# EUKI Academy Web Seminar Report

# European Green Deal in CEE: Is the EU's green budget leading to climate action? 28th June 2022

The EU has declared that 30% of its budget for 2021 – 2027 must be utilized for climate action. In their national and regional spending plans, the member states determine how these funds will be spent and herewith the direction and pace at which Europe will reach its climate goals. However, these documents do not always guarantee the optimal use of EU funds for the environment and climate. Based on research the EUKI project Directing EU Funds towards Climate Neutrality by 10 project partners coordinated by CEEweb for Biodiversity has delivered, this web seminar provided an overview of how the EU's green budget is implemented in the CEE region and whether it helps achieving the European Green Deal goals. Furthermore, insights into EU-funded climate projects in Hungary and the government's efforts in achieving the European Green Deal (EGD) targets were discussed. For this we invited Olivier Vardakoulias (CAN Europe), Dana Marekova (Climate Coalition Slovakia), and Annamaria Nador (Ministry of Foreign Affairs and Trade of Hungary).

## EU Funding Instruments: Overview

- Historically the largest sources of EU finance for member states have been cohesion policy funds and the common agriculture policy. Although the sums are a small proportion of the EU's total GDP, they represent a large proportion of public investments in CEE and south European countries.
- The member states need to draft and then get approved by the European Commission Partnership Agreements and Operational Programs (for the use of cohesion policy) and Recovery and Resilience Plans (for the use of recovery funds) showing how they will spend the money. Therefore, the responsibility on how EU funds are utilized lies on both the EU and the national level.

### Milestones for the Green Transition

- The first most significant milestone for the green transition related to EU funding instruments has been the introduction of the Recovery and Resilience Facility, which is a temporary instrument born out of the pandemic and is currently the largest in size (750€ billion). Consequently, significantly increasing the potential to accelerate the green transition in member states, as 37% of total spending needs to be allocated to the green transition.
- Second, the EU increased the minimum percentage dedicated to the green transition in its budget (from 20% in 2020 to 30% for the years 2021 to 2027 for cohesion policy funds, and 37% for the Recovery and Resilience Facility). With the new budget, the EU has also attempted to implement a new concept: the "Do No Significant Harm" (DNSH) principle, and an associated screening of investments. In theory, meaning that the totality of investments done with EU money should not harm the green transition – including EU climate, biodiversity and circular economy targets. In practice, however, significant improvements are needed for ensuring that EU funded investments are genuinely avoiding harming these targets.
- The third milestone is a more concrete definition of what classifies as a green transition related investment. To define the investments that are eligible as green in the minimum climate spending targets, the EU uses an adjusted Rio Markers methodology. This methodology determines how much EU money is being spent on climate protection and whether the minimum spending target is being fulfilled. Despite some

improvements compared to the previous EU budget (2014-20), this methodology is still poor: it has been heavily criticized by the European Court of Auditors, the European Parliament and several civil society organisations. A major problem is that the EU's climate tracking methodology tends to significantly overestimate the amount of funds that are genuinely contributing to climate and broader green transition targets. .
- In practice, however, several individual country plans still present significant untapped potential: there are significant underinvestment in many areas such as biodiversity, circular economy, decentralized renewable energy systems or sustainable public and shared transport modes . However, there are many investments that are openly harming the green transition - taking us backward rather than forward. One such example concerns fossil gas infrastructure projects.

## The Implementation of the EU's Green Budget in CEE

- Research from the afore mentioned EUKI project shows that many of the projects utilizing green EU funds in CEE are oversized, overpriced, inefficient, and projects of high priority are often threatening deregulation since they start neglecting legal processes.
- In CEE 50% of investments into public infrastructure come from the EU. Therefore, it is important to also include non-EU public funding when assessing the efficiency of the EU's green budget in CEE.Herewith making sure that all investments do not interfere with climate protection and analyzing the true effectiveness of EU funds in regards to fulfilling the goals of the EGD.
- An example in CEE would be the EU Strategy for the Danube Region, which is made up of four overarching goals, each containing three subtopics including specific targets and actions. The countries in the region can apply for EU funds in order to implement projects which work towards fulfilling the targets and herewith the goals set by the European Commission.
- Experts from the project partners state that although EU funds are vital for a successful green transition within Europe, there are structural flaws which need to be addressed before increasing the amount of EU funds, in order to maximize efficiency.

### Increasing efficiency in CEE

1. Battling corruption: Many CEE countries have corruption systematically imbedded in their governments. Nevertheless, the tackling of corruption is vital for an efficient use of EU funds, including for green investments. In the attempt to tackle corruption, some countries have introduced overly bureaucratic systems, which is, together with a lack of capacities, responsible for a very low absorption of EU funds (Slovakia is the second last, followed by Croatia). This effectively discourages SMEs and municipalities from drawing EU funds, which need them the most.
2. Building up capacities: Many EU countries, including CEE, are lacking the needed human capacities for an efficient planning and expenditure of EU funds. Consequently, the capability of implementing efficient EU funded projects and the means to control if they are contributing to climate action is lacking. Dana Marekova proposed training courses teaching the required skills.
3. Increasing national public investment: The overreliance on EU funds often leads to harmful market distortion of the market. The fact that often the government decides which companies receive public funding and which do not, makes life unpredictable for many companies, and companies spend much effort to receive public money instead of improving their products and services. Moreover, often inefficient projects are funded which would not survive under normal market conditions, or projects are funded which could be implemented even without public money. While many new

developments are funded, basic public services (education, health care, etc.) are often grossly underfunded which makes it impossible to efficiently absorb EU funding.

4. Aligning national public investments with climate targets: Oftentimes climate harmful projects are being financed via domestic public investments – whereby climate mainstreaming and climate proofing methodologies do not apply. Consequently, aligning both EU and domestic funding sources with climate targets is crucial to ensure they are complementing each other, as opposed to moving in different directions
5. Updating strategies: The low emission strategies and national environment and climate plans of many CEE countries are outdated; they are lacking commitment to climate neutrality and do not provide a clear trajectory how to reach it. They need to be updated according to new key climate strategies to be the ground for planning successful climate action and EU spending.