

# Strategies and Instruments for Climate Proofing the EU Budget

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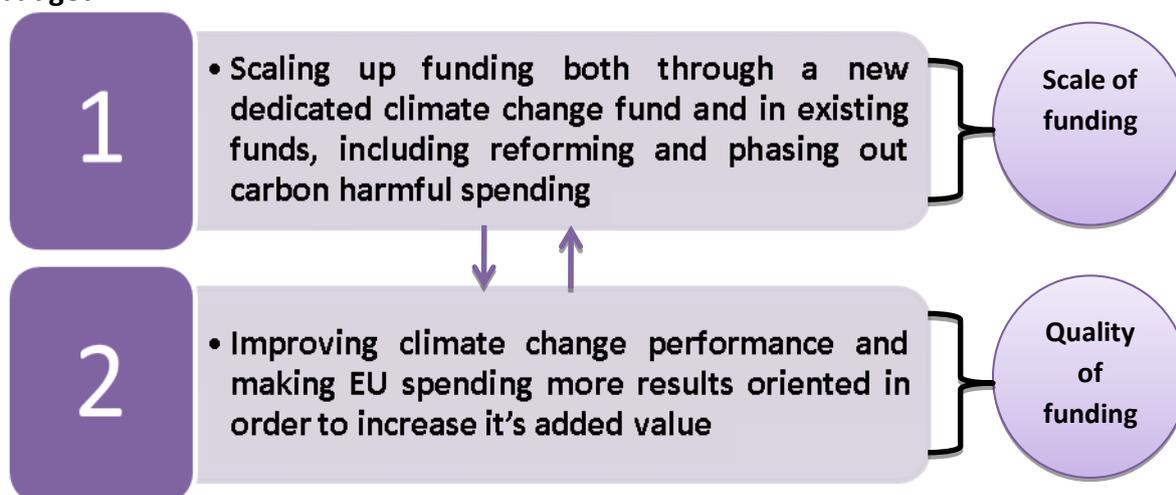
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## Executive Summary

The EU budget is a core policy tool of European governance. Although limited in scope compared to the public budgets of EU Member States, it can have significant multiplier effects in important policy areas such as energy or transport. Much of EU spending can also directly or indirectly affect climate change (CC) objectives. The mitigation of, and adaptation to, climate change has become increasingly central to the European policy agenda, and is currently enshrined in the overarching Europe 2020 Strategy and its Flagship initiatives. Achieving a broader transition to a greener economy and ensuring the efficient use of resources are emerging as key future challenges and will have significant implications for current and future investment patterns. Furthermore, important turning points in key EU policies such as the Common Agricultural Policy or Cohesion Policy will need to be addressed in the coming years, making policy integration and, more fundamentally, policy coherence an indispensable element of future European spending. The key question is thus whether or not the main priorities and policy goals enshrined in the EU budget are supportive to, and coherent with, the EU's climate change objectives? If not, what could and should be done about this? And how can the EU budget be turned into a tool to support efforts to tackle climate change?

The main aim of this report is to advance our conceptual understanding and offer ways to operationalise the concept of climate proofing in the debate on the post-2013 Multi-annual Financial Framework (MFF). Climate proofing is about stepping up and promoting spending that is both carbon saving and climate resilient, while at the same time minimising and gradually phasing out spending that is counterproductive to these objectives. Climate proofing is also a procedural approach, i.e. it provides a frame for coordinating activities to integrate climate change concerns in other policies in a coherent way and for deploying tools aimed at improving the performance and result-orientation of EU spending in this regard. Therefore, climate proofing the EU budget should be understood as the interplay of **two overarching strategic components, which are complementary to each other** (see Figure A).

**Figure A: The two main strategic components of the concept of climate-proofing the EU budget**



Each of these strategies requires a **combination of different operational instruments** designed to facilitate and deliver the desired policy choices and climate change objectives through the EU budget. There are different options of instruments that could be deployed at different stages of the lifecycle of the EU budget from strategic planning and implementation, to monitoring, reporting and evaluation. The EU budget operates in a complex and dynamic multi-level governance system where institutional structures and constellations of actors interact between different tiers of governance and can equally enhance or deter the scope for action. Therefore even if convincingly designed as a concept, climate proofing can fail when the respective conditions of the political context and their opportunity structures are not adequately taken into account. The concept thus needs a realistic approach towards implementation, in particular taking account of organisational arrangements (institutional set-up) and normative context conditions (leadership, political will) and the opportunity structures they offer. Furthermore, climate proofing the EU-budget is not a one-off exercise, but a long-term process that evolves and needs to be pursued over time beyond 2020. Against this background, this project explores a mix of different operational instruments for climate proofing the EU budget (see Table A).

**Table A: Overview of potential instruments to climate-proof the EU Budget**

1) Scaling up funding both through a new dedicated climate change fund and in existing funds, including reforming and phasing out carbon harmful spending								
Instruments	Horizontal and vertical CC objectives	Strategic framework	Allocating sufficient funding	Priority measures	Reforming and phasing out harmful spending	Reforming categories of expenditure	Coordinating structures and partnerships	Innovative financing
<b>Stage of the EU budget cycle</b>								
Strategic planning	✓	✓	✓	✓	✓		✓	
Implementation					✓		✓	✓
Monitoring, reporting						✓	✓	
<b>Level of governance</b>								
EU	✓	✓	✓	✓	✓	✓	✓	✓
National			✓	✓	✓		✓	✓
Regional				✓	✓		✓	✓
<b>Timeframe</b>								
Up to 2013					✓		✓	
2014-2020	✓	✓	✓	✓	✓	✓	✓	✓
Beyond 2020		✓	✓	✓			✓	✓
2) Improving climate change performance and making EU spending more results oriented in order to increase it's added value								
Instruments	Preparatory studies and mapping vulnerability	Enhancing admin. capacity for CC	Ex-ante carbon screening tool	Conditionality and incentives	Project development and selection criteria	CC indicators and reporting	Thematic CC evaluation	
<b>Stage of the EU budget cycle</b>								
Strategic planning		✓	✓	✓				
Implementation	✓	✓			✓			
Monitoring, reporting		✓				✓	✓	
<b>Level of governance</b>								
EU		✓		✓		✓	✓	
National	✓	✓	✓		✓	✓	✓	
Regional	✓	✓	✓		✓	✓	✓	
<b>Timeframe</b>								
Up to 2013	✓	✓	✓					
2014-2020		✓	✓	✓	✓	✓	✓	✓
Beyond 2020		✓	✓	✓	✓	✓	✓	✓

Experience of good practices for all of these instruments exists in the EU Member States. While the challenge is huge, it is not insurmountable. Climate proofing should be seen as a critical approach to ensuring that the next MFFs support the EU's political priorities related to climate change mitigation and adaptation, preventing high carbon lock-in path dependencies, and mobilising a critical mass of strategic investments in the transition towards a green and competitive economy.

# 1 Introduction

## 1.1 Climate Change and the EU Budget: The Need for Reform

The EU budget is a core policy tool of European governance. Although limited in scope compared to the public budgets of EU Member States, it can have significant multiplier effects in important policy areas such as energy or transport and it plays a decisive role in areas such as agriculture and cohesion policy. Much of EU spending can also directly or indirectly affect the EU's climate change objectives. The mitigation of, and adaptation to, climate change has become increasingly central to the political agenda of the EU. Achieving a broader transition to a greener economy and tackling Europe's over-consumption of natural resources are emerging as key future challenges and will have significant implications for current and future investment patterns. Important turning points in key policies such as agriculture or Cohesion Policy will also need to be addressed in the coming years, making policy integration and, more fundamentally, policy coherence an indispensable element of future European spending. In this context, the key question is thus whether or not the main priorities and policy goals enshrined in the EU budget are coherent with Europe's main priorities and policy goals in the field of climate change? If not, what could and should be done about this? And how can the EU budget be turned into a tool to support Europe's efforts to tackle climate change?

The EU is committed to ambitious long-term climate change objectives and has adopted a related package of policies through which these objectives are to be attained. This policy agenda extends beyond the realm of environmental policy and encompasses the wider transition of our economies and infrastructures, the creation of safe and sustainable jobs, promotion of innovation, and maintaining competitiveness. This transformation is currently recognised within the framework of the EU's new economic strategy – the Europe 2020 Strategy, and in related policy initiatives. A roadmap for decarbonising Europe's economy in order to reduce emissions by 80-95 per cent by 2050, increase competitiveness, and encourage innovation has also been drawn up under the Europe 2020 process.<sup>1</sup> Another roadmap is being developed for resource efficiency and the shift to a greener economy. Both roadmaps call for the reform of key sectoral EU policies in the context of the post-2013 EU Multi-annual Financial Framework (MFF) and highlight the need to **align spending priorities and objectives with the requirements of a low carbon and resource-efficient economy.**<sup>2</sup>

The European budget currently foresees dedicated funding for mitigation and adaptation to climate change. However, there is evidence that the benefits of this spending are somewhat offset by the negative impacts of spending in other areas. Accordingly, there is increasing recognition among policy stakeholders that the future EU budget should not only increase dedicated targeted spending to climate change mitigation and adaptation actions, but

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1 EC (2011) A Roadmap for moving to a competitive low carbon economy 2050, Communication from the Commission, COM(2011)112, 8.3.2011, Brussels.

2 EC (2011) A resource-efficient Europe – Flagship Initiative under the Europe 2020. Communication from the Commission, COM(2011)21, 26.1.2011, Brussels.

should also better integrate climate change measures horizontally across all spending areas, including phasing out spending that is considered potentially climate harmful. In a rapidly changing context, **there is a need for the EU budget and its operation within the MFF to better reflect current and emerging challenges in order to prepare the EU for a more sustainable future.**

Climate-proofing the EU budget is emerging as a conceptual umbrella for the different components of this endeavour. For example, at a conference on ‘climate proofing’ EU structural and cohesion funds in November 2009 held in the European Parliament, participants (including European Commission staff, Members of the European Parliament, academics and civil society) generally agreed that the EU budget should be ‘climate proofed’.<sup>3</sup> The leaked EU Budget Review Communication in autumn 2009 called for the creation of a special climate change framework programme and indicated that EU sectoral policies should be ‘climate proofed’.<sup>4</sup> While the official EU Budget Review Communication of October 2010 toned down the language on climate proofing the EU budget, it still **stressed the pivotal role of climate change for future deliberations on the EU budget, notably in the context of the Europe 2020 Strategy** and the need to ‘mainstream’ climate change in policies such as cohesion, agriculture and research.<sup>5</sup>

Spending under the future MFF, which will lay down the basic principles and priorities for spending, will have to drive the necessary investments for the transition to a low carbon, resource-efficient economy by 2050.<sup>6</sup> **‘Climate proofing’ the EU budget should therefore be seen as a critical policy objective for the post-2013 MFF.** Progress towards long-term climate change objectives by 2050 will fundamentally depend on the extent of transformations the EU infrastructure and economy achieve by 2020. Thus, there is a need to further clarify what the concept of ‘climate proofing’ means and to offer a perspective on how this concept could be operationalised in the post-2013 MFF. This report aims to contribute to this discussion.

## 1.2 Broadening the Discussion on Climate Proofing the EU Budget

Despite being central to the functioning and effectiveness of several key EU policies of relevance to the environment, the EU budget has received surprisingly little attention as a governance tool in itself in discussions on environmental policy to date.<sup>7</sup> Most attention has focused on analysing spending in single policy domains, such as agriculture or Cohesion Policy. Recently, several studies have analysed options for the direct financing of climate change measures under the current financial perspective 2007-2013 and the potential to

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3 CEE Bankwatch Network and FoEE (2009) Climate proofing EU structural and cohesion funds. Conference, 17 November 2009.

4 CEC (2009) A Reform Agenda for a Global Europe: Reforming the Budget, Changing Europe [Unpublished] Accessed at [www.lowcarbonbudget.eu](http://www.lowcarbonbudget.eu) on 20 February 2011.

5 EC (2010). The EU Budget Review, Communication from the Commission. COM(2010)700, 19.10.2010, Brussels

6 Herman van Rompuy, Speech at the low carbon prosperity summit, 9 February 2011, [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/119239.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/119239.pdf)

7 Wilkinson et al (2008). Green budgeting. In : Innovation in environmental policy? Integrating the environment for sustainability, edited by A. Jordan and A. Lenschow. Edward Elgar: Cheltenham.

enhance these in the future programming period.<sup>8</sup> However, to date, little work has been done on generating a broader overview of how to combine strategies and measures to increase dedicated climate change funding with strategies and measures to integrate climate measures in other EU spending areas in a meaningful and coherent way. One exception is a report by the ENEA-REC<sup>9</sup> which looks at different approaches to building the 'climate resilience' of Cohesion Policy programmes. However, the analysis in this report is limited to the EU Member State level and does not provide a clear definition of 'climate resilience', while leaving the issue of dedicated funding largely untouched.

Although some thinking is being developed in policy and academic communities on how to bring climate change from the periphery to the core of the EU budget, most of the work to date does not pay explicit attention to the political discourse about the EU budget and the opportunity structures it offers. The issue remains contentious and politically sensitive. The current EU budget reflects a delicate balance of interests between Member States. Delivering substantial reforms will not be easy, as failed attempts in the past have shown. Furthermore, the EU budget is limited in size and EU Member States are currently not in favour of an increase in their net contribution given their own budget deficits and related austerity measures. However, evidence is growing that Europe's sustainable economic recovery will benefit from coordinated action, other economies are catching up in the high-quality innovation markets where European companies operate and there is growing recognition of the need for reform of the EU budget. What is currently missing is an analysis that aligns conceptual thinking about climate proofing the EU budget with a political feasibility analysis in order to advance our understanding of which actions are most promising.

### **1.3 Aim, Scope and Structure of the Report**

This report presents a conceptual approach to climate-proofing the EU budget and further discusses its potential application in the post-2013 MFF. It aims at filling some of the gaps in the discussion, both with regard to the concept of climate proofing the EU budget and its implementation in practice. It pays particular attention to describing some emerging strategies and instruments for 'climate proofing' in greater detail and analyses potential approaches to their concrete operationalisation. This work has been developed through desk-based research, meetings with key policy actors, and a stakeholder workshop in December 2010. Thus, it combines a review of the available literature and research on good practices with fresh thinking and an overview of the opinions of relevant actors.

The EU budget represents quite a complex field of policy action. Analysing all its areas in great detail is beyond the scope of this report. In order to keep the task manageable, this report makes some considered omissions. It does not discuss all the funds within the EU

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8 Adelle et al. (2008). Turning the EU Budget into an Instrument to Support the Fight against Climate Change. SIEPS: Stockholm; Green Alliance (2007) Investing in our future: a European budget for climate security, London; Green Alliance (2010) Unlocking a low carbon Europe: perspectives on EU budget reform, London; and CEPS Task Force (2009) For future sustainable, competitive and greener EU budget: integrating the climate change objectives, CEPS: Brussels.

9 REC-ENEA (2009) Improving the Climate Resilience of Cohesion Policy Funding Programmes. REC: Szentendre.

budget, but substantiates the climate proofing approach by using Cohesion Policy and particularly the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) as an empirical case study. Hence, the report does not cover the Common Agricultural Policy (CAP), the future Innovation Framework Programme (CIP), or other funds within the EU budget in detail. The choice to focus on Cohesion Policy stems from the fact that its funds constitute up to one third of the EU budget for the current 2007-2013 financial perspective. Moreover, the objective of these funds is to shape the long-term development of many European regions and therefore have significant potential for facilitating low-carbon development pathways in these regions. Finally, many of the findings and lessons learnt with regard to concrete strategies and tools for climate proofing Cohesion Policy Funds are of relevance for the other spending areas. Without taking an explicit sectoral perspective, the report also looks at concrete approaches and examples of climate change integration in three key sectors – energy, transport and housing. These are critical sectors in terms their potential for emission reductions and require significant investments to bring about the necessary decarbonisation and adaptive actions.

It is important to note that a focus on climate change proofing does not neglect the relevance of the EU budget to other critical environmental policy areas such as the protection of the natural environment or environment and health. However, a comprehensive review of these areas is beyond the scope of the current study. The climate/energy sector is well advanced and offers a unique opportunity for building support and drawing lessons which may be applicable to other areas of environmental policy.

The primary focus of this report is on the expenditure side of the EU budget. The financing side also forms an important part of the budget review debate and certainly offers opportunities as far as climate proofing is concerned. For example, with regard to the budget's 'own resources' a number of options are being put forward as potential candidates which could be further explored (e.g. an EU-wide carbon tax, aviation tax or use of revenues from the ETS auctioning of emissions allowances). The financing side is also interesting as it explores novel ideas linked to innovative financing instruments for mobilising the investment injection necessary for the low-carbon transformations of the EU economy. This politically sensitive debate has resurfaced once again, and although we touch on it in this report, we do not embark on a detailed analysis of this aspect of the EU budget.

This report is intended to inform the thinking of key stakeholders and contribute to the debate on the development of legislative proposals for the post-2013 MFF which are expected to be presented in July 2011. The need to 'climate proof' the EU budget has relevance beyond the negotiations of the next MFF. Thus, this report also aims to contribute to a more general discussion around principles and priorities for public spending in view of climate change and the environment beyond 2020. While the challenges seem huge, they are not insurmountable. The EU can draw a number of lessons from existing practices in some EU Member States that are already using approaches to climate-proof expenditures. Bringing in good practice examples from selected Member States in the form of case studies is another key aspect of the analysis offered in this report.

The remaining sections of this report are structured as follows. Chapter 2 presents an overview of the current, highly dynamic, policy context and provides some background on

the discussion around climate proofing the budget. Chapter 3 outlines a working definition of the concept of climate proofing drawing on the literature from the policy integration and policy coherence discussion and sets out how the concept can be applied through the lifecycle of the EU budget. Chapter 4 sets out the main components of a strategy to climate proofing the EU budget. Chapter 5, part one, takes this body of knowledge forward and looks at some of the potential instruments that appear most promising to advance the course of climate proofing the EU budget. These are underpinned by referring in greater detail to the case of Cohesion Policy, and explicitly looking at good practice examples from several EU Member States. The advantages and disadvantages of certain strategies and instruments are also discussed. Part two of chapter 5 presents a quick-guide to aid policy-makers in the forthcoming preparations and negotiations of the post-2013 EU MFF. Chapter 6 provides some conclusions on the basis of key insights generated.

## 2 The Current Policy Context: Climate Change and the EU Budget

In order to look into the future, one needs to begin with an examination of the past in order to understand what is at stake, how it works and how it needs to change. Therefore, this chapter briefly describes the main characteristics of the Multi-annual Financial Framework (MFF) as a policy tool at European level and analyses the priorities and composition of the current spending structure. This analysis highlights the current modest role of climate change spending at the European level. Through an exploration of Cohesion Policy, the chapter also highlights achievements and challenges in mainstreaming climate change concerns in sectoral spending frameworks. The chapter ends with an outlook for the potential future reform of the budget on the basis of recently published Communications from the Commission.

### 2.1 Multi-annual Financial Frameworks as a Key Policy Tool

Since 1988, the EU has engaged in multi-annual financial planning. Four ‘multi-annual perspectives’ have been adopted to date. These are now referred to as ‘multi-annual financial frameworks’ (MFF) (see Table 1).

**Table 1: Overview of European Multi-annual Financial Frameworks**

<b>Multi-Annual Financial Frameworks (MFFs)</b>	<b>Period of time</b>
1 <sup>st</sup> MFF (so called Delors I package)	1988-1992
2 <sup>nd</sup> MFF ( so called Delors II package)	1993-1999
3 <sup>rd</sup> MFF (so called Agenda 2000)	2000-2006
4 <sup>th</sup> MFF	2007-2013

*Source: DG Budget 2010*

As a policy tool, a MFF sets an overall budgetary ceiling to keep expenditure within the EU’s ‘own resources’ and in this way forms an overarching framework for the negotiations between the Commission, the Council, and the Parliament on the annual budgets for the duration of the financial framework. The MFF determines the annual ceiling on commitment appropriations by category of expenditure and the annual ceiling of payment appropriations (Art. 312 § 3 of the TFEU). It also specifies that the categories of expenditure in the financial framework must be limited in number and correspond to the EU’s major sectors of activity. The Commission proposes the main priorities for the MFF through an initial broad Communication. These priorities are later translated into budgetary ‘headings’ in a follow-up Communication which is adopted by the Council. For example, the priorities of the current MFF were proposed in a Commission Communication ‘Building our common future: policy challenges and budgetary means of the enlarged Union 2007-2013’<sup>10</sup> and later

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10 CEC (2004) Building our common future: policy challenges and budgetary means of the enlarged Union 2007-2013, Communication from the Commission of the European Communities, COM(2004)101/2, 26/2/2004, Brussels.

translated into budgetary ‘headings’<sup>11</sup> in the follow-up Communication ‘Financial perspectives 2007-2013’<sup>12</sup> which was adopted by the Council in 2005.<sup>13</sup> This process places the Commission in a strategic agenda-setting position. With the ratification of the Treaty on the Functioning of the European Union (TFEU), the overall conditions have changed slightly and provide greater powers to the European Parliament and the Council. To date, agreed financial frameworks had been enshrined in the so-called inter-institutional agreement between the EU institutions. With the ratification of the TFEU, MFFs will henceforward be adopted through a dedicated multiannual financial framework Regulation.<sup>14,15</sup>

## 2.2 The Role of Climate Change in the Current MFF

Expenditure in the current MFF (2007-2013) is grouped under four headings which are ‘designed to reflect the Union’s political priorities’. These include:

- 1) ***sustainable growth*** (including competitiveness for growth and jobs in line with the Lisbon Strategy as well as Cohesion Policy);
- 2) ***preservation and management of natural resources***;
- 3) ***citizenship, freedom, security and justice***; and
- 4) ***EU as a global player***.

Explicit reference to the environment (not climate change as such) is also made under the first priority which notes that environmental objectives complement and reinforce the growth agenda.<sup>16</sup> Furthermore, it is suggested that the level of funding for environmental activities should be ‘where necessary increased in the next financing period, reflecting the importance of the environment as a pillar of sustainable development’.<sup>17</sup> The latter recommendation refers to strengthening the financial support for broader environmental objectives in the post-2013 period.

The table below shows the commitment and payment appropriations under each heading per year as well as the total amount of commitment and payment appropriations for the 2007-2013 financial perspective.

