investments. The Advisory Hub is budgeted with €725 million to provide project development support, the Project Portal should give visibility to investment opportunities.

Key element of the implementation framework is the so called 'sustainability proofing' which, based on guidance developed by the Commission until end of 2020, should help implementing partners assessing the environmental, climate and social impacts of the projects financed. The guidance is built around the 'taxonomy', the (upcoming) 'Regulation on establishment of a framework to facilitate sustainable investment' which establishes technical criteria and thresholds to define whether a project in a certain sector can be labelled as 'sustainable'. That guidance would support the policy objectives of the European Green Deal and provide that projects that undermine the climate, environmental and social objectives of the Union would not be supported under InvestEU.

Recommendations: InvestEU still allows for fossil gas infrastructure projects and encourages fossil fuel based hydrogen production. This stands in stark contradiction with climate neutrality goals and the claim that no project would undermine climate objectives. Thus all fossil fuel projects should be categorically excluded from receiving support under InvestEU.

Given the crucial role of private investments in building sustainable infrastructure in all sectors of the economy, the proposed climate action target is too low, all infrastructure investments need to accommodate the prospect of reaching climate neutrality well before mid-century. In this context the new ‘Strategic Investment Facility’ requires a climate action target of 60%.

In order to ensure coherence with and delivery on more ambitious 2030 climate and energy objectives, project assessment tools need to be strengthened, by applying stringent technical sustainability criteria, by setting a shadow carbon price which sends transformational price signals, or by ensuring the project’s explicit role in contributing to achieve climate objectives.

IV. External Action

It is appreciated that the new proposal recognises there is a need to increase resources for developing countries, as detailed above. To ensure the European Green Deal delivers for developing countries, who are facing the compounded impacts of the COVID-19 and climate and environmental crises, scaled-up finance is needed and the EU institutions must at least maintain these levels of funding for Heading VI in subsequent negotiations. Climate, environmental action, and alignment to Agenda 2030 should also be strengthened.

In the Commission’s proposal the extra funding from Next Generation EU for the Neighbourhood, Development and International Cooperation Instrument (NDICI) will be used exclusively to top up the provisioning of the External Action Guarantee, under the European Fund for Sustainable Development Plus (EFSD+) which will allow increasing the maximum volume of this Guarantee from the initially proposed €60 billion to €130 billion. Given the guarantee is dedicated for loans to the public and private sector, and the doubling of the EFSD+ investment target in the NDICI, the weight of grant-based finance to public authorities and Civil Society Organisations (CSOs) in the overall EU budget for external action is significantly reduced. While blended finance and guarantees have their place, increasing the role of the EFSD+ so significantly is concerning, because blended finance favours middle-income countries and particular sectors, and is less suited to the needs of least developed countries (LDCs), small island developing states (SIDS), or adaptation or nature-based restoration and protection projects. These are particularly reliant on public concessional financing, grants-based finance and budget support.

The External Action Guarantee and the EFSD+ should be governed by more stringent and comprehensive provisions for climate and environmental mainstreaming, and particular consideration for how it can deliver for climate adaptation. Stepping up co-financing for UN climate and environment fund projects such as the Green Climate Fund, Global Environmental Facility, and Adaptation Fund, is recommended for the EFSD+ to deliver on adaptation and biodiversity objectives.

Recommendations: Some of the money intended for leveraging private finance should be re-directed from the External Action Guarantee towards grant-based support; with a focus on countries and communities most in need, least developed countries, and small island developing states.

The NDICI should be governed by a 50% climate and environment spending target, with potential for a higher climate target for the EFSD+, and a dedicated sub-target should be set for adaptation to incentivise projects which combine adaptation with other objectives. Tailored risk reduction packages for under-invested environmental and adaptation projects should be developed.

Strategic Environmental Assessments should be used systematically across programmes, and all assessment tools (EIAs, CRAs) should deliver a more robust assessment of compatibility with climate mitigation and adaptation objectives, including assessment of alignment to decarbonisation pathways in line with the Paris Agreement's 1.5°C goal, and assessment of regional and sectoral vulnerabilities to climate impacts over the whole project or programme lifecycle. Assessments should be transparent and offer opportunities for participation by civil society.

As well as climate and environmental safeguards the EFSD+ should be governed by clear exclusion criteria for harmful activities, specifying fossil fuel operations, social safeguards, human rights due diligence, the principle of Free, Prior, informed consent, a grievance mechanism for affected communities; there should be no relaxation of safeguards or flexibilities in the period by which Next Generation EU funds must be spent (by 2024).

V. Proposed New Own Resources

Alongside the amended proposal on own resources, the Commission has suggested four potential new sources of revenue to repay part of the grant element of Next Generation EU from 2028 onwards. The possible additional own resources to be added at a later stage of the 2021-27 period are revenues from extension of the Emissions Trading System (ETS) to the maritime and aviation sectors; revenue from a carbon border adjustment mechanism; taxation on operations of large companies; and a digital tax on companies with a global annual turnover of above €750 million.

In principle the application of the 'polluter pays principal' and extending carbon pricing to polluting sectors is a positive move. According to the principle of generating a 'double dividend', revenues from carbon pricing should then be used for targeted climate action, and the current ETS Directive provides that Member States should use at least 50% of auctioning revenues or the equivalent in financial value for climate- and energy-related purposes.3 Further to support the Paris Agreement climate financing goals, at least 50% of these should go to support developing countries deal with the climate crisis.

Any revenues from carbon pricing or climate taxation should therefore be earmarked for climate action. Channeling them back into repayments on the recovery instrument would represent a step backwards in climate financing, since a share of these revenues would go to the support of high carbon and unsustainable activities still funded through the EU budget programmes.

[3] https://ec.europa.eu/clima/policies/ets/auctioning_en Based on the most recent information available, around 80% of revenues in 2013-2018 were used for climate- and energy-related purposes.

Regarding other potential resources, for example corporation taxes and digital taxation, moves to require companies to pay a fairer share of taxation are welcome. Given resource needs for tackling the climate crisis, a portion of this should be earmarked for climate action.

VI. Conclusions

2020 has to become the year of climate ambition. During the coming months the EU and its Member States have to take crucial decisions on the future direction of European economies. In order to comply with the Paris Agreement's objective to limit temperature rise to 1.5°C the EU must find an agreement by the end of this year on a substantially increased 2030 climate target of at least 65% emission cuts reductions, to achieve climate neutrality by 2040.

Such an ambitious regulatory framework is needed to steer the EU's recovery package. The Commission's proposal on the MFF and recovery funding offers plenty of money and opportunities to invest in the green transition, inside and outside the EU. However, the tabled proposals largely lack teeth to ensure recovery from the crisis is sustainable. Member States would have the choice, but not the obligation to put EU funds into the transition towards climate neutrality.

The upcoming legislative negotiations offer opportunities to add climate safeguards, crucially the exclusion of fossil fuel subsidies, binding commitments to dedicate 40% of the entire package to climate action and a clear conditionality on ambitious climate objectives. These improvements are needed to provide the right framework for the development of Member States' national recovery and EU funds spending plans, to ensure they deliver on the European Green Deal and serve higher climate ambition.

Contact:

Rachel@caneurope.org *Climate and Development Policy Coordinator*

Markus@caneurope.org *Finance and Subsidies Policy Coordinator*