

OPEN LETTER:

# Support a Next Generation 2.0 fund to finance a more resilient, prosperous, sustainable and inclusive Europe

Brussels, 20 September 2024

To:

ECON, BUDG, ENVI, EMPL, REGI, ITRE committee members and substitutes

Dear Members of the European Parliament,

During the upcoming Commissioner-designate hearings, we urge you to champion the creation of a Next Generation 2.0 fund to foster Europe's transformation in response to the ongoing polycrises and geopolitical challenges. The extra public investment capacity created by the Recovery and Resilience Facility (RRF) has helped recover from recent economic shocks and significantly contributed to increasing available funding for a just transition to climate neutrality. A follow-up instrument would allow the EU to proactively continue on this path. Eurobarometer polls have repeatedly demonstrated that people across Europe care strongly about these issues. Indeed, in 2024 88% of European citizens consider a social Europe important to them personally, and in 2023, more than three-quarters (77%) of EU citizens thought that climate change is a very serious problem. There is also large public support (75%) for the RRF.

In her 2024 political guidelines, Ursula von der Leyen announced an "Investment Commission". Indeed, a targeted EU-coordinated approach that ensures sufficient public investment capacity is the only way to close growing investment gaps that prevent us from achieving a just transition, reaching our climate targets, and reducing social divergence.

The investment needs for the socio-ecological transformation of the European economy are enormous and well documented. The European Commission estimates that extra investments at around 2% of European GDP are needed to reach the climate goals by 2030. This does not include social, transport, biodiversity, and climate adaptation investments, hence other estimations are much higher: additional investment needs have been estimated at €390 billion per year with a further € 130 billion per year to achieve the EU's core environmental objectives. 2020 European Commission estimates also indicated additional investment needs in social infrastructure of €192 billion per year. Mario Draghi has also highlighted investment needs of around €800 billion extra per year in his long-awaited report on future EU competitiveness. Part of these investments will have to come from the private sector, but research shows that only a third of the EU's essential financial needs can be raised through capital markets and 60% of all green investments needed by 2030 don't have a "bankable" business case. It is clear that significant public investments are required, especially for decarbonisation and just transition. Indeed, research from the European Investment Bank suggests that around 25 to 50% of the funding to close the green investment gap must come from governments.

At the same time, the end of the RRF implies an almost 50% reduction in the EU funding available, including significant cuts, amounting to about EUR 300 billion less EU funding available for climate and nature investments in the 2028-34 period - if it is not replaced by another fund. Other existing European-level (e.g. structural and investment funds, Social Climate Fund) and proposed funding instruments (i.e. Competitiveness Fund) are necessary, but insufficient and too small in size to address all public investment needs, or are often targeted toward a specific purpose. Due to the reform of the EU fiscal rules, national budgets will only have limited flexibility to close public investment gaps, especially in Member States with less fiscal space. Indeed, the new rules imply significant budget cuts for most Member States to meet the fiscal consolidation requirements. Research shows that under the new rules, only three countries can afford to meet social and green investment needs. Hence, it is evident that fresh money is required to cover the public share of the investments needed for the just transition.

Establishing a Next Generation 2.0 fund is indispensable to ensure a socially fair transition towards a more resilient, sustainable Europe. The new fund should amount to at least 1.6% of EU GDP per year, and should come on top of the funds made available through the regular Multiannual Financial Framework (~1% of EU GDP), part of which are already dedicated to financing the green transition. This additional funding level is equivalent to the extra €260 billion in public investment per year, roughly 1.6% of the EU's current GDP, needed to meet Europe's climate goals alone. The fund should be dedicated to the following areas (more details in annex I): climate, biodiversity and nature investments; social investments; just transition investments and green industry investments. At the same time, the fund should correct some of the RRF's weaknesses as highlighted by the court of auditors, entail strong environmental and social conditionalities and public participation provisions to increase fairness, efficiency, and effectiveness in a participatory way, minimise rent-seeking behaviour and maximise impact (see annex II).

Such a European approach would ensure that investments in combating climate crises and social inequalities are made despite different national budgetary situations. It would also support a fair and green industrial transformation which provides the EU's economic resilience and stability in a challenging global context and prevents the high economic and political costs that would be the result of not taking bold action. Finally, it could increase public acceptance of the green transition and counter populism and anti-EU sentiments.