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11 ‘Headings’ refer to the maximum amount of commitment appropriations in the EU budget each year for broad policy areas.

12 CEC (2004) Financial perspectives 2007-2013, COM(2004)487, Communication from the Commission of the European Communities, 14/7/2004, Brussels.

13 Council of the European Union. Financial perspectives 2007-2013. 15915/05, 19/12/2005

14 EC Financial programming and budget. A Financial framework for the enlarged Union (2007-2013)

[http://ec.europa.eu/budget/prior\\_future/fin\\_framework\\_en.htm](http://ec.europa.eu/budget/prior_future/fin_framework_en.htm) [accessed February 2011]

15 EC (2010) Proposal for a regulation on the Financial Regulation applicable to the general budget of the European Communities, Communication from the Commission, COM(2010) 71, 3/3/2010, Brussels. The Council adopts the multiannual financial framework through a « special legislative procedure » acting unanimously after obtaining the consent of the EP (Art. 312 § 2).

16 CEC (2004) Financial perspectives 2007-2013, COM(2004)487, Communication from the Commission of the European Communities, 14/7/2004, Brussels

17 Ibid.

**Table 2: Financial Perspective 2007-2013: Expenditure Ceilings Per Heading**

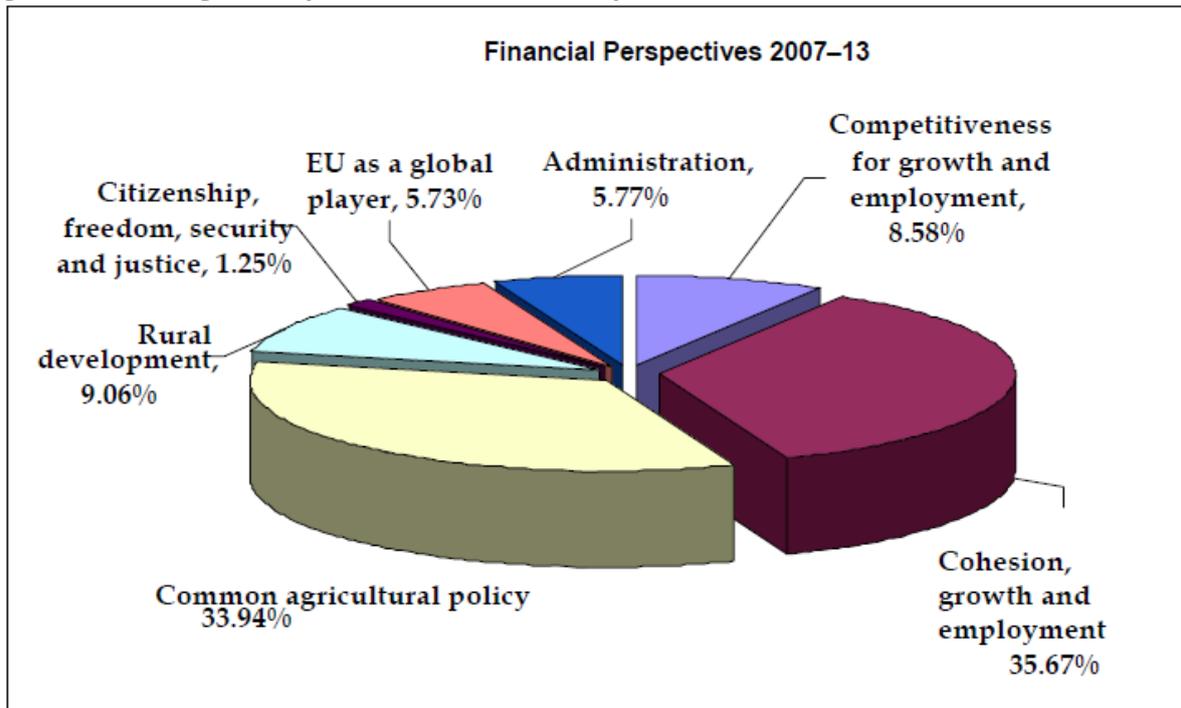
Commitment appropriations (€)	2007	2008	2009	2010	2011	2012	2013	Total
1. Sustainable growth	54 405	57 275	59 700	61 782	63 614	66 604	69 621	<b>433 001</b>
1a. Competitiveness for growth and employment	8 918	10 386	11 272	12 388	12 987	14 203	15 433	<b>85 587</b>
1b. Cohesion for growth and employment	45 487	46 889	48 428	49 394	50 627	52 401	54 188	<b>347 414</b>
2. Preservation and management of natural resources	58 351	58 800	59 252	59 726	60 191	60 663	61 142	<b>418 125</b>
3. Citizenship, freedom, security and justice	1 273	1 362	1 523	1 693	1 889	2 105	2 376	<b>12 221</b>
3a. Freedom, security and justice	637	747	872	1 025	1 206	1 406	1 661	<b>7 554</b>
3b. Citizenship	636	615	651	668	683	699	715	<b>4 667</b>
4. The EU as a global player	6 578	7 002	7 440	7 893	8 430	8 997	9 595	<b>55 935</b>
5. Administration (€)	7 039	7 380	7 699	8 008	8 334	8 670	9 095	<b>56 225</b>
6. Compensations for Bulgaria and Romania	445	207	210	--	--	--	--	<b>862</b>
<b>Total</b>	<b>128 091</b>	<b>131 487</b>	<b>135 321</b>	<b>138 464</b>	<b>142 445</b>	<b>147 075</b>	<b>151 886</b>	<b>974 769</b>
Commitment appropriations (€), % of GNI (€)	1.06 %	1.06 %	1.05 %	1.03 %	1.01 %	1.00 %	1.00 %	<b>1.03 %</b>
Payment appropriations (€), % of GNI (€)	1.02 %	1.04 %	0.95 %	0.99 %	0.95 %	0.96 %	0.94 %	<b>0.98 %</b>

Source: DG Budget

Note: The expenditure ceilings are presented in € million

It is quite difficult to establish what is actually being spent on climate change under the EU budget, and it requires expert knowledge to decipher what the main spending categories cover. Moreover, definitions of expenditure are not clear and transparent. Phrases like ‘sustainable growth’, which is one of the categories of spending, do not refer to environmental sustainability but mainly to the Lisbon Strategy for jobs and growth and the structural funds, while ‘conservation and management of natural resources’ is overwhelmingly dominated by spending on the CAP. In addition to direct climate change spending (such as under Life+), climate change spending is also ‘mainstreamed’ in other funding instruments, such as the CAP or Cohesion Policy. Assessing the scale and scope of climate change funding in this context is also difficult as mechanisms and procedures differ across the different funding instruments. Figure 1 provides an elaboration of the composition of the EU budget in the current financial perspective.

Figure 1: EU budget composition, Financial Perspective for 2007-2013



Source: CEPS 2009

**Current direct spending on climate change under the EU budget does not reflect the rising importance of climate change on the political agenda and the integration of climate change concerns in other sectoral policies.** For example under Cohesion Policy in the 2007-2013 period, approximately €9 billion has been allocated to energy efficiency and renewable energy according to the Commission's figures. This is approximately 3 per cent of the total Cohesion Policy budget for this period. Indirect climate related funding was also allocated for clean public transport, intelligent transport systems and cycling tracks (€7.8 billion) as well as rail infrastructure (€24 billion).<sup>18</sup> Overall, the available funding for climate mitigation-related measures targets efficient energy and transport interventions, and could be deemed as relatively low given the considerable investments necessary to achieve the objectives of the Climate and Energy package and to facilitate a transition to a low carbon economy. Although climate change adaptation financing could be linked to the provision of approximately €6 billion for risk prevention type of interventions, it is however still debatable whether this adequately encompasses investment needs in regions which are vulnerable to the impacts of climate change.

## 2.3 The Review of the Current MFF and the Growing Relevance of Climate Change

Achieving changes in the fundamental architecture of EU spending (including under the CAP and Cohesion Policy) is a difficult task. Previous MFFs provide ample evidence of the

<sup>18</sup> DG Regio, Statistics. [http://ec.europa.eu/regional\\_policy/themes/statistics/2007\\_environment\\_climate.pdf](http://ec.europa.eu/regional_policy/themes/statistics/2007_environment_climate.pdf)

reluctance among EU Member States to depart from the status quo and only few opportunities exist to change the MFF priorities to accommodate changes in policy priorities. In May 2006, all European institutions agreed on a fundamental review of the EU budget, noting the need to modernise the future EU budget due to profound challenges such as climate change, energy and increasing competition in a globalised economy and the need to discuss opportunities for action in an environment that is not constrained by discussions about the next MFF. Consequently in September 2007, the European Commission announced the launch of a **'no taboos' review of the EU budget** recognising it as a 'unique opportunity for a thorough assessment of the EU budget and its financing, free from the constraints of a negotiation on a financial framework.'<sup>19</sup>

The launch of the 2007 CAP 'Health Check' by DG Agriculture and a major public consultation on Cohesion Policy by DG Regional Policy was understood by some as 'pre-emptive attempts by big spending Commission DGs [...] to limit the terms of the debate'<sup>20</sup>. Nonetheless, responses to a public consultation in 2008 on the Commission document on 'Reforming the budget, changing Europe'<sup>21</sup> highlighted **climate change as one of the top challenges that need to be addressed in the future EU budget**. Subsequently, climate change and energy supply were identified as one of the three major spending priorities in the Commission's leaked draft Communication on the EU budget in October 2009. Keeping with this argumentation, in the context of the reflection process on the future Cohesion Policy, the 'Regions 2020'<sup>22</sup> report for example frames the issues of climate change and energy as 'key challenges' facing European regions in terms of future development pathways. In 2009, an external report commissioned by Danuta Hübner, Commissioner for Regional Policy at the time, outlined an 'agenda for a reformed Cohesion Policy' (the so called 'Barca report') which suggested that climate change is made one of its main priorities.<sup>23</sup> In 2010, both climate change mitigation and adaptation featured prominently in the Fifth Cohesion Report published by the Commission, providing a rationale for such interventions in the future Cohesion Policy.<sup>24</sup>

**The growing centrality of climate change on the political agenda has been taken up in a number of key strategic processes at EU level.** The Europe 2020 Strategy for 'smart, sustainable and inclusive growth', put forward by the Commission in March 2010 as the new economic growth strategy for the EU, included the EU's strategic 20/20/20 climate and energy targets as one of the five headline targets defining where the EU should be in 2020, thus moving the climate and energy package to the core of European economic governance.<sup>25</sup> The five headline targets will be implemented at the European level through seven 'Flagship initiatives' which *inter alia* cover the topics of climate change, clean energy,

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19 CEC (2007) Reforming the budget, changing Europe, SEC(2007)1188, 12.9.2007, Brussels.

20 IEEP (2005) Environmental policy integration: scoping the role of EU budgetary mechanisms and Funding. A discussion paper. 22.6.2005, Brussels.

21 CEC (2007) Reforming the budget, changing Europe, SEC(2007)1188, 12.9.2007, Brussels.

22 CEC (2008) Regions 2020, Climate change challenges for European regions, Brussels.

23 Barca, F. (2009) An Agenda for a Reformed Cohesion Policy – A place-based approach to meeting European Union challenges and expectations, report for DG Regional Policy, Brussels.

24 EC (2010) Fifth Cohesion report, November 2010, Brussels.

25 Council of the European Union (2010) Europe 2020 Strategy for growth and jobs: the Council adopts broad economic policy guidelines. 12082/10, 13.07.2010, Brussels

innovation and resource efficiency. The Europe 2020 Strategy was endorsed by the European Council in June 2010. In July 2010 the Council adopted a recommendation on broad economic policy guidelines which, together with the Council Decision on guidelines on employment policy, form the so-called 'integrated guidelines' for the structural reforms that need to be carried out in the next five years under the Europe 2020 Strategy, both at EU and national level. One of these is 'improving resource efficiency and reducing greenhouse gas emissions'. The European Council also concluded that 'all common policies, including the common agricultural policy and cohesion policy, will need to support the strategy.'<sup>26</sup>

## 2.4 Charting the Way Ahead

The EU budget review process culminated in the long-awaited Commission Communication 'The EU Budget Review' in October 2010.<sup>27</sup> Originally anticipated for 2008, this document had been delayed several times. While originally launched with the aim of having a discussion about the priorities and objectives of the EU budget which was separate from the negotiation of the contours of the next MFF, the Budget Review Communication is now an important signpost for the future MFF. The Communication establishes that the '[b]udget for the future' is to be closely aligned to the Europe 2020 Strategy and it 'must play a key role in delivering this Strategy'. Therefore, the future priorities for the EU budget strictly follow the three-pillar goals of the Europe 2020 Strategy of smart, sustainable and inclusive growth. The Budget Communication proposes the creation of a 'common strategic framework, outlining a comprehensive investment strategy translating the targets and objectives of Europe 2020 into investment priorities' which is meant to replace the current set of strategic guidelines which have been developed for separate policies. **Key principles of the future EU budget should include delivering key policy priorities and a stricter focus on EU value added, a result-driven budget and mutual benefits through solidarity.** The question of the size of the future budget, perhaps one of the most contentious issues, is not dealt with in the Communication, thereby creating uncertainty and space for manoeuvring in the upcoming political debates.

**The need to address climate change, resource efficiency and energy security is highlighted in the Communication** and the case for ensuring the necessary investments in green technologies, services and jobs is clearly made. Two options are presented in this regard:

- 1) creating large-scale dedicated funds to support climate change and energy investments, building upon the experiences made with the European Economic Recovery Plan; and
- 2) mainstreaming these priorities into different programmes and already existing funding instruments.

The latter is evaluated as a potentially more effective approach, where the primacy of goals like climate and energy would indicate re-prioritisation needs inside policies like research,

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26 Council of the European Union (2010) European Council Conclusions 17 June 2010.

[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/115346.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/115346.pdf)

27 EC (2010) The EU budget review, Communication from the Commission COM(2010)700, Brussels, 19/10/2010,

[http://ec.europa.eu/budget/reform/library/communication/com\\_2010\\_700\\_en.pdf](http://ec.europa.eu/budget/reform/library/communication/com_2010_700_en.pdf)

cohesion, agriculture and rural development. According to the Communication, it should also be underpinned by clear political 'earmarking' (allocating a fixed amount of financing for these objectives) and could be linked to a cross-cutting requirement for reporting of the types and amounts of expenditure made.

The Budget Communication discusses Cohesion Policy in relation to the objective for 'Inclusive growth' and its potential future priorities are suggested to include *inter alia* reducing emissions, improving the quality of the environment and energy savings. It also recommends that Cohesion Policy should ensure greater concentration of resources on a limited number of 'thematic' priorities which concur with the Integrated Guidelines and the Flagship Initiatives, endorsed under the Europe 2020 Strategy. Some of these ideas are also brought forward in the conclusions of the Fifth report on economic, social and territorial cohesion, published in November 2010<sup>28</sup>, which laid down the contours of the future EU Cohesion Policy.<sup>29</sup> The contribution of future Cohesion Policy to the sustainable growth objective of the Europe 2020 Strategy was also reiterated in a separate Commission Communication under the Resource Efficiency flagship initiative. This Communication prescribes that **investments should be scaled up by giving priority to interventions that facilitate the transition towards a low carbon economy** through support for energy efficiency in buildings, renewable energy and clean transport systems. It recommends that broader sustainability concerns should be integrated throughout the entire project lifecycle while better use should be made of approaches such as green public procurement and environmental indicators for monitoring and evaluation. The Communication also recommends that managing authorities screen Operational Programmes for their climate resilience and steer investments towards the most resource efficient options.<sup>30</sup>

Overall, the push for a debate about the quality of spending as well as the composition of the future revenue of Europe's budget, as initially intended by the launch of the discussion on the future EU budget, did not yield the anticipated reaction. Rather, a heated discussion over the size of the budget ensued; largely running ahead of the debate over substance, direction of spending and indeed the precise source of funds. One group of Member States, including France, Germany and the UK has been quick to propose freezing the budget at the present level, invoking the principle of shared austerity. This line of argumentation has provoked a strong defence of EU expenditure from a number of Member States including Poland.<sup>31</sup>

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28 EC (2010) Conclusions of the fifth report on economic, social and territorial cohesion: the future of cohesion policy, Communication from the Commission, (COM(2010)642), 9/11/2010, Brussels.

29 The proposals put forward in the Conclusions of the Fifth cohesion report include the introduction of a Common Strategic Framework in line with the proposal in the EU Budget Review; the establishment of special development and investment partnership contract to be negotiated between the Commission and Member States which will set out investment priorities, respective funding allocations, agreed conditionalities and targets in line with the countries' National Reform Programmes; the concentration of resources on fewer thematic priorities; strengthening the performance and results of funding through a new system of conditionality and incentives and improved evaluation.

30 EC (2011) Regional Policy contributing to sustainable growth in Europe 2020, Communication from the Commission, COM(2011)17, 26.1.2011, Brussels.

31 Euractiv. Poland warns of 'wars' over EU long-term budget. 7.12.2010 [accessed February 2011]

### 3 ‘Climate Proofing’ the EU Budget – What is it about?

The term ‘climate proofing’ originally emerged from the international climate change adaptation and development literature.<sup>32</sup> It has however increasingly been used in discussions around the EU budget review. To date, the discussion about ‘climate proofing’ has included references to a number of different and partly interchangeable concepts such as the ‘climate resilience’ of funding efforts,<sup>33</sup> ‘mainstreaming’ and ‘integration’ of climate change concerns in other policy areas, and with the notion of ‘turning the EU budget into a tool to support the fight against climate change’.<sup>34</sup> It has also been suggested as a way to gear funding towards best practice (e.g. in terms of energy efficiency), either through direct financing or as a condition attached to projects with other purposes.<sup>35</sup> However formulated, the concept of climate proofing normally embraces two important dimensions of climate change policy, namely the need to mitigate the causes of the problem (GHG reductions, mitigation) and to adapt funding strategies to risks posed by climate change (adaptation).

The roots of climate proofing go back to the discussion on environmental policy integration and it is worth reminding ourselves of the nature of this debate before going into a detailed discussion on climate proofing. Thus, this chapter explores how the concept of climate proofing can be framed and understood by drawing on the existing literature on environmental policy integration. The application of the concept is then examined through the perspective of the full EU budget lifecycle.

#### 3.1 The Need to Integrate Climate Change Concerns in a Coherent Way

Policy coherence and environmental policy integration are established principles to promote sustainable development<sup>36</sup> which can be used to underpin core aspects of the concept of climate proofing the EU budget and function as a starting point for discussing key principles in this regard. The literature on the practical experiences gained with approaches to environmental policy integration can also provide useful information for better understanding the conditions of the institutional context and necessary factors for implementing a strategy towards climate proofing the EU budget. Although much of the available literature explores policy integration strategies and tools in the wider sense of environmental objectives and concerns, these findings are also relevant to the narrower perspective on climate change mitigation and adaptation.

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32 GTZ (2010) Climate proofing for development: adapting to climate change, reducing risks. Eschborn, November 2010.

33 REC-ENEA (2009) Improving the Climate Resilience of Cohesion Policy Funding Programmes. REC: Szentendre.

34 Adelle et al. (2008) Turning the EU Budget into an Instrument to Support the Fight against Climate Change. SIEPS: Stockholm

35 CEPS Task Force (2009) For future sustainable, competitive and greener EU budget: integrating the climate change objectives, CEPS: Brussels.

36 Lafferty, W (2004) From environmental protection to sustainable development: the challenge of decoupling through sectoral integration. In: Governance for sustainable development: the challenge of adapting form to function, edited by William M. Lafferty. Edward Elgar: Cheltenham.

There is widespread agreement that policy coherence is essentially about ensuring that policies are coordinated and complementary, and do not contradict one another.<sup>37</sup> However, full mutual consistency is an unrealistic criterion.<sup>38</sup> Therefore, a minimum criterion for policy coherence refers to the absence of major conflicts between policies. Moreover, policies need to reinforce their effects (i.e. synergies) to the extent possible while minimising negative trade-offs.<sup>39</sup> Issues of policy (in)-coherence often arise within single policies, between different sectoral policies and across different levels of EU governance. The EU budget is no exception in this regard.

The starting point for discussing what climate proofing the EU budget is should be the existing suite of EU climate change policies, objectives and targets. EU spending needs to be consistent with these policies and objectives, thus **making policy coherence an overarching principle and benchmark for the future long-term budgetary plans**. This means that spending under the EU budget should neither undermine nor render it impossible for the EU to achieve these objectives as a whole. Needless to say, EU expenditure has to respect historical regional differences and needs, hence allowing for carbon-increasing investments in certain, relatively limited, circumstances, e.g. as part of the development strategies in poorer regions. However, **in the totality of its spending, the EU budget should contribute to GHG emission savings as well as ensuring the increased funding necessary for adapting to climate change**. This means that climate proofing as a concept is essentially about GHG emission reductions, and not about carbon-neutrality, as argued by some.<sup>40</sup> It is concerned with both scaling up funding for climate change adaptation projects and horizontally integrating adaptation measures in other non-climate related spending (e.g. infrastructure, buildings, etc.).

There is growing recognition of the need to bring climate change concerns from the periphery to the core of the EU budget.<sup>41</sup> A simple strategy to increase dedicated climate change spending alone is however not sufficient as it would not change other spending frameworks and reverse some of their detrimental impacts to the environment. The **better integration of climate change concerns in other spending areas therefore becomes an important procedural principle for climate proofing the EU budget**. It should provide a framework for coordinating activities to integrate climate change concerns in other non-climate related policies while pursuing targeted actions and investments in a policy-coherent way. In this respect, climate proofing could well touch on the distribution of funds, not only *within* funding instruments, but also *between* funding instruments.<sup>42</sup>

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37 OECD (1996) *Building policy coherence*. Tools and Tensions. OECD: Paris.

38 Ibid.

39 Ibid.

40 REC-ENEA (2009) *Improving the Climate Resilience of Cohesion Policy Funding Programmes*. REC: Szentendre.

41 CEPS Task Force (2009) *For future sustainable, competitive and greener EU budget: integrating the climate change objectives*, CEPS: Brussels.

42 Adelle et al. (2008) *Turning the EU Budget into an Instrument to Support the Fight against Climate Change*. SIEPS: Stockholm.

## 3.2 The EU Budget in the Context of Multi-level Governance

The EU budget occurs within a complex multi-level governance context which involves different vertical levels of governance within Europe (EU, national, regional and local), and a horizontal landscape of institutional arrangements and actor constellations with vested interests at each level.<sup>43,44</sup> National and regional circumstances, such as the maturity of domestic regulatory frameworks and the level of political commitment will affect the outcome of any integration process and therefore needs to be taken into account from the outset. It has been noted that successful **environmental/climate integration can only be achieved if explored and addressed properly at all governance levels within EU policy.**<sup>45</sup> This means that every level of the governance system potentially provides an entry point for promoting and delivering a climate proofing strategy. The EU budget and Cohesion Policy are no exception, given that Member States have extensive competence for the implementation of EU funded programmes and projects which have been further enhanced through the decentralisation agenda, creating both an opportunity and a challenge to environmental policy integration (EPI)<sup>46</sup>.

In examining the practice of EPI, one conclusion is that **implementation of different EPI strategies and instruments often presents the most challenges**<sup>47</sup>. For example, it has been argued that integration actions are likely to be effective only if Member States and regions ensure the necessary commitment and capacities to undertake and deliver the agreed priorities and actions in order to contribute to EU environment/climate integration efforts.<sup>48</sup> Thus, it can be maintained that climate proofing the EU budget will only be successful when receiving authorities on the ground do not counteract the established objectives and intentions, but rather concur with and contribute to the integration and coherence agenda.

In addition to this vertical perspective, one should also look at the institutional architecture that underpins the programming and implementation of EU funding to understand the inherent bias and impediments for policy integration. While the responsibility for environmental issues in traditional public policy-making tends to lie with environmental authorities, sectoral decision-makers have often been reluctant to embrace integrative approaches to problem solving and priority setting<sup>49</sup>. It has been suggested that policies would be 'environmentally integrated' when non-environmental actors acknowledge the consequences of sectoral policies on the environment and undertake actions to correct

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43 Jordan, A and Schout, A. (2005) Coordinated European Governance: Self-Organizing or Centrally Steered? *Public Administration* 83(1)201-220.

44 Nikvist, B. (2008) EPI in Multi-Level Governance- A Literature Review. EPIGOV Papers 30. Stockholm Environment Institute, Stockholm.

45 Lenschow, A and Jordan, A. (2000) 'Greening' the European Union: What can be Learned from the 'Leaders' of the EU Environmental Policy? *European Environment* 10, 109-120 and Mickwitz et al. (2009) Climate policy integration, coherence and governance. PEER report 2. Helsinki: Partnership for European environmental research.

46 Wilkinson et al. (2008) Green Budgeting. In : *Innovation in environmental policy? Integrating the environment for sustainability*, edited by Jordan and Lenschow. Edward Elgar: Cheltenham.

47 Ibid.

48 Jordan, A. and Lenschow, A. (2000) 'Greening' the European Union: What Can Be Learned From the Leaders of EU Environmental Policy? *European Environment*, 10, 3, 109-120.

49 Jacob, C. et al. (2008) Instruments for environmental policy integration in 30 OECD countries. In: *Innovation in environmental policy? Integrating the environment for sustainability*, Jordan and Lenschow (2008). Edward Elgar: Cheltenham.

these<sup>50</sup>. One way to do this is by reforming or creating appropriate governance structures and routines<sup>51</sup>. **This means that a climate proofing strategy for the EU budget will not only depend on the political leadership of environmental actors but importantly also on a change in the entrenched values and beliefs of actors in non-environmental domains.**

### 3.3 Moving Towards Operationalisation

From a purely instrumental perspective, climate proofing a funding programme could be concerned with deploying a simple impact assessment of projects receiving support so as to identify likely GHG emissions (without necessarily doing anything about them), i.e. a step beyond conventional environmental impact assessments. This could apply to projects or wider programmes. Jacob *et al.* offer a similar interpretation of the concept of 'green budget' as 'an in-depth environmental evaluation as part of the annual budgetary procedure [which] can reveal spending that is contradictory to environmental objectives'.<sup>52</sup> In the same vein, Wilkinson suggests that 'green budgeting' could be understood as a 'wide range of activities involving a diverse range of actors, institutions and instruments' within the entire budgetary 'lifecycle'.<sup>53</sup> The latter suggests a more systematic approach to greening the EU budgetary cycle through a set of different instruments and responsibilities assigned to a range of policy actors. In broad terms, this report adopts this understanding of climate proofing in relation to the EU budget.

Even if convincingly designed as a concept, climate proofing can fail if the respective political context conditions and their opportunity structures are not adequately taken into account. A number of factors have historically impeded the effective integration and greening of the EU budget in the past. Some of these include the tendency in past negotiations for Member States to focus on net balances instead of responding to changing political priorities. At the same time, sectoral policies that receive considerable financial support from the EU budget such as agriculture and Cohesion Policy tend to be rather averse to any reforms that concern the scale or scope of funding, and are under pressure from strong vested interests. Furthermore, environmental authorities have often been in rather asymmetric power relations with sectoral and budgetary authorities. The latter have also tended to be less open and supportive of notions and actions for greening the EU budgetary processes and decisions. Climate proofing the EU budget thus needs a realistic approach towards implementation which **takes into account organisational structures (institutional arrangements) and socio-political conditions (leadership, political will) and the opportunity structures they offer.**

**Climate proofing the EU-budget is not a one-off exercise, but a process that needs to be pursued over time.** The currently available set of procedural tools have often appeared

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50 Lenschow, A and Jordan, A. 2000. 'Greening' the European Union: What can be Learned from the 'Leaders' of the EU Environmental Policy? *European Environment* 10, 109-120.

51 See Lenschow 2002, Hertin and Berkhout 2003, Jacob *et al.* 2008

52 Jacob *et al.* (2008) Instruments for environmental policy integration in 30 OECD countries. In: *Innovation in environmental policy? Integrating the environment for sustainability*, Jordan and Lenschow (2008). Edward Elgar: Cheltenham.

53 Wilkinson *et al.* (2008) Green Budgeting. In : *Innovation in environmental policy? Integrating the environment for sustainability*, edited by Jordan and Lenschow. Edward Elgar: Cheltenham.

insufficient and ill-equipped to measure and assess the relationship between spending and climate change. More innovative instruments to stimulate carbon saving and resilient investments are to a large extent missing or limited to few front running Member States/regions. Based on relevant insights from the literature on policy coherence and policy integration; the sections below help to sharpen the perspective on potential entry points for climate proofing the EU budget within different phases of the budget lifecycle.

### **3.3.1 The EU Budget Lifecycle**

Collier<sup>54</sup> suggested that policy integration could occur at three stages of a general policy making cycle – policy formulation, measures and implementation. Similarly, in the context of the EU budget, Wilkinson *et al.* set out a budget ‘lifecycle’ consisting of five stages which together constitute an ‘interlinked and adaptive fiscal process’<sup>55</sup> and can be used to analyse the budgetary processes of any state from the perspective of environmental integration. These identified stages are:

- Strategic planning and setting expenditure priorities;
- Formal adoption of the annual budget;
- Implementation of the budget;
- Monitoring, evaluation and reporting; and
- Raising revenue.

Although such a lifecycle approach may not be comprehensive enough to embrace the complexities of the adoption and spending process of the EU budget, it is nonetheless valuable as it reminds us that **integration needs to occur both at the strategic and more operational stages of the policy cycle and that an interactive process is required.** A strategy to climate proof the EU budget should therefore cover the budget’s entire lifecycle and can be divided into different stages as set out below.

#### **1) Strategic planning and expenditure priorities**

One of the most important stages of the EU budget cycle is the strategic planning stage where the priorities for EU expenditure are determined. As discussed earlier, European ‘multi-annual financial perspectives’ which extend over seven years usually reflect an overarching ‘political project’<sup>56</sup>. For instance, to a large extent Agenda 2000 informed the priorities of the 2000-2006 MFF while the Lisbon Strategy for growth and jobs inspired the current 2007-2013 MFF.<sup>57</sup> The Europe 2020 Strategy contains some strategic objectives and priorities for climate change which will in turn inform the strategic planning and priority setting for the post-2013 MFF Regulation. Thus, **a climate-proofing strategy needs to engage the relevant EU institutions at**

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54 Collier, U. (1997) *Energy and Environment in the European Union*. Aldershot, Ashgate.

55 Wilkinson *et al.* (2008). *Green Budgeting*. In : *Innovation in environmental policy? Integrating the environment for sustainability*, edited by Jordan and Lenschow. Edward Elgar: Cheltenham.

56 CEC (2004) *Building our common future: policy challenges and budgetary means of the enlarged Union 2007-2013*, COM(2004)101 final, 26.2.2004, Brussels

57 EC Financing programming and budget. [http://ec.europa.eu/budget/prior\\_future/fin\\_framework\\_en.htm](http://ec.europa.eu/budget/prior_future/fin_framework_en.htm) [accessed February 2011]

**this stage of the budget lifecycle in view of setting out clear objectives and strengthening overall policy coherence and integration.**

## **2) Formal adoption of the EU budget**

While the MFF defines strategic priorities, high-level spending priorities and the overall allocation ceilings for each year; the annual budget sets out in more detail the allocation to specific ‘activities’ (or ‘policy areas’). The European Parliament’s most extensive and its longest-established powers are those on the annual EU budget.<sup>58</sup> The European Parliament’s negotiations with the Council and the Commission over the budget are led by its Committee on Budgets. Before the ratification of the Lisbon Treaty (and with it the TFEU), the Parliament was only consulted by the Council over ‘compulsory’ expenditure (mainly the CAP), while in relation to most other (‘non-compulsory’) spending the Parliament had the final say and could insist on increasing expenditure within an agreed ceiling, reduce expenditure, or temporarily block spending subject to the fulfilment by the Commission of certain conditions.<sup>59</sup> With the entry into force of the TFEU, the distinction between compulsory and non-compulsory spending was abolished and the annual budget must now be established according to a ‘special legislative procedure’ (Art. 314), which puts the European Parliament on a par with the Council within the decision-making process. In this new decision-making context, **a climate proofing strategy can benefit from an enhanced role of the European Parliament. This will however be dependent on the political capital of the Environment Committee or on the commitment and progressiveness of the Committee on Budgets to climate change.**

## **3) Implementation of the EU budget**

The next critical stage of the EU budget cycle is its implementation. The Commission implements the budget in cooperation with Member States (TFEU, Art 317). A 2004 evaluation for the Commission found no less than six different approaches to managing EU spending programmes. In the order of 80 per cent of EU expenditure is spent by the governments of Member States or by regional and local authorities and partnerships, and there is often considerable discretion on how to spend it.<sup>60</sup> This applies to both Cohesion Policy instruments – the ERDF and the CF which are implemented *within* Member States mostly by sub-national authorities.

Since the end of the 1990s, the Commission has gained increasing influence over spending priorities at the Member State level. This culminated in the development of EU strategic guidelines for both regional and rural development funds in the current MFF.<sup>61</sup> The guidelines are applicable to all Member States and aim at aligning

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<sup>58</sup> IEEP (2005) Environmental policy integration: scoping the role of EU budgetary mechanisms and Funding. A discussion paper. 22 June 2005.

<sup>59</sup> IEEP (2005) Environmental policy integration: scoping the role of EU budgetary mechanisms and Funding. A discussion paper. 22 June 2005.

<sup>60</sup> Wilkinson et al. (2008) *Green Budgeting*. In: Innovation in Environmental Policy? Integrating the Environment for Sustainability, edited by Jordan and Lenschow, Edward Elgar, Cheltenham.

<sup>61</sup> For example, the General Regulation 1083/2006/EC on the EU Structural and Cohesion Funds lays down general provisions and sets out the key principles guiding the programming and implementation of the funds. It introduces sustainable development and environmental protection as horizontal principles in Article 17 which stipulates that ‘the objectives of the Funds shall be pursued in the framework of sustainable development and the Community promotion of the goal of protecting and improving the environment’.

national priorities for use of the EU funds with the objectives of the renewed Lisbon Strategy through 'earmarking' EU funds towards these objectives.

Once Operational Programmes have been approved by the Commission, **Member States have the task of managing and controlling their implementation**. This entails organising calls for proposals, the selection of projects, monitoring and evaluation. Gearing these processes to the needs of climate change investments may entail considerable efforts in building the right capacities and skills at lower governance levels and enhancing ownership. **There are however ample opportunities for the Commission to provide soft coordination** in the form of guidance and good-practice sharing for aligning the processes of application, project selection and information assistance to applicants with the objectives of EU climate policy<sup>62</sup>.

#### **4) *Monitoring the implementation of the EU budget***

Monitoring, evaluation and reporting the carbon impact of spending is essential for ensuring coherence with wider EU climate change objectives. The majority of reporting in the context of the EU budget in general and EU Structural Funds in particular concerns the rate of absorption and compliance with rules. To date, little attention has been paid to capturing actual outcomes and impacts. The latter are often measured with regard to developments based on strictly social and economic indicators.

**Monitoring should not only be undertaken at the national/regional levels for programmes and projects but should also be undertaken at the EU level in relation to the strategic objectives and priorities of the EU budget**, i.e. to track whether overall EU funding is in line with climate change objectives. Monitoring and reporting systems are a key instrument to ensuring a result-oriented EU budget.<sup>63</sup> The MFF is in need of a coherent and streamlined monitoring and reporting system through which the impacts of funding can be tracked, at least for sectoral policies such as Cohesion Policy.

#### **5) *New own resources and innovative financing***

The EU budgetary life is not only about expenditure but also the financing of the budget through raising revenues. The TFEU states that the EU must provide itself with the means to attain its objectives and carry through its policies and that the budget must be financed wholly from 'own resources' (Art. 311). The Council can establish new or abolish existing categories of own resources, acting in accordance with 'a special legislative procedure' and after consulting with the Parliament. This has to be approved by Member States in 'accordance with their respective constitutional requirements'. The means through which the EU can raise resources are limited and there is an overall upper limit on EU revenue raising (and therefore the budget) expressed as a percentage (1.23 per cent) of total Community Gross

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Recital 22 of the Preamble also calls for policy coherence by stipulating that the 'activities of the Funds and the operations which they help to finance should be consistent with the other Community policies and comply with Community legislation'. The Regulation does not, however, include a reference to climate change per se.

<sup>62</sup> ENEA-REC (2009) Improving the Climate Resilience of Cohesion Policy Funding Programmes. REC: Szentendre.

<sup>63</sup> ENEA-REC (2009) Improving the Climate Resilience of Cohesion Policy Funding Programmes. REC: Szentendre.

National Income (GNI). Funds spent through the EU budget come from three main sources: traditional own resources – duties that are charged on imports of products coming from a non-EU state (approximately 12 per cent of total revenue); resources based on Value Added Tax (VAT) - a uniform percentage rate that is applied to each of the Member States' harmonised VAT revenues (approximately 11 per cent of total revenue); and resource based on GNI – a uniform percentage rate applied to the GNI of each Member State (approximately 79 per cent of total revenue).<sup>64</sup>

The relative contribution of these sources to the EU budget has changed over the years. Of the current three sources, traditional own resources have declined in recent years, as have VAT-based resources. While the GNI-based resource was originally intended to be a balancing item, it has subsequently become the largest source of revenue. This system of financing the EU budget, accompanied with an increasing number of corrections and special arrangements, forms the core of the '*juste retour*' discussions over which the EU budget negotiations often tend to come down to. **Given the current trends for national budget cuts and austerity measures, the question of reforming the financing system of the EU budget resurfaces with new strength and potentially opens additional opportunities to introduce ideas for climate proofing the EU budget on the revenue side.** However, the issue of new revenues is politically sensitive and it is yet to be seen if it will endure the political negotiations in the forthcoming MFF.

Other forms of financing complementary to the EU budget are also increasingly being considered. These include 'innovative' financing instruments which can be leveraged by EU funds and might entail a number of different financial instruments which include guarantee funds, risk capital, blended instruments mixing a Community grant with a loan or a guarantee.<sup>65</sup> The question is how to design and mobilise these for targeted climate change actions. Other ideas include the use of EU project bonds for the modernisation and decarbonisation of large infrastructure projects in transport, energy, information and communication networks as announced in a consultation paper released by the Commission in February 2011.<sup>66</sup> **These innovative approaches to financing emerging EU priorities in the field of climate change mitigation and adaptation constitute another entry point for proofing the future EU budget in terms of enhancing its leverage effect and securing the scale of necessary investments.**

### ***3.3.2 The Timeline for Climate Proofing the EU Budget***

The 2008 European Economic Recovery Plan stimulated a number of changes in the mid-term of the current MFF and facilitated legislative amendments to the ERDF Regulation

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64 EC. Financial programming and budget. Where does the Money Come From?

[http://ec.europa.eu/budget/budget\\_glance/where\\_from\\_en.htm](http://ec.europa.eu/budget/budget_glance/where_from_en.htm) [accessed February 2011]

65 EC (2010) Proposal for a regulation on the Financial Regulation applicable to the general budget of the European Union, Recast.

COM(2010) 260 final, 28.5.2010, Brussels

66 EC (2011) Stakeholder consultation paper on EU 2020 project bond initiative, February 2011, Brussels

which allow Member States to increase their EU fund allocations for energy efficiency and renewables in housing with the view of encouraging actions in the economic recovery which were smart and green. The 2011 DG Regional Policy Communication on the contribution of Cohesion Policy to the sustainable growth objective of the Europe 2020 Strategy also called for national, regional and local actors to reallocate available funds under the current Operational Programmes to boost 'green' investments 'without delay'.<sup>67</sup> Thus, the high level political commitment exists and reallocations in EU spending can be implemented by setting a strategic direction for investment change. At the same time, there is a need for preparatory actions (e.g. conducting feasibility studies, needs assessments, environmental capacities and skills) to better inform and underpin the programming of the post-2013 frameworks and ensure the sustainability and resilience of EU spending.

The EU has set out climate change objectives and targets for 2020 that constitute important milestones and involve critical turning points in key sectoral policies. The EU budget thus needs to act as a major factor for mobilising public and private sources of funding towards strategic investments and bringing policy change in the next budgetary period. Policy choices made now will determine the long-term path dependency of the European economy and therefore, these policy choices cannot be avoided or postponed. Climate proofing should be viewed in a long-term time perspective. It is not a one-off exercise but rather a continual process that is likely to stretch well beyond 2020. A climate proofing strategy will evolve and change over time as concrete objectives and targets for integration develop. Therefore, climate proofing should be seen as a useful approach to future MFFs in the context of long-term roadmaps for the decarbonisation of key economic sectors and transition to a low carbon economy by 2050. In this sense, it is not a linear process but rather one that is intended to provide feedback loops and spur policy learning in the long term.

These subsections offered a three-dimensional perspective on understanding how climate proofing the EU budget can be undertaken and effectively implemented. This approach is taken forward in Chapter 5 where different instruments are discussed in detail according to the most appropriate stage of the EU budget lifecycle, level of governance and timeframe. First however, Chapter 4 provides an overview of the two main components of a strategy to climate proof the EU budget.

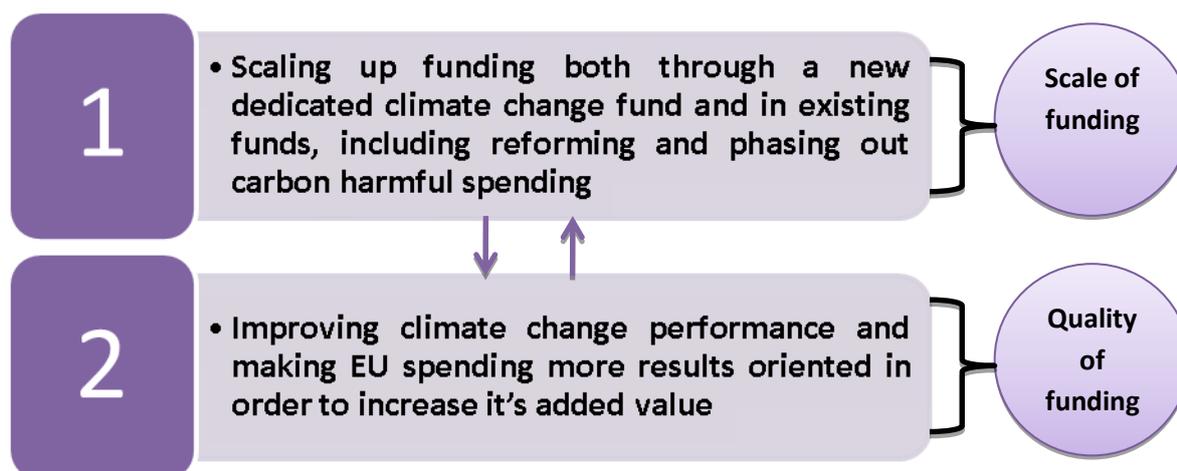
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<sup>67</sup> EC (2011) Regional Policy contributing to sustainable growth in Europe 2020, Communication from the Commission, COM(2011)17, 26.1.2011, Brussels

### 3.4 Key Components of a Climate Proofing Strategy for the EU Budget

This chapter sets out the main components of a strategy to climate proof the EU budget based on the discussion in preceding chapters. There are two basic interlinked components of a climate proofing strategy (see Figure 2). **The first component concerns the scale of funding.** This implies both stepping up climate change funding but also reforming spending which is climate harmful. **The second component concerns the quality of EU spending.** It aims at increasing the overall transparency of EU spending and making it more result-oriented and performance-driven. It is directly supportive of the first component, by achieving efficiency gains and increased added value. Pursuing better transparency and result-orientation will also help to scrutinise the added-value of sectoral spending under the EU budget and support discussions around reforming and phasing out climate harmful spending. These two components need to be pursued and operationalised in practice through the development and application of a set of procedural and organisational instruments (as discussed in Chapter 5).

Figure 2: Components of a climate proofing strategy for the EU budget



### 3.5 Scaling up Climate Change Funding and Reforming Climate Harmful Spending

Public financing is a common governance tool together with regulation and other market-based instruments which is used to support the implementation of policies and encourage new technologies. At the same time, the lack of sufficient public financing is often blamed for implementation deficits, particularly in relation to EU environmental policy. Mickwitz *et al.* argue that the lack of adequate funding resources often constitutes one of the key

barriers to achieving climate integration in sectoral policies.<sup>68</sup> This implies that the provision of an adequate scale of financing for climate change inevitably forms the first key component of a climate proofing strategy for the EU budget.