The upcoming Commissioner-designate hearings present a critical opportunity for the European Parliament to obtain firm commitments for this transformative initiative. By urging Commissioners-designates to prioritise creating a Next Generation 2.0 and making your support conditional on commitments in this regard, you can help lay the foundation for a more resilient, prosperous, sustainable, and inclusive Europe.

As representatives of civil society organisations, trade unions, social economy networks, think tanks, and academia across the EU, we urge you to use your influence to support this vital initiative. We thank you for your attention and remain available to discuss this further at your convenience and provide any additional information.

Yours sincerely,

Signed,

FiscalMatters Coalition  
European Environmental Bureau (EEB)  
Social Platform  
Reuse and Recycling European Union Social Enterprises (RREUSE)  
The European Federation of Public Service Unions (EPSU)  
Transport and Environment (T&E)  
New Economics Foundation (NEF)  
Climate Action Network (CAN) Europe  
CEE Bankwatch Network  
Fiscal Future  
Counter Balance  
European Anti-Poverty Network (EAPN)  
Finance Watch  
Sustainable Finance Lab

## Annex I

### Pillars of Next Generation 2.0:

**Climate, biodiversity and nature investments:** to support decarbonisation, prioritise higher energy savings and increase the EU's contribution to international climate finance, including loss, damage, and compensation. To support the EU biodiversity strategy, financing nature restoration and protection and nature-based solutions to climate mitigation and adaptation is needed.

**Social investments:** to expand and maintain investment in public services (e.g. education, health, and care throughout the life-cycle, social services, energy-efficient affordable and social housing) adequate social protection and inclusion measures, support regional development and social cohesion, strengthen the quality of training and active labour market systems, provide quality employment with decent wages and working conditions. Delivering high-quality, accessible, and affordable "Services of General Interest" plays a foundational role in creating the conditions necessary for a thriving and competitive economy. Social and gender mainstreaming and budgeting should be integrated into all EU funds and programmes.

**Just transition investments:** to maintain, expand, and transform critical public infrastructure and services (e.g. water and sanitation, healthcare, housing, education, energy, transport, access to essential banking and digital communications). These must focus on decarbonisation and ensuring affordable access for all, strengthen reskilling and upskilling initiatives related to green and digital jobs, especially for workers, sectors, and regions most affected by the green transition.

**Green industry investments:** to enhance the production of green and clean technologies, and accelerate the transformation towards circularity by producing efficiently with reduce, reuse, and repair at their core. Support medium and small sized enterprises (MSMEs) and circular and social economy enterprises with targeted measures.

## Annex II

Principles and Conditionalities:

The fund should be based on the following principles to increase fairness, efficiency, and effectiveness of in participatory way:

**Ensure conditionalities for disbursements:** the fund must serve the just transition of our economies and societies. To guarantee this, the architecture of a new Next Generation 2.0 should entail:

1. Minimum percentages of funds earmarked for climate/nature and social investments through improved “mainstreaming” and “proofing” methodologies;
2. Strict transparency, social and environmental conditions on companies benefiting from public support;
3. A Member States’ commitment to a place-based, socially just and time-bound fossil fuel phase-out strategy (including domestically financed subsidies);
4. The full exclusion of any direct or indirect support for fossil fuel investments through the EU budget in general, and the Next Generation 2.0 Fund specifically, by eliminating all the loopholes that are currently supporting new capital investments in fossil gas in the RRF and cohesion policy funds;
5. The application of stricter Do No Significant Harm (DNSH) criteria, complemented by the introduction of social DNSH screening criteria that aim to ensure that all policies are guided by ethical considerations, respect for human rights, and a commitment to promoting the well-being and equity of all members of society;
6. Prioritise sectors and actors with high investment needs and limited access to private finance, including people and communities in vulnerable situations, small and medium-sized and social economy enterprises, and not-for-profit service providers, through simplified and harmonised procedures.

**Emphasise the quality of investment** by improving the monitoring and tracking of EU and national expenditure and, crucially, the absorption capacity of Member States, regions, and municipalities.

**Integrate strong public participation provisions** throughout the design and monitoring of spending plans in respective Member States, through implementing an improved Partnership Principle.