**Increasing the scale of direct funding for climate change is critical to ensure the implementation of the EU's climate and energy targets which are currently enshrined in the Europe 2020 Strategy.** In early 2008, the cost of achieving the 20 per cent reduction in GHG emissions target was assessed at around €70 billion per annum by 2020. By 2010, this had dropped to about €48 billion due to a combination of factors. Even if the EU opts for moving to a 30 per cent emission reduction target, the total cost of the EU climate and energy package is estimated at €81 billion per annum by 2020, or 0.54 per cent of the EU's GDP.<sup>69</sup> The EU budget has a definite role in facilitating the implementation of this legislation. Climate change adaptation as a Community policy is still relatively new and is developing alongside recent research. There can be a strong economic case for investing in adaptation with regard to the potential impacts of climate change on key economic sectors and local communities. The question is thus about the role of the EU budget in securing such investments in terms of scope and scale.

**The EU's ambition to transition towards a low carbon economy also requires a massive shift in investments and EU funding will have to play a certain role in this context.**<sup>70</sup> It is also needed as a complementary measure to Member State action, helping to bypass bottlenecks, address trans-boundary issues, reinforce existing efforts at Member State level or close gaps in funding. The Commission's roadmap for moving to a low carbon economy by 2050 identifies key investment needs in various sectors such as boosting renewable energies, smart grids, passive housing, carbon capture and storage, advanced industrial processes and electrification of transport systems. It estimated that on average €270 billion of investments are needed annually in the next 40 years to meet the emerging needs. This means an additional 1.5 per cent of EU GDP per annum on top of current investment which represents 19 per cent of GDP.<sup>71</sup> It has been estimated that the new EU-27 energy infrastructure alone will require an investment push of about one trillion Euros in the next decade, some of which should secure investment needs related to the capacity to connect renewable generation and transmit it to major consumption /storage centres as well as contribution to energy efficiency and smart electricity use.<sup>72</sup> The latest estimates by the Commission indicate that around €200 billion investments in the next 10 years will be needed for the refurbishment of existing building stock alone.

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68 Mickwitz et al. (2009) Climate policy integration, coherence and governance. PEER report 2. Helsinki: Partnership for European environmental research.

69 EC (2010) Commission staff working document accompanying the Analysis of options to move beyond 20 per cent greenhouse gas emission reductions and assessing the risk of carbon leakage. Background Information and Analysis. Part II. (SEC(2010)650), Brussels, 26/05/2010

70 Medarova, K. (2009) Climate, cohesion and delivering EU value. In: Unlocking a low-carbon Europe: perspectives on EU budget reform, by Green Alliance: London.

71 EC (2011) A Roadmap for moving to a low carbon economy in 2050. Communication from the Commission. COM(2011)112, 8.3.2011, Brussels.

72 EC (2010) Energy infrastructure priorities for 2020 and beyond – a blueprint for an integrated European energy network. Communication from the Commission. COM(2010)677, 17.11.2010, Brussels.

Against this backdrop, we argue that dedicated support for climate change should be increased in EU and Member State spending. This can be implemented by a combination of a dedicated fund and through scaling up the contribution of existing funds (i.e. mainstreaming) towards actions that support climate change mitigation and adaptation efforts. Different elements that concern the scale of EU spending are set out below:

***Establishing a new separate funding instrument entirely dedicated to climate change***

There are some clear advantages to establishing a separate free standing instrument (similar to LIFE+ which is designed to target financial support exclusively on environmental measures). There is a greater likelihood that an adequate level of spending on genuinely climate-related issues will be achieved. Transparency is likely to be strengthened, as well as the effectiveness of monitoring, reporting and verification mechanisms. Such an instrument will most likely require the creation of a dedicated institutional structure to manage it which can ensure the pooling of capacity, knowledge and expertise on climate change financing. On the other hand, the establishment of a new institutional arrangement to manage the dedicated fund is likely to take time while running the risk of institutional compartmentalisation in terms of concentrating knowledge without spilling over institutional borders. Another disadvantage to having a dedicated funding instrument is that climate change is a cross-cutting issue which might be better addressed across other Community policies and their respective funding instruments.

***Increasing the level of funding in other existing funds that is directly available to climate change mitigation and adaptation concerns***

Another element is to strengthen the current ‘mainstreaming’ approach in existing EU funding instruments (e.g. CAP, Cohesion Policy, etc.). Hertin and Berkhout<sup>73</sup> argue that ‘mainstreaming’ should not simply mean ‘layering’ environmental objectives on top of other policy objectives but rather removing organisational barriers so that compatible policy objectives and ‘positive sum’ solutions are identified. **This would imply a substantial reform of these funding instruments to establish clear climate change priorities and scale up the support they provide for climate-relevant actions.** An obligatory set of measures need to be defined and clear criteria for earmarking or ring fencing provided so as to ensure an adequate scale of financing.

Key principles for the EU budget – to be proportionate and flexible and to demonstrate EU value added – point to the need for refocusing existing spending in other areas. This is of primary importance to our discussion as these objectives require that the budget is spent on the correct things. The mainstreaming of climate change in all EU spending can be an effective approach in terms of facilitating the necessary transformation for decarbonising and building resilience of entire sectors and policy domains. Furthermore, the institutional structures are already in place and no additional administrative procedures are to be introduced. However, there are considerable difficulties as mentioned earlier (see Chapter 2) related to the classification of expenditure and reporting and verifying results which still

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73 Hertin, J. and Berkhout, F. (2003) Analysing Institutional Strategies for Environmental Policy Integration: The Case of EU Enterprise Policy. *Journal of Environmental Policy and Planning*, 5 (1) 39-56.

need to be overcome. There is also the risk of overlapping activities and the challenge of ensuring complementarity of actions.

### ***Reforming and phasing out carbon harmful spending***

This element is not only about increasing the scale of targeted climate change spending but also about ensuring that non-direct climate change spending does not counteract the efforts of direct climate change spending, i.e. it is coherent with overall policy objectives. This might require the reduction, reform and eventual removal of certain forms of funding schemes. For instance, in the current 2007-2013 period, €41 billion or 12 per cent of the total Structural and Cohesion Funds have been allocated to road construction and rehabilitation. Financing road transport is often seen as a means to improve the accessibility of more peripheral or less developed regions in order to foster growth. However, it is one of the starkest examples of funding which would in most cases increase GHG emissions and lock regions into carbon-intensive infrastructure in a long-term perspective. Aviation still benefits from EU structural and cohesion funds (€1.9 billion or 0.5 per cent of the total EU structural and cohesion funds), while more climate-friendly modes (e.g. rail (€23.6 billion), intermodal and intelligent systems (€3.3 billion)) receive substantially less attention.<sup>74</sup> There is significant scope under the post-2013 Cohesion Policy to consider major shifts in investment patterns in terms of reducing and eventually phasing out carbon harmful investments in other programmes and funding instruments.

**Climate proofing the EU budget is therefore likely to require substantive reforms in financial support for carbon-intensive activities.** Under the effort sharing Decision, certain new Member States are allowed to increase their emissions for non-ETS sectors (sectors which are not included in the EU Emissions Trading System, such as transport)<sup>75</sup> so the argument to make Community funding for transport more restrictive in carbon terms is a difficult one to make. However, all EU Member States are obliged to pursue policies that contribute to long-term and medium-term climate change objectives. From this perspective, new Member States could engage in financing such projects without the opportunity to use the EU budget for these purposes as such financing is not compatible with a vision for a climate proofed EU budget.

## **3.6 Improving the Climate Change Performance of EU Spending**

Providing dedicated financing for climate change action could address the issue of the role of public investments in achieving Community policy objectives, however it would not be sufficient to ensure that the EU budget is fully climate proofed. A complementary element of a climate proofing strategy would involve **revisiting other non-climate related spending activities so as to ensure that the latter are in line with established climate objectives and do not undermine them.** This concerns the quality and performance of EU spending from the perspective of achieving climate change objectives and ensuring high EU value added.

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74 DG Regional Policy (2008) Statistics - [http://ec.europa.eu/regional\\_policy/themes/transport/index\\_en.htm](http://ec.europa.eu/regional_policy/themes/transport/index_en.htm)

75 Decision No 406/2009/EC of the European Parliament and of the Council of 23 April 2009 on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020, OJ L140

The political debate on EU value added is often pre-occupied with discussions about the type of measures that should be prioritised. However, a relevant question is also how to finance these more intelligently so as to ensure better performance and results. Therefore, the EU budget can be seen as a tool to send strong policy signals to Member States to adjust their investments to EU priorities by tying EU funding to specific criteria.<sup>76</sup> Furthermore, in line with the 2009 White Paper on climate change adaptation, climate proofing could also be seen as a means to ensure that all future EU projects are made 'adaptation positive' and 'climate resilient' through, for example, integrating expertise on climate change analysis and risk management in feasibility studies or improving construction standards, and testing the robustness of the project under different climate change impact scenarios. For instance, new construction activities need to be accompanied by measures that ensure they will withstand pressures from extreme weather events or changing climatic conditions on the long term (e.g. floods, storms, droughts and heat waves).<sup>77</sup> Investing in ecosystem-based adaptation measures (e.g. forestation and wetlands restoration) could also deliver important co-benefits for increased GHG absorption capacity in a cost-effective manner.<sup>78</sup>

At this more operational level, climate proofing would entail the development and application of a set of instruments, which will enhance the integration of climate change in EU spending in view of improving performance and result-orientation. These include: organisational and procedural instruments. **Organisational instruments** refer to wider governance mechanisms which involve changes in institutional structures, enforcement of the partnership principle and consultations. The potential of these instruments lies in the opportunity for strengthening the position of environmental actors, stimulate collaborative networks and engage with new climate-relevant stakeholders. **Procedural instruments** usually involve a set of assessment procedures, proofing tools and monitoring and reporting systems. Essentially, these instruments have the potential to strengthen common procedures, routines and practices in policy-making, and according to some have the highest potential for policy innovation in terms of environmental/climate integration.<sup>79</sup> However, these instruments often face significant political resistance and bear relatively high administrative costs. Therefore, their formalisation and institutionalisation in the policy-making process will be insufficient unless capacities and knowledge are harnessed towards ensuring their effective application in practice.

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76 Jouen, M. and Rubio, E. (2007) Seminar 'The EU Budget: What for?'. Synthesis Paper, 19.04.2007, Brussels.

77 Bart. I. (2011) Ideas on adaptation and Cohesion Policy. Unpublished.

78 UNEP research brief: The need to include ecosystems management as part of the COP15 agenda.

<http://www.macauley.ac.uk/copenhagen/documents/UNEP-CC-EM-12-page-brief.pdf>

79 Jacob, K., Volkery, A. and Lenschow, A. (2008) Instruments for environmental policy integration in 30 OECD countries. In: Innovation in environmental policy? Integrating the environment for sustainability.

## 4 Part I: A Cookbook for Climate Proofing the EU Budget

This chapter provides a cookbook of concrete instruments and tools that underpin the two strategic components of a climate proofing strategy for the EU budget as elaborated in chapter 4:

- 1) Scaling up funding both through a separate dedicated climate change fund and in existing funds, including reforming and phasing out carbon harmful spending; and
- 2) Improving climate change performance and making EU spending more result oriented.

Both components of the proposed climate proofing strategy comprise of a mix of different instruments which are not mutually exclusive but are complementary to each other. Both components require a mix of legislation and supporting measures. The first strategic component of a climate proofing strategy could be effectively pursued by the application of eight instruments. Many of these should be developed at the strategic level of the formulation of the next MFF, while others concern the implementation and reporting stages of the EU budget lifecycle. Importantly, most of the instruments should be enshrined in the legislative package on the post-2013 MFF, while others will require actions to be taken well beyond the 2020 horizon. Each level of the governance system of the EU budget plays a different and yet complementary role in the development and deployment of these instruments. The second strategic component of a climate proofing strategy could be effectively promoted by another set of seven instruments. These are mainly procedural and organisational tools aimed to provide decision-making support at each stage of the EU budget lifecycle and each tier of governance. Some of these instruments should be deployed without delay in the current 2007-2013 funding period with the view of informing the post-2013 programming period and beyond.

An overview of some of the key measures required to take forward each component is provided in the tables below. Each of the instruments is described in turn in the cookbook that follows.

**Table 3: Overview of potential instruments for climate proofing the EU budget**

1) Scaling up funding both through a new dedicated climate change fund and in existing funds, including reforming and phasing out carbon harmful spending								
Instruments	Horizontal and vertical CC objectives	Strategic framework	Allocating sufficient funding	Priority measures	Reforming and phasing out harmful spending	Reforming categories of expenditure	Coordinating structures and partnerships	Innovative financing
<b>Stage of the EU budget cycle</b>								
Strategic planning	✓	✓	✓	✓	✓		✓	
Implementation					✓		✓	✓
Monitoring, reporting						✓	✓	
<b>Level of governance</b>								
EU	✓	✓	✓	✓	✓	✓	✓	✓
National			✓	✓	✓		✓	✓
Regional				✓	✓		✓	✓
<b>Timeframe</b>								
Up to 2013					✓		✓	
2014-2020	✓	✓	✓	✓	✓	✓	✓	✓
Beyond 2020		✓	✓	✓			✓	✓

2) Improving climate change performance and making EU spending more results oriented in order to increase it's added value							
Instruments	Preparatory studies and mapping vulnerability	Enhancing admin. capacity for CC	Ex-ante carbon screening tool	Conditionality and incentives	Project development and selection criteria	CC indicators and reporting	Thematic CC evaluation
<b>Stage of the EU budget cycle</b>							
Strategic planning		✓	✓	✓			
Implementation	✓	✓			✓		
Monitoring, reporting		✓				✓	✓
<b>Level of governance</b>							
EU		✓		✓		✓	✓
National	✓	✓	✓		✓	✓	✓
Regional	✓	✓	✓		✓	✓	
<b>Timeframe</b>							
Up to 2013	✓	✓	✓				
2014-2020		✓	✓	✓	✓	✓	✓
Beyond 2020		✓	✓	✓	✓	✓	✓

## 4.1 Scaling up Funding Through a New Dedicated Climate Change Fund and in Existing Funds

### 4.1.1 Setting Horizontal and Vertical Climate Change Priorities and Objectives

The increased centrality of climate change on the EU agenda should be reflected in its overall budgetary framework through specific climate change priorities and objectives. This could be regarded as a starting point for climate proofing the EU budget at a strategic level. Setting out such objectives and priorities is critical in order to communicate high level political commitment and establish a sense of direction in terms of policy choices and possible trade-offs. These strategic objectives should give due importance to both climate change as prescribed in EU's climate change policies and the 2050 low carbon roadmap.

**Specific climate change objectives should be formulated *horizontally* for the entire long-term MFF and *vertically* within the different funding instruments.** The latter is imperative in view of proposed actions to 'mainstream' climate change in already existing funds such as agriculture, cohesion, and research among others.<sup>80</sup> For instance, the draft Communication on the EU budget review leaked in October 2009 outlined three major spending priorities: growth and jobs, climate and energy security and a global Europe, thus bringing climate change issues from the periphery to the core of the EU budget. Similar language should be embedded in the upcoming Communication on the post-2013 MFF and respective legislative proposals on the separate funding instruments.

The structure of the EU budget not only reflects priorities in spending, but is also an important framing tool for policy dialogue at the national level where the principal focus of spending is on social protection, health and education.<sup>81</sup> The current classification of expenditure is to a large extent 'the legacy of establishment of the first financial perspectives and its successors'<sup>82</sup> and not much has subsequently changed. If climate change is to be brought to the fore of the budget agenda, then the structure of the EU budget should change and should include a **specific budget line or specific sub-heading for investments in climate mitigation and adaptation** in the next MFFs.<sup>83</sup> This would provide a basis for identifying concrete measures in support of this objective and promote the development of concrete implementation plans, indicators and supporting organisational structures.

The next step would require **ensuring consistency between climate change objectives and other objectives** of the EU budget as far as possible. Examples of inconsistencies include

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80 EC (2010) The EU Budget Review. Communication from the Commission, COM(2010)777, 19.10.2010, Brussels.

81 EC (2010) The EU Budget Review. Communication from the Commission, COM(2010)700, Brussels, 19.10.2010

82 CEC (2004) Building our common future: policy challenges and budgetary means of the enlarged Union 2007-2013, Communication from the Commission, COM(2004)101 final, 26.2.2004, Brussels

83 Egenhofer, C., Behrens, A. and Ferrer, J.N. (2008) Does the EU have Sufficient Resources to Meet its Objectives on Energy Policy and Climate Change? Report for the Budgetary Affairs. European Parliament, Brussels.

policy objectives for developing major road connections in Europe which counteract objectives to reduce GHG emissions from transport. An even more sensitive example would be the development of environmentally unsustainable biofuels for the purposes of climate mitigation articulated against objectives for biodiversity protection and food production<sup>84</sup>. Therefore, an assessment and understanding of the different trade-offs between the various budgetary objectives becomes crucial. Pinpointing potential synergies is also helpful, such as underlining the role of climate change investments in the net promotion of new sources of growth and green jobs.

Cohesion Policy, for example, has traditionally pursued objectives for economic development and social cohesion. Climate proofing Cohesion Policy would require setting policy objectives in a way that can accommodate the currently prevailing climate change priorities. The issue can also be considered from the point of view of the model for socio-economic development that the future Cohesion Policy wants to pursue. The underlying paradigms subsequently need to be translated into concrete goals and objectives. At a Community level this would entail the formulation of climate change mitigation and adaptation objectives in the process of developing the post-2013 Cohesion Policy framework. Climate change priorities and objectives need to be stipulated clearly in the General Regulation laying down provisions for the structural and cohesion funds and also in the specific Regulations further arranging each individual funding instrument under EU Cohesion Policy. By doing so, the regulatory framework would permit the further 'mainstreaming' of climate change measures as called for in the EU Budget Review Communication. It would also signal the centrality of climate change issues within the multi-level governance polity to the respective managing authorities at national/regional levels. This in turn would add weight to climate change objectives in their negotiations of development and investment partnership contracts and related Operational Programmes.

The EU can draw on the substantial experience in Member States in this regard. In the current programming period a number of Member States have included climate change adaptation and mitigation and / or the promotion of renewable energy in their National Strategic Referential Frameworks (NSRF) for EU funds and National Reform Programmes<sup>85</sup>. These priorities are often set within the context of broader priorities on the environment, business development and innovation. The main focus of these priorities is usually on reducing energy consumption, increasing energy efficiency, promoting renewable energy, promoting energy-related innovation, and increasing awareness of the need for energy management among the public and private sector<sup>86</sup>. In Italy for example, the NSRF allocates 8 per cent of ERDF funds to energy efficiency and renewable energy investments in the Convergence regions and 12 per cent in the Regional Competitiveness and Employment (RCE) regions. Most countries, however, reflect the importance attached to energy through

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84 Mickwitz et al. (2009). Climate policy integration, coherence and governance. PEER report 2. Helsinki: Partnership for European environmental research.

85 Nordregio, European Policies Research Centre, Austrian Institute for Spatial Planning (ÖIR) and SWECO (2009) The potential of regional development instruments 2007-2013 to contribute to the Lisbon and Goteborg objectives for growth, jobs and sustainable development. Final report for the European Commission

86 EPRC (2008) From environmental sustainability to sustainable development? Making concepts tangible in structural funds programmes. IQ-Net Thematic Paper No (22)2.

thematic priorities rather than explicit financial commitments<sup>87</sup>. For example, the NSRF in Austria recognises the climate and energy challenges and includes energy and climate issues among its specific objectives and goals, with support envisaged for *inter alia* innovative and environmentally friendly transport<sup>88</sup>.

Some countries also link climate and energy objectives to the innovation and growth agenda. For example, in Germany the Convergence priority of ‘business competitiveness’ and the RCE priority on ‘knowledge based innovation orientated development’ set goals to increase environmental innovation and optimise energy and resource efficiency and offer support for increased use of renewables; while in Finland, the ‘business promotion’ priority supports the development of and use of renewable energies and innovations linked to energy efficiency to improve international competitiveness of Finland<sup>89</sup>. **The inclusion of climate change related measures in NSRFs and linking this with the economic growth and jobs agenda should help to promote integration of climate change issues in Cohesion Policy at the national level given the prioritisation of economic issues on the political agenda<sup>90</sup>.**

#### ***4.1.2 Improving the Strategic Framework for Climate Change with Investments***

One way to better align the utilisation of different EU funding instruments with new climate change priorities and objectives would be to improve the strategic planning process by **establishing an overall strategic framework for climate change investments**. As discussed in previous chapters, there is currently a set of ‘Community Strategic Guidelines’ for Cohesion Policy and Rural Development. The leaked EU Budget Communication from October 2009 made a rather bold proposal of suggesting the establishment of a ‘European Framework Programme for Climate Change and Energy’. This was supposed to provide a framework for blending funding streams under the EU budget to concentrate funding on the achievement of Europe’s climate and energy objectives.<sup>91</sup> While the idea of a Framework Programme for Climate Change and Energy was not taken forward in the formal 2010 Communication, a proposal is set out for the creation of a **‘common strategic framework, outlining a comprehensive investment strategy translating the targets and objectives of Europe 2020 into investment priorities’**.<sup>92</sup> This proposal is being considered in close relation to the investment needs arising from the Europe 2020 Flagship Initiatives. It is meant to replace the current set of strategic guidelines which are currently in place for the separate

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87 EPRC (2008) From environmental sustainability to sustainable development? Making concepts tangible in structural funds programmes. IQ-Net Thematic Paper No (22)2.

88 ENEA-REC (2009) Improving the Climate Resilience of Cohesion Policy Funding Programmes: An overview of member states’ measures and tools for climate proofing Cohesion Policy funds. ENEA Working Group on Climate Change and Cohesion Policy. November 2009.

89 EPRC (2008) From environmental sustainability to sustainable development? Making concepts tangible in structural funds programmes. IQ-Net Thematic Paper No (22)2.

90 ENEA-REC (2009) Improving the Climate Resilience of Cohesion Policy Funding Programmes: An overview of member states’ measures and tools for climate proofing Cohesion Policy funds. ENEA Working Group on Climate Change and Cohesion Policy. November 2009.

91 CEC (2009) A reform agenda for a global Europe- reforming the budget, changing Europe. Brussels, unpublished.

92 EC (2010) The EU Budget Review. Communication from the Commission, COM(2010)777, 19.10.2010, Brussels.

policies. Such an overarching strategic framework can be a particularly useful tool to streamline and coordinate the various funding instruments with a view to gear funding to strategic objectives, avoid overlaps, ensure synergies and ultimately improve policy outcomes. It establishes a broader framework which regards not only climate change but the full set of economic and social objectives enshrined in the overarching Europe 2020 Strategy. Importantly, climate change adaptation actions would also need to be brought into this framework if a systematic climate proofing strategy of the future EU budget is to be pursued.

Similarly for Cohesion Policy, setting specific climate change objectives in the EU funds Regulations should be supplemented by the adoption of **strategic guidelines aligning future Cohesion funding with the goals and targets set out in the Europe 2020 Strategy and the actions prescribed in the White Paper on climate change adaptation**. The 2007-2013 Community Strategic Guidelines (CSG), for instance, were devised to bring the current Cohesion Policy in line with the Lisbon Strategy for growth and jobs. They provided concrete guidance on the type of measures encouraged for support in Member States and 'earmarked' 60 per cent of the expenditure on 'Convergence' regions and 75 per cent of expenditure on 'Competitiveness' regions from the funds so as to contribute to the objectives of the Lisbon Strategy. Therefore, such specific guidelines can effectively strengthen the strategic framework of a future policy through leverage on/advice to Member States and seek to concentrate the limited resources on a set of overarching Community priorities including climate change.

However, stronger centralisation of the priority-setting process is likely to face challenges at national/regional levels where the actual programming and investment decision-making is effectively carried out. Improvements in planning could also be achieved. Currently, many Operational Programmes are sectoral and climate change issues are addressed within broader environmental programmes/measures. **National strategic frameworks to guide all investments** could aid the respective planning processes and encourage coherence between investments across Operational Programmes from the perspective of climate change mitigation and adaptation needs.

Another idea which could be explored is to **design a 'thematic' focus for Operational Programmes dedicated explicitly to climate change**. For example, the conclusions of the Fifth Cohesion report put forward the idea of introducing a menu of 'obligatory' priorities from which national/regional managing authorities can choose and pick measures for future financing.<sup>93</sup> One of these obligatory priorities could clearly be climate change mitigation and adaptation. Another approach would be the development of a thematic climate change Operational Programme in order to pool and streamline different funding instruments (public and private) available from EU and national levels and support a range of different climate change measures and projects. This could be another way of securing a more strategic orientation of the planning process, while ensuring the complementarity of actions and the coordination of different funding sources.

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93 EC (2010) Conclusions of the Fifth report on economic, social and territorial cohesion. Communication from the Commission, COM(2010)642, 9.11.2010, Brussels.

**A complementary approach would be to link the special partnership contracts and Operational Programmes to other national strategies** such as the National Climate Strategy and the National Sustainable Development Strategy (NSDS) which can help to increase the coherence and effectiveness of efforts<sup>94</sup>. For example, relevant projects funded under the Structural Funds could be required to comply with or support objectives set out in the NSDS. See Box 1 for a case study on France.

**Box 1: Integrating sustainable development in the National Strategic Referential Framework (NSRF): An example from France**

The French NSRF has two thematic priorities which relate to climate change:

- To protect the environment, prevent risks and adapt energy practices in a sustainable development perspective;
- To develop transport modes other than road for individuals and companies.

The NSRF requires partners to fix criteria and common objectives for selection of projects in their operational programmes, taking into account the objectives of the Lisbon Strategy and the EU SDS. Projects funded under the Structural Funds should also fit a sustainable development perspective and take the national SDS as a reference point. Those regions which have appropriate strategic instruments and comply with the reference framework (Agenda 21, national parks charters, climate plans etc) are to have priority access to funds.

*Source: ENEA. 2009. Improving the Climate Resilience of Cohesion Policy Funding Programmes: An overview of member states' measures and tools for climate proofing Cohesion Policy funds. ENEA Working Group on Climate Change and Cohesion Policy. November 2009*

Arguably, a very prescriptive future Cohesion Policy strategic framework could appear counter effective and pose challenges to implementation where it does not allow investment plans to take into account regional circumstances.<sup>95</sup> Therefore, it will be challenging to ensure that EU inspired priorities and objectives are translated adequately and implemented affectively at national and regional levels. **National and regional environmental/climate change policies hence could have a key role to play in terms of creating an appropriate framework** for effective spending on environmental/climate change measures. The most effective spending tends to occur when environmental/climate policies are developed outside Structural Fund programming and subsequently clearly and fully incorporated in the programmes, providing guidance and a framework for expenditure.<sup>96</sup> In Austria, for example, strong national policy goals for renewable energy provide the context and identify broad objectives for spending funds on renewable energy and energy efficiency. Spending under the Structural Funds fits into this policy context and complements domestic resources. In the 2000-2006 period, financing from the Structural Funds was equivalent to approximately 15 per cent of Austria's domestic public financing in renewable energies and energy efficiency. In most cases Structural Funds and national resources are used to co-finance projects, often in the private sector. In the 2007-2013

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94 ENEA-REC (2009) Improving the Climate Resilience of Cohesion Policy Funding Programmes: An overview of member states' measures and tools for climate proofing Cohesion Policy funds. ENEA Working Group on Climate Change and Cohesion Policy. November 2009.

95 Regional Studies Association (2011) Responses to the consultation on the conclusions of the 5th Cohesion Report. Policy Brief.

96 EEA (2009) Territorial cohesion: Analysis of environmental aspects of the EU Cohesion Policy in selected countries. EEA Technical Report No 10/2009.

period, Austria significantly increased Structural Fund spending for energy efficiency, which matches a similar focus for domestic resources. Austria has used its Structural Fund allocations to co-finance projects in renewable energy and energy efficiency in enterprises, and also to launch innovative pilot projects, for example in Güssing where Structural Fund resources have helped to promote local jobs and establish its energy independence.<sup>97</sup>

### **4.1.3 Allocating a Sufficient Amount of Funding for Climate Change**

Setting climate change objectives should be complemented by a **mechanism which will guarantee that a sufficient amount of financing is secured for meeting these objectives.** There are two ways in which this can be implemented in the context of the future EU budget. One way would be to establish a *stand-alone funding instrument* for climate change with a pre-allocated total budget for the post-2013 budgetary period (see discussion in Chapter 4.1). The other would be to increase the level of funding in other existing funds that is directly available to climate change mitigation and adaptation concerns by strengthening the ‘mainstreaming’ approach in existing EU funding instruments. However, **mainstreaming climate change in other existing funds is necessarily straightforward. A specific mechanism would be required to guarantee the necessary scale of funding.** *Earmarking* is one such mechanism which is generally used to deploy public finance to specific objectives and priorities.<sup>98</sup> *Ring-fencing* is another tool which puts a specific amount of funding aside for the purpose of supporting concrete measures. Effectively, both earmarking and ring-fencing mean the same and would ensure that a specific amount of financial resources are used in a targeted way.

Earmarking has been found to be a successful tool for targeting EU funding in support of the EU’s strategic objectives.<sup>99</sup> The 2007-2013 Cohesion Policy was aligned to the Lisbon Strategy through the ‘earmarking’ of 60 per cent of the expenditure in ‘Convergence’ regions and 75 per cent of expenditure in ‘Competitiveness’ regions. Effectively, this meant that Member States and regions were required to put aside a specific amount of their Structural funds for a concrete set of measures in support of the overarching EU objectives for growth and jobs.<sup>100</sup> These measures were selected from the wider set of categories of expenditure under Cohesion Policy (see chapter 5.1.6) and identified as contributing to the Lisbon Strategy. Given the desire for the post-2013 MFF to be aligned with the Europe 2020 Strategy, which itself recognises the importance of climate change in supporting sustainable growth, **earmarking funds in the post-2013 Cohesion Policy to this end can be a useful instrument.** This proposition is supported by the Communication on the EU Budget Review which called for earmarking to underpin the mainstreaming of *inter alia* climate change and energy policies in Cohesion Policy. This would imply that the European Commission identify

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97 EEA (2009) Territorial cohesion: Analysis of environmental aspects of the EU Cohesion Policy in selected countries. EEA Technical Report No 10/2009

98 European Commission (2007) Earmarking: Information paper 1. 28.2.2007, COCOF/2007/0012/00-EN

99 EPRC (2006) Strategic planning for structural funds 2007-2013. A review of strategies and programmes. IQ-net thematic paper N.18(2), September 2006.

100 Nord Nordregio, European Policies Research Centre, Austrian Institute for Spatial Planning (ÖIR) and SWECO (2009) The potential of regional development instruments 2007-2013 to contribute to the Lisbon and Goteborg objectives for growth, jobs and sustainable development. Final report for the European Commission.

a set of measures as contributing to a climate change mitigation targets as enshrined in the Europe 2020 Strategy and Member States earmark either a per cent or an absolute amount of funding towards these measures. Given the scale and urgency of investment needs, the volume of earmarked funding should be substantive. The identification of such measures however could be challenging in practice as they should allow Member States and regions to link them to regional specific priorities and needs.<sup>101</sup>

The earmarking of EU funds to climate change objectives and measures in existing funds could also bring more transparency to the reporting on EU expenditure on climate change. Member States should be required to report on the earmarking for climate change, which arguably will increase the availability and quality of information about the scale and scope of the climate change spending at EU level (see more on reporting in chapter 5.2.6).

#### **4.1.4 Identifying Priority Measures**

Improving the strategic planning and earmarking of EU spending for climate change measures would also require further discussion on what concrete measures should be financed. For instance, there are some proposals for the future EU budget to target the completion of energy interconnections. Smart energy grids are also often mentioned as a key investment priority.<sup>102</sup> In relation to R&D, financing the implementation of the SET-Plan<sup>103</sup> is also being put forward with an emphasis on new experimental technologies and projects associated with high-risk and upfront capital cost.<sup>104</sup> The 2050 Roadmap to a low carbon economy stresses the need to invest in various forms of renewable energy, smart grids, passive housing, resource efficient industrial processes and the electrification of transport.<sup>105</sup> A recent report for the European Parliament makes the case for the future EU budget to provide incentives for the development of green cities including measures for the decarbonisation and resilience of energy and transport systems.<sup>106</sup> In the transport sector, measures stimulating modal shift and low carbon infrastructure could be favoured under Cohesion Policy as greener ways to improve intra-regional connectivity and urban mobility, whereas the TEN-T network could exclusively target investments in high-speed rail and intelligent systems.<sup>107</sup> Arguably, **support should be channelled to clear win-win integrated solutions where multiple benefits for the climate, economic and social domains can be realised in the most cost-effective way.**

There will be a wide range of measures advocated by different interest groups and business associations and currently there is an obvious prevailing interest in propositions regarding

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101 EPRC (2006) Strategic planning for structural funds 2007-2013. A review of strategies and programmes. IQ-net thematic paper N.18(2), September

102 CEPS Task Force (2009) For future sustainable, competitive and greener EU budget: integrating the climate change objectives, CEPS: Brussels.

103 E3G (2010) A European budget for the future. In: 'Unlocking a low carbon Europe – perspectives on the EU budget reform' by Green Alliance, London.

104 Ibid.

105 EC (2011) A Roadmap for moving to a competitive low carbon economy in 2050, Communication from the Commission, COM(2011)112, 8.3.2011, Brussels.

106 EP (2011) New financial perspectives related with ENVI competences. Study, February 2011, Brussels.

107 European Parliament (2011) EU subsidies for polluting and unsustainable practices. Study. February 2011, Brussels.

energy projects and large-scale low-carbon technologies. While prioritising such measures in the EU budget could aid the process of concentrating resources on fewer but more targeted investments, it also runs the risk of overlooking smaller but more cost-effective solutions in the public sphere (for example energy conservation measures in public and multi-family residential buildings). Furthermore, there might be crowding-out effects to private and other public financing of measures which are likely to be commercially feasible. Therefore, it is necessary to set out clear **criterion at the strategic level to guide the prioritisation process and guarantee an appropriate balance of the measures supported by the EU budget**. Similar arguments can be put forward for climate adaptation funding – criteria are needed to help secure a balance between funding for different types of adaptation measures so as to ensure that not only large scale hard infrastructure measures (e.g. sea walls, etc.) receive most of the funding but ecosystem-based approaches and prevention measures are also supported. Furthermore, the planning of these measures will need to be based on local needs, circumstances and potentials in order to ensure their appropriateness and sustainability in the long-term.

Activities to promote renewable energy and energy efficiency have the potential to realise substantive climate change benefits while at the same time contributing to economic development in EU regions, especially in rural and coastal areas, outermost regions and islands, tapping into their local energy potential. Interventions to boost energy efficiency for example can bring benefits in key sectors such as buildings, enterprise and transport. According to the 2011 EU Energy Efficiency Action Plan the combined effects of full implementation of existing and new measures have the potential to generate financial savings of up to €1,000 per household every year; improve Europe's industrial competitiveness; create up to 2 million jobs; and reduce annual GHG emissions by 740 million tons.<sup>108</sup> Energy savings can contribute to strengthening the EU's energy security. Hence, the import dependency in 2020 would be reduced to 55 per cent, assuming that the total volume of savings associated with the 20 per cent target is saved on fossil energy imports (oil, gas and coal)<sup>109</sup>. See Box 2 for an example of energy efficiency investments as part of an integrated urban development programme in the Baltic Sea Region.

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108 EC (2011) Energy Efficiency Plan 2011. Communication from the Commission, COM(2011)109, 8.3.2011, Brussels.

109 Ecofys and Fraunhofer ISI (2010) Energy Savings 2020: how to triple the impact of energy saving policies in Europe. A contributing study to Roadmap 2050: a practical guide to a prosperous, low-carbon Europe. September 2010.

## Box 2: Promoting energy efficiency and integrated urban development in the Baltic Sea Region

The Urb.Energy project is a transnational cooperation project financed by the EU within the framework of the Baltic Sea Region Programme 2007 – 2013 and national co-financing from the project partners. The project aims to encourage greater use of renewable energy and energy efficient urban development strategies in residential areas in the Baltic Sea Region. It combines the approach of integrated urban development with the energy efficient refurbishment (EER) of the building stock, the modernisation of the energy supply infrastructure, the revaluation of the residential environment and the identification of innovative financial instruments. The total project budget is €3.8 million, the ERDF contribution is €2,900,000 over the period January 2009 – January 2012. The project began in January 2009 and has a duration of three years. The project involves 15 partners from Germany, Poland, Lithuania, Latvia, Estonia and Belarus, representing regional ministries, cities, housing and urban development associations, energy efficiency bodies and national funding institutions. These partners are supported by a network of 20 associated organisations.

The project focuses on three main areas:

- **Integrated Urban Development** – This part of the project aims to increase the application of integrated urban development concepts and covers energy efficient housing refurbishment with the renewal of the energy supply infrastructure, the revaluation of the residential environment, improvement of the social and economic infrastructure, and participation of citizens. Activities focus on analysis of existing urban development approaches and the introduction and part implementation of transferable integrated urban development concepts in six target areas.
- **Energy Efficient Renewal of Buildings and Energy Supply Infrastructure** - As part of the integrated urban development approaches, the project focuses on methods of energy efficient modernisation of residential buildings and district heating systems. In six target areas, project partners are developing and partly implementing renewal concepts. These plans consist of a package of refurbishment measures and new approaches for the district heat energy supply, including renewable energy sources.
- **Innovative Financial Schemes** - The project aims to develop and promote financial schemes and tools to fund integrated urban development activities, including energy efficient housing refurbishment based on an assessment of available national and international sources of financing. Special attention is given to the possibility of co-financing housing refurbishment measures in the Member States with EU Structural Funds and to the implementation of revolving funds.

The integrated urban development concepts are to be developed in such a way that they can become standard practice in other urban areas in the region. The partners will also provide recommendations on how residential areas and infrastructure can be upgraded so that energy efficiency becomes a key feature of construction and urban development. Manuals are to be produced outlining strategies for integrated urban development and ways to refurbish the region's housing stock in terms of energy efficiency and energy supply systems. Guidelines will also be developed setting out ways to use innovative financial instruments from public and private banks.

Source: European Commission – DG Regional Policy, *Urban homes turn green in Baltic Sea Region*, [http://ec.europa.eu/regional\\_policy/projects/stories/details\\_new.cfm?pay=DE&the=68&sto=1854&lan=7&region=ALL&obj=ALL&per=2&defL=EN](http://ec.europa.eu/regional_policy/projects/stories/details_new.cfm?pay=DE&the=68&sto=1854&lan=7&region=ALL&obj=ALL&per=2&defL=EN); Urb.Energy webpages and promotional flyer: [http://www.urbenergy.eu/fileadmin/urb.energy/medias/Downloads/Flyer\\_UrbEnergy\\_Jan2010\\_without\\_frames.pdf](http://www.urbenergy.eu/fileadmin/urb.energy/medias/Downloads/Flyer_UrbEnergy_Jan2010_without_frames.pdf)

Ensuring affordable, environmentally sustainable and secure supplies of energy are the central goals of the EU's energy policy as set out in the Lisbon Treaty. While some progress has been made towards these objectives, the EU's energy systems are adapting too slowly

and the scale of the challenge continues to grow<sup>110</sup>. Activities to promote renewable energy also have the potential to deliver multiple benefits in EU regions including new competitive advantages, jobs and energy security. See Box 3 for an example of the smart use of EU funds for the development of locally based renewable energy project in Slovakia.

### **Box 3: Promoting bioenergy in central Slovakia**

CEPA (Friends of the Earth Slovakia) initiated a project to substitute old coal heating facilities with 21 biomass (woodchip-based) boilers in eight villages in the Banska Bystrica region in Central Slovakia. The project was implemented in co-operation with the local municipalities. EU Structural Funds covered 95 per cent of the €7 million project costs, the rest of the funding came from the own resources of municipalities or from bank loans. The operation (heating) of facilities started in October 2010.

The difference between the energy consumption before and after the realisation of project is 10720 GJ/year. This represents energy savings of 35,1 per cent from the new and reconstructed technologies. The annual total emission reduction of gaseous effluents will be 51,9 tons of contaminants and 2643,4 tons of GHGs per year for all facilities. In addition to the new boilers, the infrastructure of heat transfer and fuel storage and deliveries were also reconstructed or newly built. Better isolation and new pipelines were laid down, four new storage facilities for wood chips and fuel wood and several temporary storage facilities near the heating plants were also built in the framework of this project. The project also aims to test the opportunities for its broader introduction in other regions.

The project is designed in a way that the heating properties (boilers and infrastructure) are owned by Bioenergia Bystricko (a non-profit, public entity established in 2005 consisting of CEPA and the 8 municipalities). The heat produced will be consumed by the communities themselves which take heat according to the contracts on heat delivery. As Bioenergia Bystricko is a non-profit organisation the heat (GJ) is not charged to the consumers. Total production costs are divided between the communities and charged accordingly. Annual savings of fuel costs for each community will be up to 67,65 per cent. The higher costs for insurance will be compensated by lower costs for repairs and maintenance of the infrastructure.

*Source: INFORSE-Europe, 2010, NGO Guide on Structural Funds How to Prepare the NGO Project Financed from EU Structural Funds – Guidelines, INFORSE-Europe International Network for Sustainable Energy – Europe December 2010*

Examples of promoting climate-friendly transport systems are exhibited in Box 4.

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<sup>110</sup> EC (2010) Energy 2020: A strategy for competitive, sustainable and secure energy, Communication from the Commission, (COM(2010)639), 10.11.2010, Brussels.

#### **Box 4: Improving the public transport system in Porto, Portugal**

Plans to improve the public transport system in Porto began in the 1990s and focused on upgrading the city's transport network with a new light rail system which would run underground in the central areas and over-ground in the suburbs. Priority was given to linking the new system with other means of transport, particularly the connection to the airport and the two main railway stations. In some areas, existing train lines were converted for use by the modern 70-m long trams. Almost 40 per cent of the project's finances came from the ERDF under Portugal's regional North Operational Programme for the 2000 to 2006 period. The project also received funding from the Cohesion Fund (€68 million) and loans from the European Investment Bank.

The first trams began running in December 2002 and the metro system has now grown to include five lines and 70 stations. The project resulted in the construction of 57 km of subway line, 37 new surface stations and 11 underground stations as well as renovation of 10 stations. The system complements bus and suburban public transport networks and has helped to increase mobility in the city. The system has been very popular and carries around 200 000 passengers daily. In 2007, around 48 million passengers made use of it an increase of almost 25 per cent from the previous year. In June 2008, the International Association of Public Transport distinguished the Porto system with the Light Rail Award 2008 for 'best new realisation'. This award goes to light railway systems around the world which display creativity and good design. Judges highlighted the project's integrated approach in terms of conception and construction, based on accessibility, design and information for passengers.

*Source: European Commission – DG Regional Policy, 2010, Investing In our regions - 150 Examples of projects co-funded by European regional policy,*

[http://ec.europa.eu/regional\\_policy/sources/docgener/presenta/projectbook/dg\\_regio\\_project\\_book\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/presenta/projectbook/dg_regio_project_book_en.pdf)

#### **4.1.5 Reforming and Gradually Phasing Out Climate Harmful Spending**

There is ample evidence that non-environmental spending from EU funds can often have a negative impact on the environment and on climate change. This is most notably the case through **direct spending or tax exemptions for the use of fossil fuels in the energy / transport sectors or the construction of large infrastructures like roads and airports**.<sup>111</sup> Investments in such projects **could potentially have an adverse impact on GHG emissions**, land use and habitat fragmentation. More importantly, they **threaten to lock regions into carbon-intensive infrastructures** (in particular in relation to transport and energy) and place them on an unsustainable development pathway in the long-term<sup>112</sup>. This imbalance needs to be addressed in order to avoid further lock-in that will be expensive to unravel in the future. Thus, it is not sufficient to only increase the level of direct spending for climate change. One also needs to ensure that non-direct climate change spending does not counteract the efforts of direct climate change spending nor undermine the ability to achieve the objectives of climate change policy. This action will need to include the reform or phasing out of financial support for carbon-intensive activities.

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111 European Parliament (2011) EU subsidies for polluting and unsustainable practices. Study, February 2011.

112 IEEP et al. (2011) Sustainable Development and Cohesion Policy. Final report. Report for the European Commission, DG Regional Policy, February 2011, Brussels.

In the 2007-2013 programming period about 23.8 per cent (€82 billion) of the Structural and Cohesion Funds have been allocated to transport projects. Of this, almost €41 billion (12 per cent) will be available for road infrastructure<sup>113</sup>. Much of this allocation is in line with the EU's plans for the development of large-scale transport infrastructure as part of the Trans-European Transport Network (TEN-T). Improving the accessibility of more peripheral or less developed regions through the construction of roads is also seen as a major driver for economic development and is a paradigm deeply embedded in the Cohesion Policy framework. There have been some changes to this way of thinking in certain Commission services and some propositions for targeting Community funding towards railways and waterways in the TEN-T priority projects and enhancing the resilience of transport infrastructure to climate change have been made as part of the review process of the future TEN-T. **The case for Community support for TEN-T funded road infrastructure may potentially be one of the most contentious issues as far as trade-offs between transport and climate change objectives are concerned.**

The EU has a long-standing commitment to a broader reform concerning the removal of environmentally harmful subsidies (EHS), which it has reiterated in several key strategies including in the 2006 EU Sustainable Development Strategy which called on the Commission to draft a roadmap for the reform of EHS on a sector-by-sector basis with a view to gradually eliminating them. Removing EHS is a particularly contentious issue and complex process, and to date progress in this regard has been slow.<sup>114</sup> However, the need to secure increased revenues to tackle the fiscal crisis, the desire for greater transparency in public finances, and recognition that subsidy reform could help achieve key objectives such as addressing climate change and encourage the transition to a resource efficient economy has renewed interest in this issue. It thus becomes imperative for the European Commission to deliver the Roadmap for the removal of EHS alongside a long-term climate proofing strategy for the EU budget. The main barrier to the reform of harmful subsidies arguably includes resistance by vested interests and the associated difficulty of gaining political support to push through difficult changes. The review and reform of subsidies has also been hindered by the lack of an agreed definition of subsidies and of methods to keep track and quantify them, the lack of application of assessment methods, and a lack of commitment to keeping a transparent inventory of subsidies.<sup>115</sup>

**In the context of a climate proofing strategy for the EU budget, a first step should be to identify any climate harmful spending among the planned funding allocations.** There is already a useful tool developed for DG Environment which provides a methodology for identifying broader EHS which could be adapted to the specifics of climate change<sup>116</sup>. It can be used to assess whether the subsidy removal will benefit the environment; understand the wider implications of subsidy removal including the economic and social dimensions; provide simple guidance on the use of indicators, referring to the levels of subsidisation of

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113 DG Regional Policy. Transport statistics, [http://ec.europa.eu/regional\\_policy/themes/transport/index\\_en.htm](http://ec.europa.eu/regional_policy/themes/transport/index_en.htm)

114 European Parliament (2011) EU subsidies for polluting and unsustainable practices. Study, February 2011

115 Valsecchi C., ten Brink P., Bassi S., Withana S., Lewis M., Best A., Oosterhuis F., Dias Soares C., Rogers-Ganter H., Kaphengst T. (2009) Environmentally Harmful Subsidies: Identification and Assessment, Final report for the European Commission's DG Environment, November 2009.

116 Ibid.

an industry and its environmental and social cost; would be relevant to future measurements and useful in setting baselines for 'reduction rounds' by certain target dates.<sup>117</sup>

At this point, it is important to note that subsidy reform is not simply about eliminating subsidies, but also about reforming them. Different options in this respect are<sup>118</sup>:

- Reform to ***deliver the same objective through different means***, e.g. meeting mobility needs through providing for rail, rather than road infrastructure, or encouraging other mobility services;
- Reform to ***deliver different objectives***, e.g. enabling transport to be powered by less carbon intensive energy sources through investing in the development of networks of electricity charging points for road infrastructure;
- ***Applying 'conditionality'*** to subsidies that at least mitigate environmental damage, or reduce the level of investment needed. For example, using whole life costing and green public procurement has the potential to mitigate environmental damage; requiring compliance with high legislative standards or the application of 'voluntary schemes' such as EMAS or eco-label, which can increase the power of policy filters and reduce impacts (see chapter 5.2.4); and

**Following this line of argument, there can be different stages of the process of removal of carbon harmful spending within a climate proofing strategy – from absolute phasing out to incremental reform of investments.** In relation to the transport sector for instance, EU spending for road building in developed regions should be phased out in the post-2013 period as is indicated in the Fifth Cohesion Report.<sup>119</sup> EU spending can be shifted from the construction of new roads and airports to the creation of new low-carbon infrastructure (such as high-speed rail, new bus and rapid urban transit systems in cities), innovations that reduce the carbon intensity of existing infrastructure (such as road pricing and other demand management systems), and solutions that reduce the need to travel (such as the roll-out of broadband and other technological solutions).<sup>120</sup> See Box 5 for an example of how EU structural funds can be used for less climate-intensive transport developments while still achieving increased mobility and accessibility.

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<sup>117</sup> Ibid.

<sup>118</sup> IEEP *et al.* (2011) Sustainable Development and Cohesion Policy. Final report. Report for the European Commission, DG Regional Policy, February 2011, Brussels.

<sup>119</sup> European Commission (2010) 5<sup>th</sup> Cohesion report on economic, social and territorial cohesion. Brussels.

<sup>120</sup> Green Alliance (2007) Investing in our future: a European budget for climate security. Green Alliance: London.

#### **Box 5: Encouraging rail travel in Campania, Italy**

Significant investments in Campania's rail network through the Regional Metro System (RMS) project has led to new stations, better connections, extended lines and revamped surroundings in the region. €790 million was allocated from the ERDF to Campania's Regional Metro System over the period 2000 to 2006, with another €568 million allocated from the ERDF for 2007 to 2013. A total of 69 new trains and 1 250 new buses have been introduced as part of the integrated network. Town planning has also played a visible role in the project, incorporating architectural design and bringing symbolic values to stations. The buses come in 12 different types, are equipped with an integrated information system and are more environmentally friendly. Some 171 will run on methane, while 22 will run on electricity. The new timetable and network map have also been harmonised. The RMS has already seen 43km of new railways built, some 66 km added to the Metro system of Naples, and 59 new/ renewed stations. Passenger numbers have increased in the railway network of Naples with a 75 per cent growth recorded between 2000 and 2007. Environmental benefits are said to include a 22 per cent reduction in car emissions of PM10 recorded in Naples between 2000 and 2005.

*Source: European Commission – DG Regional Policy, 2010, Investing In our regions - 150 Examples of projects co-funded by European regional policy, [http://ec.europa.eu/regional\\_policy/sources/docgener/presenta/projectbook/dg\\_regio\\_project\\_book\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/presenta/projectbook/dg_regio_project_book_en.pdf)*

Actions to reform and phase out climate intensive financing have a critical time dimension. While any counterproductive activities contributing to climate change need to be addressed immediately in the current budgetary spending cycle, there is insufficient preparedness and political will among various policy actors to propose and subsequently undertake such actions. The post-2013 EU budget is therefore unlikely to diminish support for such measures; however there is still scope for incremental reforms. This is a clear trade-off which can be mitigated through 'transition' measures which facilitate an incremental change in spending patterns. **In the long term beyond 2020 however, there is a need for political leadership and determination in permanently removing such funding in order to truly climate proof the EU budget.**

#### **4.1.6 Restructuring Categories of Expenditure**

This rather technical but important instrument applies specifically in the case of EU Cohesion Policy. At the same time, it highlights the importance of the use of clear and transparent categories of expenditure in the context of the entire budget in view of improving reporting on EU spending. Existing categories of expenditure have been used by Member States to report on the allocations of EU funds for different types of measures.<sup>121</sup> These are intended to provide more transparency on the scope of spending by aggregating the values at EU level and are essentially the way for the EU to take account of how funds have been allocated at lower levels of governance.

Although some categories already capture certain issues concerning climate change this is not sufficiently. **Categories of expenditure need to be modified in order to become more**

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<sup>121</sup> Official Journal of the European Union L 210/76 – 31 July 2006

**explicit and clearer to aid the reporting and transparency of EU spending.** See the Table 4 below with concrete suggestions for modifications in certain categories of expenditure.

These categories have also been used to identify measures contributing to the achievement of objectives related to the Lisbon Strategy in the 2007-2013 programming period and therefore provide an indication of what type of measures should be promoted and prioritised for achieving strategic objectives. Similarly, the proper definition of some of these categories might send important signals to Member States in terms of opportunities for climate change related funding opportunities in support of the Europe 2020 Strategy and the 2050 Low carbon roadmap under different categories of expenditure. In Table 4 below, in addition to proposing how categories can be made clearer, we also propose changes to the eligibility of climate change-related elements under different categories (e.g. spending for SMEs, employment, etc.).

**Table 4: Current categories of Cohesion Policy expenditure and proposals for their revision**

<b>Code</b>	<b>Category</b>	<b>Comment</b>
06	Assistance to SMEs for the promotion of environmentally-friendly products and production processes	<p>This can be modified to become more explicit e.g. 'Assistance to SMEs for the promotion of eco-technologies, products and production processes that reduce the resource use of SMEs'</p> <p>If there is concern that Member States will choose to allocate insufficient funding for such a separate category, another option would be to introduce this measure as a form of conditionality in all funding for SMEs.</p> <p>Guidance should be provided to Member States and final beneficiaries on concrete projects which could potentially be financed under this category but also on the ancillary effects on increased competitiveness, improved productivity, reduced costs of production, etc.</p>
20-23	Motorways, Motorways (TEN-T), national roads, regional/local roads	<p>Funding for these four categories need to be reformed or phased out.</p> <p>In non-convergence countries/regions support for road construction should be phased out.</p> <p>In convergence countries/regions support could be scaled down, focusing on maintenance, rehabilitation, installing infrastructure for electric vehicles or introducing road charging.</p>

29	Airports	Funding for airports should be phased out.
49	Mitigation and adaptation to climate change	<p>Currently, it is unclear what this entails. This needs to be clarified so that it is distinct from other categories such as energy efficiency, renewable energy, clean transport, etc. to avoid duplicating actions and reporting.</p> <p>Adaptation needs to be in a separate funding category where different types of adaptation measures could potentially be funded (e.g. the three types of measures outlined in the White Paper on adaptation – ‘grey’ (infrastructure), ‘green’ (ecosystem-based) and ‘soft’ (preparedness, prevention, awareness and capacity building)).</p>
53	Risk prevention	A clear definition of risk prevention is needed, so as to ensure that funding under this category is different and complementary to climate adaptation funding. A list of indicative measures for action can be provided to avoid an overlap of actions.
25 and 52	Urban transport and Promotion of clean urban transport	These two categories of expenditure should be made more explicit. One option would be to merge them into one category to avoid confusion and overlap of actions.
64	Development of special services for employment, training and support in connection with restructuring of sectors	This has clear potential to support green jobs, support system of training, prequalifying workers, etc. in the context of the decarbonisation of certain sectors. However the link to climate change should be made more explicit.
72-74	Improving human capital categories	All three categories could potentially integrate explicit language on climate change.
75-79	Five categories for public infrastructure	The construction of any public infrastructure (schools, hospitals, social, etc.) should only be supported if emission savings and adaptation measures are envisaged in the projects. This can be made explicit in the titles of these categories or ensured via conditionality and project selection criteria.
81	Mechanisms for	This is a crucial category where the need to invest in

	improving good policy and programme design, monitoring and evaluation	the administrative systems supporting the institutional set-up for EU funded projects in the field of climate change should be made more explicit.  This can be clearly communicated in guidance documents to Member States and even include funding for measures to set up positions such as 'sustainability managers', for example. These are already well established good practices for environmental integration in EU funded programmes in certain Member States.
85-86	Technical assistance	It could be made explicit that technical assistance should be used for assessing vulnerability impacts and identifying corresponding investment needs. Evaluation of GHG emissions impacts should be introduced in order to understand the impacts of EU funded programmes/projects. Building local capacity for the generation, collection and analysis of data at local/regional levels with regards to GHG emissions accounting could also be financed under this category.

#### ***4.1.7 Establishing Coordination Structures and Strengthening Partnerships***

**Climate proofing the future EU budget has an important institutional dimension which concerns all levels of governance – EU, national and regional.** Policy integration needs to be advanced and capacity to identify and deliver appropriate investments increased while effectively engaging with both national institutions and stakeholders. Therefore, there is a need for **appropriate institutional structures and administrative capacity** assisted at the national level with the help of EU funding mechanisms. The EU budget review process and the preparations for the post-2013 MFF are led by the Secretariat General to the President of the European Commission. Responsibility for ensuring EU policy coherence and coordination among sectoral programmes and funding instruments should therefore be assumed at that level and would reinforce the necessary high level commitment to the process. The main player within the European Commission for bringing forward climate change concerns in the internal budget preparation process without doubt will need to be DG Climate Action.

**There is also a need to create in-house administrative capacity to address climate change at all tiers of governance.** This is linked to building expertise and managing knowledge on climate change mitigation and adaptation in EU, national and regional institutions which

traditionally do not have such expertise, e.g. DG Budget, finance ministers, parliamentary budgets committees, managing authorities, etc. This could be done for instance through developing specific internal expertise on these issues or by appointing climate change experts in these structures. DG Regional Policy has already appointed several environmental experts in its policy development and policy coordination units who are tasked with ensuring that broader environmental concerns, including climate change, are embedded in the future architecture of EU Cohesion Policy. Similar appointments could be made in the structure of managing authorities responsible for EU Structural funds across Member States.<sup>122</sup>

**At the EU level,** the creation of a separate Climate DG in February 2010 was an important step to institutionalise the growing importance of climate change in EU affairs. In practice however, the role and power of DG Climate Action in the future EU budget negotiations is yet to be proven. If given the responsibility to manage a dedicated funding instrument under the next MFF, DG Climate Action is likely to become a stronger institutional actor in the budgetary planning processes. Designing appropriate coordinating mechanisms would ensure the adequate input of DG Climate Action in discussions with other spending directorates in view of the mainstreaming of climate change considerations in other sectoral funding instruments.

The power relations between the Council and the Parliament are relatively asymmetric when it comes to developing and agreeing the MFF. According to Article 312 of the TFEU, the Parliament should give its consent within a special legislative procedure. Its role however appears to be the subject of different interpretations by the Council and the Parliament with each institution assuming a different degree of power to the Parliament.<sup>123</sup> Nonetheless the on-going work of the SURE committee in the European Parliament is critical to formulate and convey a strong signal with regard to climate change integration given that the ultimate purpose of this Committee is to provide the Budgets Committee with a basis for the forthcoming MFF negotiations.<sup>124</sup> It is tasked with defining Parliament's priorities for the EU's next long-term framework, in both political and budgetary terms, defining the duration of the next long-term budget framework and drawing up guidelines on how resources should be distributed within and between different parts ('headings') of the EU budget. The SURE Committee in the European Parliament would benefit from a larger number of ENVI Committee members as its current membership is dominated by the Budgets Committee, or from utilising external expertise on climate proofing (see chapter 5.2.2 on administrative capacity).

**At the level of national and regional institutions,** similar coordinating and implementing structures are needed to enhance the participation of climate change officials in the programming and implementation of investment programmes and to foster partnerships with external experts, NGOs, community organisations and relevant businesses. This may

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<sup>122</sup> IEEP et al. (2011) Sustainable Development and Cohesion Policy. Final Report for Dg Regional Policy, February 2011, Brussels.

<sup>123</sup> Geza Hetenyi, Speech: Policy priorities, tradeoffs and opportunities. Head of EU Economic Policy Department, Ministry of Foreign Affairs, Hungarian EU Presidency, March 2011.

<sup>124</sup> European Parliament. Conference of Presidents paves the way to creating a special committee on EU budget reform, Press release, 20/05/2010

require the establishment of new units (e.g. sustainability managers, cross programme advisory groups, inter-institutional working groups, monitoring committees, etc.) which can manage climate change investments but also coordinate actions across sectoral departments, work exclusively with beneficiaries, or cooperate with networks of environmental/climate experts (see Box 6).<sup>125</sup>

#### **Box 6: Environmental Sustainability Manager (South West England)**

The South West region in England has introduced a novel governance mechanism to ensure the integration of broader sustainability issues, including climate change, in Cohesion Policy programmes, in particular in the programming and project selection phases. The Environmental Sustainability Manager therefore has critical responsibilities in integrating environmental concerns including:

- Working with beneficiaries in the pre-approval stage to raise their environmental awareness;
- Assessing applications to determine if projects have taken adequate account of environmental impacts;
- Championing new projects with an environmental focus such as the low carbon grant programme for businesses, the domestic energy efficiency scheme and the deep geothermal scheme. This has collectively resulted in a pipeline of activity that if achieved will result in £40-50million worth of investment;
- Liaising across programmes to ensure synergy and complementarity; and
- Ensuring that different advisory groups such as the Programme Monitoring Committee are up to date on progress and new developments and good examples.

Although the success of this institutional innovation is largely due to the dedication and commitment of the individual, the creation of such governance mechanisms for policy integration can be cited as good practice for other programmes. The environmental sustainability manager is viewed as a vital position by stakeholders in the region who feel that its role should be continued to ensure that environmental issues remain high on the agenda and are strongly encouraged and enabled.

*Source: IEEP et al. (2011) Sustainable Development and Cohesion Policy. Final Report for Dg Regional Policy, February 2011, Brussels.*

### **4.1.8 Harnessing Innovative Financing Options**

The mobilisation of large scale investments for low carbon and climate resilient transformations in major economic sectors will require a massive injection of investments. However a particular challenge currently faced is the declining availability of national co-financing for EU funded projects linked to the financial and economic crises and the subsequent budget consolidation and austerity measures at the national level. Although the EU budget will play a crucial role in this process, there is also a need to find ways to mobilise additional financing resources. One way to do this is by developing new fiscal instruments aimed at enhancing the leverage effect of public finance, such as blending grants and loans, guarantee schemes, risk-bearing instruments and equity<sup>126</sup>. **Developing innovative**

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<sup>125</sup> IEEP et al. (2011) Cohesion Policy and Sustainable Development. Final Report for Dg Regional Policy, February 2011, Brussels.

<sup>126</sup> EC (2010) Innovative financing at global level. Commission staff working document, SEC (2010)409, 1.4.2010, Brussels.

**financing instruments therefore can be seen as a key way to secure the necessary investments for low carbon transformative investments** as part of a strategy for climate proofing the future EU budget.

One of the important functions of the EU budget is its leverage effect to mobilise additional public and private financing for strategic investments across the EU. Therefore, a number of options to magnify this function of the EU are actively discussed in the EU Budget Communication and the Conclusions on the Fifth cohesion report. While the high level documents create certain expectations regarding the potential of such innovative instruments to generate the amount of investments needed on the long term, much of the substantive knowledge about them is still being developed. The notion of innovative financing has some political traction for the first time and is likely to form a central part of the forthcoming negotiations of the post-2013 MFF. **It can include both the mobilisation of different sources of grants or loans or the enhanced utilisation of financial engineering which is linked to making better use of existing funds (e.g. under Cohesion Policy).** Some of these options are explored in the sections below.

### ***European Investment Bank***

The role of the **European Investment Bank** (EIB) for climate change related financing has already been enhanced within the EU economic recovery plan and is promoted in the EU Budget Review Communication. The EIB has a substantial lending portfolio globally including a wide range of development projects and has significant expertise in fiscal instruments for development finance. In the past however, it has received considerable criticism by environmental groups about the overall sustainability, transparency and accountability of its actions.<sup>127</sup> For example, it has been reported that between 2002 and 2006 out of a total EIB energy investments of €23.7 billion, €11.3 billion went to fossil fuels.<sup>128</sup> Between 1996 and 2005 the EIB is said to have lent €112 billion for transport globally (this accounts for around a third of the bank's total investments in the period) out of which over 50 per cent was allocated to road and air transport<sup>129</sup>. Arguably, while there is scope to enhance the EIB's role in advancing the decarbonisation agenda, there might be a need for a substantive reform of the bank's operations to ensure its coherence with EU climate change objectives.

### ***EU project bonds***

Another idea which is gathering speed and popularity is the '**Europe 2020 Project Bonds Initiative**' as unveiled by the European Commission in March 2011. It is aimed at boosting private financing for large infrastructure projects through the provision of EU and EIB support (e.g. risk-sharing, guarantees and other types of credit enhancement measures) to project promoters in order to secure private sources of funding.<sup>130</sup> By developing instruments to increase the attractiveness of infrastructure projects to private companies, the EU can help to facilitate the harnessing of private funding in meeting the substantial investment needs for modernising the EU's energy, transport and communication

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<sup>127</sup> See CounterBalance, <http://www.counterbalance-eib.org/>

<sup>128</sup> CEE Bankwatch Network (2007) European Investment Bank energy investments 2002-2006. September 2007.

<sup>129</sup> CEE Bankwatch Network (2007) Lost in transportation: The European Investment Bank's bias towards air and road transport. March 2007.

<sup>130</sup> EC (2011) Commission Staff working paper: Europe 2020 project bonds initiative, 28.2.2010, Brussels

infrastructure in the transition towards a greener economy. However much remains to be explored in terms of the actual scale of funding that these instruments can generate and addressing potential crowding out effects (e.g. increased public spending leading to decrease in private investments). The real issue is inevitably about ensuring the quality of selected projects in terms of the value for money they can actually deliver in the context of clean, low carbon and resilient infrastructure. The EU Budget Review Communication mentions that the introduction of ‘sustainability benchmarks’ should be set out to steer the selection of projects. However its language is rather vague and there is no doubt that the devil will be in the detail that is yet to be debated. It is imperative that some sorts of safeguards are established so that EU bonds are not used to support business-as usual infrastructure, but that they promote low-carbon and are adapted to the effects of climate change.

### ***Financial engineering in Cohesion Policy***

The smart use and enhanced absorption of EU funding becomes even more important for less developed regions. The **enhancement of financial engineering schemes in some ways could reinforce the traditional system of EU funding (e.g. grant aiding, etc.) and create new opportunities.** There is a growing experience with some financial engineering instruments introduced in the current Cohesion Policy, which in spite of being operational for a relatively short period of time, are able to demonstrate some of the benefits of such instruments – see for example Box 7.

#### **Box 7: The use of financial engineering in Lithuania**

JESSICA (Joint European Support for Sustainable Investment in City Areas) is an initiative of the European Commission, the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB), aimed at using financial engineering mechanisms to support investments in sustainable urban development as a component of integrated urban regeneration. As a financial engineering instrument, the JESSICA initiative allows to combine subsidies, loans, guarantees and other financial products.

In 2010 a JESSICA holding fund was created to support energy efficiency investments in multi-family houses. The holding fund has currently €227 million contributed by European Regional Development Fund (€127 million) and Lithuanian Government (€100 million). Capital will be added by three selected commercial banks as a revolving fund. The JESSICA holding fund is used for long-term loans (maximum of 20 years) with a fixed interest rate of 3 per cent for the improvement of energy efficiency in multi-family houses. It is expected that with assistance of JESSICA, approximately 1000 houses will be refurbished. 21 projects had been approved for JESSICA funding as of September 2010.

*Source: IEEP et al. (2011) Cohesion Policy and Sustainable Development. Final Report for Dg Regional Policy, February 2011, Brussels.*

Whereas many climate change mitigation actions may attract private entrepreneurial sources of investment because they constitute a business opportunity, this is less likely to be the case for adaptation measures. Of course, it should be acknowledged that ideally a combination of public-private solutions to risk management and responsibility sharing should be sought through insurance schemes and market-based instruments. Nevertheless, **adaptation efforts are likely to rely to a greater extent on the provision of public funding.** Also, as argued earlier there is a strong case for Community action in this area particularly with regard to Cohesion Policy.

Ultimately, the issue of innovative financing remains key to the instrument mix within a climate proofing strategy for the future budget provided that more research is done on evaluating the pros and cons of the different options. This is an important issue that deserves more in-depth examination through a separate research paper.

## 4.2 Improving the climate change performance and result-orientation of EU spending

### 4.2.1 *Undertaking Preparatory Studies and Mapping Vulnerabilities to Climate Change*

The programming of EU expenditure is a complex task which needs to take into account the changing political priorities of the EU whilst at the same time balancing these with local and regional circumstances and their most pressing needs. Climate change raises a number of uncertainties and knowledge gaps which can impede the programming process and eventually lead to an implementation deficit. At the same time, collecting and processing regional and national data with regard to climate change impacts and potentials so that they can be used in the planning process could also be a challenging and financially costly issue especially for some regions and municipalities. Therefore, it becomes imperative that **preparatory studies and mapping exercises are carried out at regional and national levels** in the current programming period. Such studies should explore **local/regional potentials for GHG emission reductions and/or natural assets for developing renewable energy** and estimating respective investment needs. This can be relatively straightforward as most of the methodologies for doing this are already known. There are financial resources available under the technical assistance of the 2007-2013 EU structural funds that can be used to sponsor such studies.

On the other hand, **mapping vulnerabilities to climate change impacts and identifying potential climate adaptation measures and needs** can be more difficult. The issue of costing the necessary measures is fundamental, as it is currently difficult to envisage the potential cost curves for different types of adaptation measures under the different climate change scenarios. There is a growing body of relevant literature on the economics of climate change adaptation which would aid the decision-making process in this regard.<sup>131</sup> The FP7 project, ADAM, for instance, suggests that benefits from climate adaptation can be significant, while the costs of inaction will increase with time.<sup>132</sup> Thus, the mapping of vulnerabilities should be supported through technical assistance, exchange of methodologies and good practices, and guidance to local and regional authorities. Establishing links to national /regional climate change adaptation plans would also be appropriate.

**The exercise of estimating costs becomes particularly difficult with regard to extreme weather events.** A recent study proposes preparatory activities as part of a bottom up adaptation strategy to aid decision-makers in a longer term perspective. This includes the development of 'frequency and severity scenarios' for most relevant hazards and a map of

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131 World Bank (2008) The economics of adaptation to climate change. Methodology report. December 2008.

132 ADAM – Mitigation and adaptation strategies: 7FP project , <http://www.adamproject.eu/>

their impacts. The risk in a region is quantified in terms of population, assets and income value while the vulnerability of population, assets and incomes to the hazard is determined through the use of 'vulnerability curves' that define the percentage value damaged by hazards of different severity for assets such as agricultural, residential and industrial/commercial.<sup>133</sup> While there are different methodologies that can be followed, some ground work and preparatory assessments are required prior to any discussion on budget allocations. A link can also be established between the programming of EU funds and the Floods Directive 2007/60/EC which provides a framework for the assessment and management of flood risks in the EU. The Directive prescribes that an assessment of each river basin's flood risk and associated coastal zones should be carried out by December 2011 and requires the development of flood hazard maps and flood risk maps by December 2013.<sup>134</sup> **Thus the preparations of these maps/plans will be carried out alongside the EU funds programming period and can inform managing authorities about the vulnerabilities to climate change and related investment needs.** The financing of such preparatory studies and maps could be supported by the technical assistance provided under the current EU structural funds.

#### ***4.2.2 Developing Administrative and Technical Capacities for Climate Change***

Inevitably linked to the discussion on knowledge management is the issue of building the necessary administrative capacity to both manage climate change actions and achieve better results. **The issue of administrative capacity often affects the effective uptake and implementation of climate change spending.** In this regard, it needs to be noted that the 2010 Commission strategic report on cohesion spending<sup>135</sup> noted some disconcerting trends. Environmental investments, including climate change, are 'underperforming', utilising just 21 per cent of the total amount available for such measures, with Greece and the Czech Republic facing major delays. Traditional investments in environmental infrastructure (e.g. waste water treatment) are taking place faster compared to investments in climate adaptation and risk prevention of which the uptake of funds is 'especially weak' in countries like Spain, Greece, Poland and Romania. Spending on energy efficiency has been successful in the Czech Republic, Italy and Lithuania, but close to non-existent in several other countries including the UK. Spending on wind energy is also slow, utilising only 2.9 per cent of the available EU funds.<sup>136</sup> The relatively low uptake of EU funds means that countries face significant impediments in implementing EU funded programmes and projects and are unable to utilise the available funding for climate change measures. This low uptake is often attributed to the bureaucratic processes built into the general EU funds system.

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133 McKinsey (2009) Shaping climate resilient development: a framework for decision-makers. ECA

134 IEEP (2010) Manual for European Environmental Policy. Earthscan.

135 EC (2010) Strategic Report 2010 on the implementation of the programmes 2007-2013, Communication from the Commission, COM(2010)110, 31.03.2010, Brussels.

136 EC (2010) Accompanying document to the Communication from the Commission - Cohesion policy: Strategic report 2010 on the implementation of the programmes 2007-2013, (SEC(2010)360). 31/03/2010, Brussels.

Issues of limited administrative capacity and the low uptake of funds for climate change are arguably also linked to the lack of understanding of its importance and the numerous win-win benefits it can offer.<sup>137</sup> Therefore, the **opportunities arising from climate proofing EU funding have to be clearly communicated to managing authorities and final beneficiaries**. Often local/regional administrations do not know how to make proper use of climate related measures.<sup>138</sup> Therefore, **clear and detailed guidance** should be provided for each category of expenditure and the kinds of measures it might entail. **Internal seminars/skill shares** between Commission and Member State officials can help improve national/regional expertise in utilising the opportunities provided by climate-related measures. This approach was successful when EU Funds Regulations were modified to harness EU funds for energy efficiency and renewable energies for social housing as part of the European Economic Recovery Plan. Another essential aspect of this is the **encouragement of pilot projects** as well as the collection and **promotion of good practices** across European regions. This could strengthen both the administrative capacity and knowledge management of national administrations and their institutional memory. These barriers to the uptake of available EU funds emphasizes the importance of investing in **necessary institutional structures and capacities at different governance levels through investments in 'soft measures'**, e.g. administrative capacity, help desk services, new skills and training etc.

#### ***Using the European Social Fund for climate related capacity building***

Designing effective institutional structures and investing in developing their capacity to enhance the promotion and absorption of climate change projects will be crucial to overcome the existing implementation deficit and in a way could be considered part of an institutional approach to climate proofing Cohesion funding. The **European Social Fund (ESF) is well placed to promote such initiatives**. As set out in Council Regulation 1081/2006/EC, the ESF is tasked with improving employment opportunities, as well as strengthening human capital and institutional capacity. Although the Regulation does not contain any language specifically related to the environment nor climate change in terms of new skills, jobs and administrative capacity, many of the priority measures could implicitly be translated into projects of relevance to climate change in light of the transition to a low carbon economy.

For example, **the ESF can finance projects such as: lifelong learning for low-skilled workers; developing qualifications and competences in eco-technologies and management skills; providing training and support services to workers in the context of company restructuring; providing vocational education and training with a view on innovation; and networking between relevant stakeholders**. With regards to institutional capacity, the ESF can support programme development through evaluations, studies, statistics and expert advice. The ESF can also support programme delivery in terms of enforcement of legislation, continuous management and staff training, and support to other stakeholders including civil society. Many of these options should be better used by national and local authorities to develop the administrative capacity for climate change investments, however a more

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<sup>137</sup> ENEA-REC (2009) *Improving the Climate Resilience of Cohesion Policy Funding Programmes: An overview of member states' measures and tools for climate proofing Cohesion Policy funds*. ENEA Working Group on Climate Change and Cohesion Policy. November 2009

<sup>138</sup> *Ibid.*

explicit language on these opportunities should be embedded in the future Regulatory framework and further guidelines developed in this regard.

### ***Harnessing technical assistance for climate change actions***

Some of these impediments can be overcome by **reforming the existing instrument for technical assistance - JASPERS**. This is a new instrument under the 2007-2013 Cohesion Policy managed by DG Regional Policy and the EIB which is aimed at providing technical assistance (e.g. feasibility studies, project preparation, technical issues, etc.) to new Member States in the preparation of big infrastructure projects. **This instrument can be harnessed to provide assistance and technical support to specific climate change related services in programmes and projects particularly in new Member States**. The mandate of JASPERS could for instance be expanded to provide specific technical support to managing authorities during the programming of Operational Programmes in terms of identifying potentials, vulnerabilities and needs for climate change investments. **It can also include some sort of climate proofing expertise at the level of individual investment projects**. Project proponents often do not have the relevant expertise or may not consider climate change considerations in feasibility studies, thus external assistance could be valuable in this regard. For instance JASPERS could be involved in assessing the carbon intensity of different alternative options as part of the feasibility studies for bigger infrastructure projects or provide expertise on integrating climate adaptation measures at their design stage. In some instances, JASPERS is already involved in the preparation of 'groupings' of smaller scale energy projects which could also be considered a step in the right direction. With regard to climate change adaptation, JASPERS can be utilised to deliver cost-benefits analysis of adaptation-related design choices for infrastructure projects as part of the feasibility studies, assist Member States and regions to develop their national and regional climate change adaptation strategies, or carry out an assessment of the vulnerability of existing infrastructure to climate change.<sup>139</sup>

### ***4.2.3 Applying Ex-ante Carbon Screening Tool***

Ex-ante impact assessments are a common European and national practice aimed to inform the formulation of new legislative acts or policies. In the context of Cohesion Policy there are two main instruments designed to evaluate the impacts of Operational Programmes – ex-ante evaluation (concerned mostly with the socio-economic analysis of potential impacts and the alignment of proposed programmes with key European or National development strategies) and Strategic Environmental Assessment (SEA) (which is intended to evaluate the likely negative impacts on the environment) of the Programme. Currently neither of these assessment tools includes adequate provisions to address impacts in terms of induced/reduced GHG emissions.

In order to manage GHG emissions of investment plans and programmes, one needs to assess at an ex-ante stage the likely patterns in GHG emissions under different investment

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<sup>139</sup> Personal communication with Istvan Bart, Climate Policy department, Ministry of National development, Hungary, March 2011.

scenarios and identify key drivers in this regard. Therefore, **a specific carbon screening tool could aid the decision-making process and enable authorities to manage their investment portfolios in terms of achieving GHG emission savings.** Overall, such a tool would perhaps be the most straightforward procedural mechanism to aid the climate proofing of the EU budget in terms identifying both key emission savings and carbon perverse investments. On this basis, managing authorities would be enabled to design their investment plans and programmes with the view of achieving the already established climate change objectives and quantitative targets. Therefore, this is one of the first instruments that should be promoted and deployed as soon as possible.

**This can be done either through a new procedure embedded in the future EU Funds framework or through the revision of existing tools such as SEA by incorporating climate change among their assessment criteria.** The former does not necessarily entail the creation of a new legal instrument but rather the development of common methodologies and model systems at the EU level which should be encouraged across Member States. The advantage of the latter approach is that SEAs are already an established instrument with a legal basis in the EU *acquis* and integrating stronger climate change requirements might appear more feasible. However, this will require the revision of the SEA Directive 2001/42/EC which is likely to take time and might not affect the post-2013 programming period and thus may be a missed opportunity. Therefore, we recommend that the post-2013 Cohesion Policy framework includes a requirement for an ex-ante carbon screening assessment for which **detailed methodology and guidelines are developed by the Commission and used at national and regional levels during the programming of the Operational Programmes and large projects.**

While the need for such a decision-making tool is evident, there are a number of questions which emerge in terms of its application. These are all important issues that deserve serious consideration and include:

- level of application;
- availability of data to input into the tool; and
- administrative costs (preparedness and ability of administrations to operate such as tool).

Perhaps the most appropriate level for the application of the tool is the level of Operational Programmes or large projects in the context of Cohesion Policy for example where the key intervention axes and possible measures are set out. Funding from technical assistance under the EU structural funds could be used to develop databases, software applications and managerial skills to operate such a tool and hence reduce the incurring administrative costs. While such a tool would inevitably create additional administrative costs, these will not necessarily be high. Moreover, it will be difficult to manage EU spending programmes in terms of achieving climate change targets without understanding the likely impacts on GHG emissions of proposed measures, thus increasing the justification for the creation of such a tool.

**There are a number of good practices being developed at the national or regional level across Member States** which apply various locally developed approaches to measuring the

carbon footprint of investment programmes. Perhaps the most often quoted example is the French NECATER tool which is designed to ensure carbon neutrality of French regional Operational Programmes. It has been designed to inform the potential carbon emissions generated by the planned interventions at a programme level. This type of tool can be valuable as it can inform the decision-making process ex-ante as well as monitor the emissions throughout the entire project cycle (see Box 8). Another interesting approach is found in the Czech Republic (see Box 9). These good practices should be promoted widely at the EU level and ways of replicating them in other countries should be explored.

**Box 8: NECATER tool for measuring carbon footprint of programmes: An example from France**

The French NSRF for 2007-2013 states that 'all state-region project contracts and operational programmes should aim to be carbon neutral. A monitoring system will be put in place to ensure this.' The principle of carbon neutrality is aggregated at the national level, but is to be organised at the regional level and should be adhered to throughout the lifecycle of the contract with corrective measures introduced as necessary.

Carbon neutrality is measured through the NECATER tool for monitoring the carbon performance of regional programmes based on an aggregation of project-specific data. This tool is used for projects funded under the Structural and Cohesion Funds and for state-region contracts (CPER) and is the most elaborated software tool in the EU for measuring the carbon impact of individual projects and programmes on an aggregated regional or national level. NECATAR will eventually be linked to the national monitoring system PRESAGE which is in place for OPs and CPREs.

The tool is based on several factors linked to initial hypotheses:

- Job creations per sector — the effect of Structural Funds on employment. It allows the development of ratios and references later translated into carbon emissions, based on the fact that a job creates added value, economic activity and additional transportation, which in turn creates GHGs. Data come from the already available evaluations of employment and its impact on carbon emissions.
- State of the region — As each region is unique, its social and economic development through the demography and added value of each economic sector must be taken into consideration. The already available statistical data are used.
- Structural data — available through national statistics: transport flow per mode of transport, size of vehicle fleet, size of the region, infrastructure, housing typology, local weather conditions, etc.

Project allocations are to be quantified ex ante and can be amended during the implementation stage. NECATAR will provide information on energy savings as one of its core indicators at the aggregate level. The tool is only suitable for climate change mitigation projects

*Source: ENEA-REC (2009) Improving the Climate Resilience of Cohesion Policy Funding Programmes: An overview of member states' measures and tools for climate proofing Cohesion Policy funds. ENEA Working Group on Climate Change and Cohesion Policy. November 2009*

### **Box 9: Ex-ante evaluating the reduction of GHG emissions from projects: An example from the Czech Republic**

Under the Industry and Enterprise Operational programme (IEOP), an ex-ante assessment of the potential GHG emission reduction of projects was carried out as a requirement of the selection procedure. During the three years following the completion of the co-funded climate-friendly projects, beneficiaries were required to notify Management Authorities of the amount of energy savings generated (unit: GJ) or renewable energy produced (unit: MWh) due to these projects. All information was centralised and converted into GHG emissions avoided compared to a business-as-usual scenario. The reduction of GHG emissions due to both sub-programmes (energy savings and renewable energy sources) of the 2004-2006 IEOP was estimated to be the equivalent of 0.13% of the 2004 total GHG emissions produced by the Czech Republic.

This bottom-up approach to assessing the impacts of co-funded projects is closest to reality in that it is project-based. Furthermore, it is not limited by the assumptions often used in macro-econometric models. However, the main constraints of this approach is the process of data collection from beneficiaries to management authorities, the control of the collected data and how it is translated into GHG emissions avoided compared to a business-as-usual scenario.

*Source: ADE (2009) Ex post Evaluation of Cohesion Policy Programmes 2000-2006 co-Financed by the European Fund for Regional Development (Objectives 1 and 2) – Work Package 5b: Environment and Climate Change. Final report – Volume 1. October 2009.*

#### **4.2.4 Applying Conditionality and Incentives for Climate Actions**

Conditionality is a tool which in the context of the EU budget is used as a requirement for the disbursement of funding either at the beginning of the programming period or after a review assessing progress towards completing agreed reforms.<sup>140</sup> Using conditionality as a tool to improve the performance and effectiveness of EU funding is discussed both in the EU Budget Review Communication and in the Conclusions on the Fifth cohesion report. It is stipulated that concrete conditionalities will be agreed between the Commission and Member States and set out in the Special partnership contracts linked to the thematic priorities specified in the Common Strategic Framework. It is further indicated that EU co-financing can be made conditional to achievements in certain policy areas such as environmental protection and innovation among others.

There are additional instruments, which are also aimed to stimulate better results that are linked to conditionality but in essence are different. These include the provision of financial **incentives ('carrots') to motivate progress and improved performance or sanctions ('sticks') intended to punish failure to meet the agreed conditionality.** There is certainly scope to further explore the deployment of such instruments in the context of a comprehensive strategy for climate proofing the EU budget within a multi-level governance framework.

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<sup>140</sup> EC (2010) Conclusions on the Fifth report on economic, social and territorial cohesion. COM(2010)642, 9.11.2010, Brussels.

### ***Conditions on national and regional authorities***

In 2000, the Environment and Budgets Committees were successful in convincing the Commission to put pressure on Member States to the effect that Structural Funds money would only be forthcoming if certain requirements in relation to the Habitats and Birds Directives were fulfilled.<sup>141</sup> **Similar conditionality can also be linked to strengthening the implementation of the EU climate and energy package.**

An alternative approach is to set out requirements for national and regional authorities with regard to the programming of priority measures and projects by making the allocation of funding conditional on measures/projects part of a national strategy or a plan. This is currently the case for waste and water projects under Cohesion Policy where EU funding is conditional on the adoption of long-term national/regional waste or water management plans which proposed projects should be part of. This is evaluated against checklists developed by DG Environment.<sup>142</sup> **Similar conditionality could be applied for climate change adaptation investments for which EU co-financing could be made conditional on the adoption of national / regional climate change adaptation strategies and plans** as required by the White paper on climate change adaptation.<sup>143</sup> In this way, EU co-financing for adaptation measures would be used to promote the implementation of EU efforts in this regard while at the same time better tailoring investments to regional circumstances and needs.

Conditionality could also relate to the past **Commission practice of withholding funding in order to put pressure on Member States to secure Community-level policy objectives including environmental / climate change related ones.** This approach is currently being discussed in relation to requirements stemming from the Stability and Growth Pact however **it can also be linked to progress towards climate change objectives and targets.**

### ***Applying climate related conditions to projects***

Another way to reinforce conditionality is to apply additional requirements at the level of specific projects or categories of projects that receive EU co-financing. For example, the application of an Environmental Impact Assessment is one condition for the approval of EU co-financing in the case of large projects. There are other ways where climate-specific actions can be reinforced. One option would be to apply conditionality to final beneficiaries, for instance, by making the use of **green public procurement obligatory in calls for proposals. Funding for public infrastructure (housing, hospitals, schools, municipal property) or business support can also be made conditional on the inclusion of compulsory energy efficiency and renewable energy measures** in project proposals. EU co-financing could be made conditional on the inclusion of cost-benefits analysis which takes into account climate change adaptation-related design options.<sup>144</sup> Another example from the transport sector would be if **funding for road transport is made conditional on the**

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<sup>141</sup> IEEP (2005) *Environmental policy integration: scoping the role of EU budgetary mechanisms and Funding. A discussion paper.* 22 June 2005.

<sup>142</sup> DG Environment (2009) Checklist Water and Waste Major projects, 20.11.09

<sup>143</sup> Personal communication with Istvan Bart, Climate Policy department, Ministry of National development, Hungary, March 2011.

<sup>144</sup> Personal communication with Istvan Bart, Climate Policy department, Ministry of National development, Hungary, March 2011.

**inclusion of battery-charging infrastructure for electric cars or adaptive measures aimed to ensure that infrastructures will withstand weather related stresses** during the project planning stage. These types of conditionality are closely linked to the development and selection of projects and could easily be operationalized in implementing rules and by setting out specific project selection criteria (see more in chapter 5.2.5).

### ***Financial incentives ('Carrots')***

Financial incentives could be used to stimulate Member States/regions or project promoters to improve their performance, including in relation to climate change. The provision of such 'carrots' to improve the governance system of the EU budget is currently being discussed in the EU Budget Review Communication.<sup>145</sup> The idea of a **performance reserve set aside to encourage progress towards the Europe 2020 targets** is also put forward in the Conclusions of the Fifth cohesion report. Currently, the Commission retains four per cent of the structural funds budget to be used to reward good practice by Member States in the context of the mid-term review of programmes. In theory, this could be used in relation to the EU's climate and energy objectives and targets. However, this does not appear to have been taken into account in the midterm review of the 2000-2006 programmes<sup>146</sup> and there are no indications that it will take place in the context of the 2007-2013 period. **Nonetheless, this is an opportunity to stimulate competition among Member States and boost innovation if applied rigorously in the future EU budget. However, there needs to be clearer rules, common benchmarks and ambitious performance criteria in order for this approach to be effective.**

Providing financial incentives for climate change integration could also be applied at a project level. This can be done through modulating different rates of co-financing depending on progress made or the achievement of results. It implies that managing authorities have discretion for instance to **increase the rate of support to particular projects which demonstrate extraordinary benefits beyond compliance with legal requirements**. While this can be an important tool to stimulate better results, it requires a robust indicator and evaluation system in order to function (see chapter 5.2.6). An EEA report has found that Italy introduced an effective system of indicators in the 2007-2013 period which links a performance-based reward system to pre-established targets in order to provide a better assessment of the link between spending and the extent to which they help the attainment of results under the urban wastewater treatment Directive.<sup>147</sup> Similar approaches can be replicated in relation to climate change in other countries.

## ***4.2.5 Enhancing Climate Change in Project Development and Selection***

Integrating climate change aspects in the early stages of project formulation can help ensure adequate consideration of these issues in subsequent implementation and evaluation

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<sup>145</sup> EC (2010) The EU Budget Review, Communication from the Commission. COM(2010)700, 19.10.2010, Brussels

<sup>146</sup> IEEP (2005) *Environmental policy integration: scoping the role of EU budgetary mechanisms and Funding*. A discussion paper. 22 June 2005.

<sup>147</sup> EEA (2009) Analysis of environmental aspects of the EU Cohesion Policy in selected countries. EEA technical report 10/2009.

stages. There are a number of ways to do this along the project cycle from the pro-active development of initiatives by national authorities, through to calls for proposals and the critical selection process. All of these are based on emerging good practices in Member States and regions. It is important that a collection of these approaches is gathered and promoted widely as most can be useful management tools in other countries and regions.

### **Providing guidance for climate change integration in projects to beneficiaries**

The programme management process is often aided by specifically established **institutional structures and other mechanisms which are designed to strengthen the environment/climate change components of projects**. This can be done for example through the organisation of seminars and training sessions to raise awareness of and explain how to effectively integrate sustainable development considerations in project preparation, the provision of technical advice to project applicants through targeted support such as environmental sustainability managers and climate coaches, communication between management authorities and project applicants, the establishment of networks of environmental and managing authorities, and sharing of regional best practices.<sup>148</sup> See Box 10 for an example from France of a successful structure to promote integration. These support mechanisms aim to help prepare good applications so as to facilitate the work of appraisal and selection bodies at a later stage in the process.<sup>149</sup>

#### **Box 10: Providing targeted support for integration: An example from France**

The Environmental Support Mission (MAE) in France (Nord–Pas de Calais) was established in 2008 to assist the project evaluation committees from the region and the state which work with project proponents to improve projects. The MAE consists of one representative of the state and one representative of the region and aims to help integrate environmental considerations in projects co-funded by the Structural Funds. Its main role is to:

- Assist the project evaluation services — to inform or educate them on environmental issues through kickoff meetings, annual meetings, and the development of guidance documents;
- Prepare and help strategic decisions — to help evaluators with problematic applications. The evaluation services are not obliged to take into consideration the opinion of the MAE, although it happens in practice and there is good cooperation between them and the MAE;
- Prepare monitoring documents — to monitor environmental considerations through formal evaluation; and
- Propose adaptations of application forms for ERDF/CPER for the 2007–2013 programming period

A key factor for the success of this initiative is the relative independence of the MAE from regional and national structures which allows it to act quickly and flexibly.

*Source: ENEA-REC (2009) Improving the Climate Resilience of Cohesion Policy Funding Programmes: An overview of member states' measures and tools for climate proofing Cohesion Policy funds. ENEA Working Group on Climate Change and Cohesion Policy. November 2009*

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<sup>148</sup> ENEA-REC (2009) *Improving the Climate Resilience of Cohesion Policy Funding Programmes: An overview of member states' measures and tools for climate proofing Cohesion Policy funds*. ENEA Working Group on Climate Change and Cohesion Policy. November 2009

<sup>149</sup> EPRC (2008) *From environmental sustainability to sustainable development? Making concepts tangible in structural funds programmes*. IQ-Net Thematic Paper No (22)2.

**hecklists and guidance for the assessment of projects which include climate change considerations can also help improve integration of climate change issues.** Austrian OPs, for example, use common guidelines (SUP-Leitfaden) for the assessment of project applications. The guidelines consist of a detailed checklist sub-divided into six environmental categories: biodiversity and landscape, cultural heritage, soil, water, air, climate, efficient use of energy and resources, and mobility. Intermediary bodies provide individualised questionnaires for each project on the basis of a general set of questions. Projects are distinguished between those which are presumably low impact (less than €350,000) and high impact projects (more than €350,000).<sup>150</sup>

**Integration can also occur through self-assessment of project proposals by the applicants themselves in the project preparation phase.** In some cases, project appraisers evaluate applications against these criteria. In Wales for example, guidance provided to applicants on integrating environmental sustainability in project applications includes a checklist used by project development officers to assist them in evaluating the project.<sup>151</sup> See Box 11 for an example from Sweden of self-assessment guidance for project developers.

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<sup>150</sup> Ibid.

<sup>151</sup> Ibid.

### **Box 11: Providing guidance for project applicants: An example from Sweden**

A guide supporting project applicants and desk officers in selecting and enhancing environmental aspects of Structural Fund projects has been developed by the Swedish Environmental Protection Agency on behalf of the national managing authority. The guide aims to raise awareness among project applicants, managing authorities and the selection committee. It is widely accepted and used as a self-assessment tool by the majority of project proponents. The guide is for applicants filling out the application form and sets out questions to be addressed in the application form including:

- What are the environmental objectives of the project?
- What activities are planned to achieve the environmental objectives of the project?
- What is the environmental impact of the project's results?
- Does the project have any impact on Natura 2000 areas?

The guide also sets out a number of additional questions to assist the formulation of the project application including the following:

- How will environmental operations be structured within the project and resulting activities?
- How will the project lead to the more efficient use or increased recycling of energy, natural resources, water and other materials within the project and in resulting activities?
- Will the resulting activities lead to emissions of CO<sub>2</sub> or other GHGs, toxic substances, waste, eutrophication, noise, or impacts on biodiversity? If yes, describe how.
- How will the project lead to the encouragement/stimulation of environmentally friendly travel, housing and restaurants/meals?
- How will the project contribute to the achievement of national or regional environmental objectives?
- How will the project lead to increased environmentally friendly transport and transport systems?
- How will the project lead to reduced transport needs?

*Source: ENEA-REC (2009) Improving the Climate Resilience of Cohesion Policy Funding Programmes: An overview of member states' measures and tools for climate proofing Cohesion Policy funds. ENEA Working Group on Climate Change and Cohesion Policy. November 2009*

### ***Integrating climate change in calls for proposals***

Well formulated **calls for proposals by national authorities which take into consideration climate change aspects can help steer the direction of project development and can therefore influence project design.**<sup>152</sup> The integration of climate change issues at this stage in the project cycle can be enhanced by ensuring that the application form steers applicants towards relevant climate targets and includes questions regarding the potential carbon impacts of the proposal.<sup>153</sup> Thematic calls for proposals which target specific issues, e.g. improved energy efficiency in housing, can help to target certain groups of beneficiaries and raise awareness of the issue.<sup>154</sup> For example, in the North Ostrobothnia region in Finland a call for proposals on 'Climate Change Adaptation and Mitigation' was launched in 2008 as a means of increasing the role of climate change in spending programmes. Information about

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<sup>152</sup> ENEA-REC (2009) *Improving the Climate Resilience of Cohesion Policy Funding Programmes: An overview of member states' measures and tools for climate proofing Cohesion Policy funds*. ENEA Working Group on Climate Change and Cohesion Policy. November 2009.

<sup>153</sup> Ibid.

<sup>154</sup> EPRC (2008) *From environmental sustainability to sustainable development? Making concepts tangible in structural funds programmes*. IQ-Net Thematic Paper No (22)2.

the thematic call was disseminated through local newspapers and nine applications were received, of which four were eligible for the theme. Two projects were funded in 2009.<sup>155</sup>

### ***Integrating climate change in project application forms***

In order to promote integration of climate change issues, **application forms should contain questions which allow applicants to take climate change aspects into account in the design of their project proposal.** Relevant questions may relate to the extent to which the project complies with relevant climate change related legislation; the potential climate change impacts (positive and negative) of the project; the climate change targets to be achieved by the project, energy consumption or emissions reduction of the project, project monitoring indicators, and information about incentives to encourage projects to consider climate change related issues.<sup>156</sup> In the Berlin OP (DE) for example, applicants for investment projects in industries with a higher than average energy consumption and CO<sub>2</sub> emissions, are required to specify the energy consumption and CO<sub>2</sub> output associated with implementation of their project proposal. Where negative impacts are identified, the project can only be approved once the proposal has been modified or an environmental management system has been introduced.<sup>157</sup>

In a number of Member States, specific guidance documents have been developed on how to reflect environmental sustainability issues in project design and development, and in some cases set out actions that should be integrated into projects in order to improve their quality and environmental sustainability.<sup>158</sup> These usually include climate change considerations as well.

### ***Applying specific climate change selection criteria***

Appropriate selection criteria is critical to ensure that projects funded under the Structural and Cohesion Funds sufficiently address environmental and climate change considerations. The project selection procedure differs from one country / region to another and depends *inter alia* on the types of beneficiaries (the private sector such as SMEs or the public sector such as the regional energy agency) as well as the primary objective of the climate-friendly interventions (the reduction of GHG emissions, the creation of jobs etc).<sup>159</sup> Regarding project appraisal, they suggest that establishing innovative institutional mechanisms (e.g. environmental panels) could aid the selection process by way of environment/climate expertise.<sup>160</sup> Essentially, the project selection criteria could *a priori* be designed so that the scoring system favours climate-saving and resilient projects. In some ways, this is another expression of conditionality (see chapter 5.2.4). Some regions have already taken this approach forward. In Vlaanderen (BE) for example, the target of carbon neutrality is the

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<sup>155</sup> ENEA-REC (2009) *Improving the Climate Resilience of Cohesion Policy Funding Programmes: An overview of member states' measures and tools for climate proofing Cohesion Policy funds.* ENEA Working Group on Climate Change and Cohesion Policy. November 2009.

<sup>156</sup> *Ibid.*

<sup>157</sup> *Ibid.*

<sup>158</sup> EPRC (2008) *From environmental sustainability to sustainable development? Making concepts tangible in structural funds programmes.* IQ-Net Thematic Paper No (22)2.

<sup>159</sup> ADE (2009) *Ex post Evaluation of Cohesion Policy Programmes 2000-2006 co-Financed by the European Fund for Regional Development (Objectives 1 and 2) – Work Package 5b: Environment and Climate Change.* Final report – Volume 1. October 2009.

<sup>160</sup> *Ibid.*

starting point for the project appraisal process.<sup>161</sup> Projects relating to infrastructure development in Burgenland (AT) are required to undertake energy-saving measures. Every project has to prove that it is energy efficient to obtain national and regional funds. Thus, national standards, regulations and practices (including EIA and SEA) drive projects within every OP to be beneficial to climate change.<sup>162</sup> An example from the 2000-2006 programming period in the Czech Republic elaborated in Box 12 provides an example of how expected GHG emissions was used in the project selection process.

**Box 12: Integrating climate considerations in project selection criteria: An example from the Czech Republic**

During the 2000-2006 programming period, the Industry and Enterprise Operational programme (IEOP) in the Czech Republic had two sub-programmes:

- Energy savings (ES): reduction in energy intensity of energy production, conversion and distribution; investment in new electricity and heat generation equipment; cogeneration, improvement in the thermal properties of buildings used for production
- Renewable energy sources (RES): construction and renovation of equipment to produce and use RES, investment in low energy- intensity production technologies, cogeneration of heat and electricity using RES

A step-by-step selection procedure was carried out to select the projects proposed. In addition to the administrative and financial eligibility criteria, Management Authorities assessed, through an independent ex ante energy audit, the level of the reduction of GHG emissions due to the project to be co-funded by the ERDF. Results of this audit have been used to accept or reject applications to be co-funded by the ERDF. In the case of the RES sub-programme, the project could be co-financed if it allowed a decrease of at least 60 tonnes of GHG emissions per year. In the case of the ES sub-programme, the project could only be co-funded if it allowed a decrease of at least 40 tonnes of GHG emissions per year. Furthermore, the level of subsidies to projects which aimed to reduce GHG emissions was calculated according to the importance of their contributions to improved energy efficiency and energy production from renewable sources. The total amount of subsidy for a project depended on the scoring of the project after evaluation: the higher the score, the higher the subsidy.

*Source: ADE (2009) Ex post Evaluation of Cohesion Policy Programmes 2000-2006 co-Financed by the European Fund for Regional Development (Objectives 1 and 2) – Work Package 5b: Environment and Climate Change. Final report – Volume 1. October 2009*

***Climate change in the assessment process***

Different institutional mechanisms are used in the project appraisal process. In Finland for example, six regions have formed environmental assessment panels comprising of implementing authorities of the region that oversee and participate in environmental assessment of project proposals. In southwest Finland, this practice has been further

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<sup>161</sup> ENEA-REC (2009) *Improving the Climate Resilience of Cohesion Policy Funding Programmes: An overview of member states' measures and tools for climate proofing Cohesion Policy funds*. ENEA Working Group on Climate Change and Cohesion Policy. November 2009.

<sup>162</sup> *Ibid.*

developed and a special EIA manager has been established.<sup>163</sup> The involvement of civil society in the assessment committees / panels can help to improve the assessment process, including its consideration of environmental issues, and increase the transparency of the process. Including NGOs and other civil society actors in the process can also help to address capacity constraints among managing authorities in some countries.<sup>164</sup> In Hungary, for example, between 2004 and 2006, experts from an environmental NGO (the National Society of Conservationists) cooperated with the managing authority of the regional OP in the project selection process under the Programme. The organisation sought to ensure quality control for environmental sustainability and set up a group of 10 NGO experts from its members. Subsequently, regional development agencies changed their pre-selection and scoring criteria by giving more respect to environmental aspects. The managing authority also developed new guidance on environmental sustainability aspects for applicants. This influenced other managing authorities to reconsider introducing minimum environmental criteria as part of the eligibility criteria for funding in the 2007–2013 period. In the current programming period, the NGO is planning to evaluate the impacts of selected projects on climate change.<sup>165</sup>

From the above overview, it is evident that increasing efforts are being made to integrate environmental, and climate change, considerations early on in the project development process. There has also been a shift to a more iterative approach to integration in which organisations and mechanisms are linked throughout the different stages of the project cycle to increase continuity and allow for the measurement / assessment of related aspects as the project progresses. There are several examples as demonstrated by this section of existing practices in some Member States and specific regions, however these approaches need to be more widely applied in Member States. It is therefore important to provide incentives and guidance to promote the integration of climate change related issues in the various stages of the project cycle. The up-take of such approaches is in turn dependent on the capacity of administrative systems, resources available and expertise.<sup>166</sup>

#### **4.2.6 Developing indicators and reporting on climate change**

Indicators are important planning and monitoring tools but also mechanisms to strengthen transparency and accountability of policy-making. Currently, there is no commonly established monitoring and reporting system in place to measure the impact of EU spending on climate change at the level of the EU budget or the separate policies. Although there are some attempts to set out climate change indicators in a number of Member States, this is still not common practice and therefore there are issues of comparability of data and

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<sup>163</sup> ENEA-REC (2009) *Improving the Climate Resilience of Cohesion Policy Funding Programmes: An overview of member states' measures and tools for climate proofing Cohesion Policy funds*. ENEA Working Group on Climate Change and Cohesion Policy. November 2009

<sup>164</sup> Ibid.

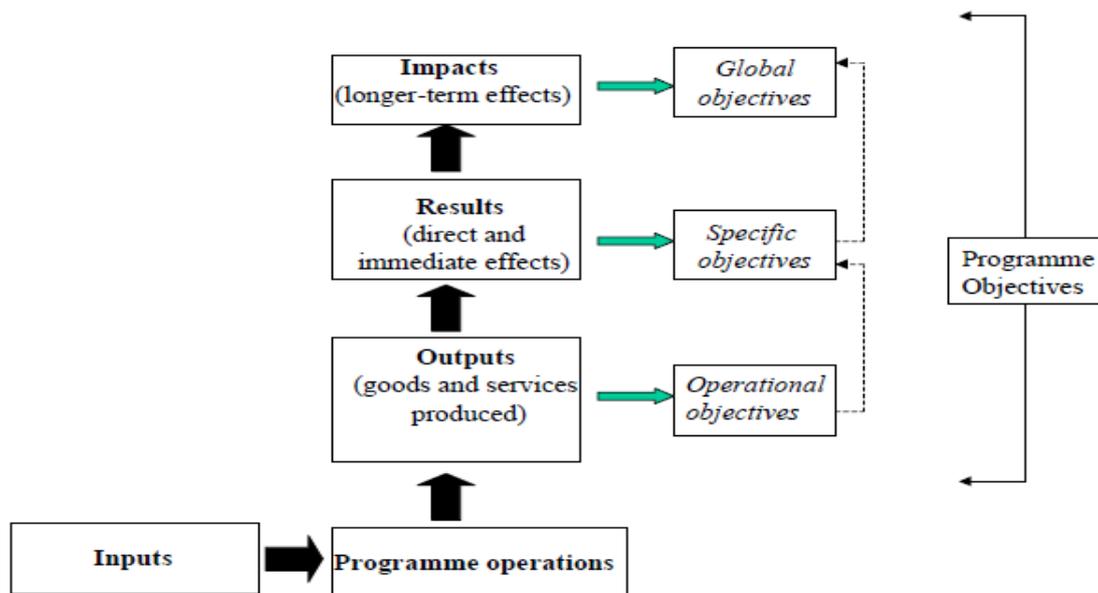
<sup>165</sup> Institute of Environmental Economics & CEE Bankwatch Network (2004) *Best Available Practices, Public Participation in Programming, Implementation and Monitoring EU Funds*. As cited in GRDP (2006) *Greening Projects for Growth and Jobs Guidance on integrating the environment within regional development programmes and their projects*. October 2006

<sup>166</sup> EPRC (2008) *From environmental sustainability to sustainable development? Making concepts tangible in structural funds programmes*. IQ-Net Thematic Paper No (22)2.

aggregating this data at EU level in order to acquire comprehensive information about the link between EU spending and GHG emissions. The development of climate change (mitigation and adaptation) indicators should be prioritised as a key issue to be addressed in the preparations for the post-2013 EU budget,

The general indicator system of the 2007-2013 Cohesion Policy is not embedded in the regulatory framework but is instead elaborated in Working Documents 2<sup>167</sup> and 7<sup>168</sup> published by DG Regional Policy. These documents are intended to provide Member States and regions with guidance on how to develop a system of indicators for Cohesion Policy programmes and introduce an output-result-impact indicator system (see Figure 3). Typical output indicators refer to ‘number of project’ while result indicators relate to the effects of the intervention, for instance the number of renewable energy installed. Impact indicators on the other hand are linked to longer term targets to which the intervention contributes, for instance, energy use reduced by 2013 compared to a baseline. According to a Nordregio study, the development of impact indicators linked to sustainable development issues has been difficult as these are often conceived as less tangible and existing practices in this regard are rather limited.<sup>169</sup>

**Figure 3: Indicator system for Cohesion Policy 2007-2013**



Source: DG Regional Policy<sup>170</sup>

<sup>167</sup> DG Regional Policy (2006) Indicative guidelines on evaluation methods: monitoring and evaluation indicators. Working document 2, Brussels.

<sup>168</sup> DG Regional Policy (2006) Reporting on core indicators for ERDF and Cohesion Fund, Working document No 7, Brussels.

<sup>169</sup> Nordregio, European Policies Research Centre, Austrian Institute for Spatial Planning (ÖIR) and SWECO (2009) *The potential of regional development instruments 2007-2013 to contribute to the Lisbon and Goteborg objectives for growth, jobs and sustainable development*. Final report for the European Commission

<sup>170</sup> DG Regional Policy (2006) Indicative guidelines on evaluation methods: monitoring and evaluation indicators. Working document 2, Brussels.

This system of indicators is developed at the level of Operational Programme, i.e. at the national and regional levels. An important question that arises is how to aggregate this data and make sense of it in the context of planning and monitoring expenditure at the EU level. Currently, Member States and regions are required to report based on 'core' indicators which are generally intended to aid the Commission in aggregating comparative data on a limited number of key indicators linked to the objectives of Cohesion Policy, e.g. job creation, number of R&D projects financed, etc. Annex 1 of Working document 2<sup>171</sup> lists all 'core' indicators recommended by the Commission. There is one core indicator as far as climate change is concerned – 'reduction in greenhouse gas emissions'. Additionally, core indicators for renewable energy include 'number of projects financed' and 'additional capacity of renewable energy production'. With regard to risk prevention, core indicators include 'number of project' and 'number of people benefiting from flood and fire protection measures'. Most of these indicators are output related and hardly demonstrate any specific trends in terms of results, impacts and the performance of EU spending.

Nevertheless, the indicator system proposed by the Commission constitutes a good start to integrating climate change issues in the general monitoring and reporting system and linking them to programme/policy objectives, provided that a **proper system of results and impact indicators are developed in parallel with traditional input and output indicators**. The system however, is currently not compulsory and it is unclear to what extent it is being made operational. Currently, 13 out of 27 EU Member States developed indicators on measuring GHG emissions at the level of their Operational Programmes.<sup>172</sup> However, it has been found that there are discrepancies in the measurement unit (CO<sub>2</sub>, equivalent, kt) used in different countries and hence the data cannot be aggregated at the EU level. Some countries have developed indicators linked to the installation of renewable energy. Fewer examples can be found linked to risk prevention and climate change adaptation.<sup>173</sup> Such indicators should be made compulsory and established up-front during the development of the Operational Programmes in view of gearing them to the programme objectives and quantitative targets at an early stage in the cycle.

It should also be noted that some Member States have already developed **systems for monitoring and reporting general environmental pressures** which could be used to take account of climate change issues more prominently and in relation to spending programmes. In Austria for example, a common SEA monitoring system has been developed in which every region is required to collect SEA monitoring data from their regional OPs and related projects and send this to a central database system. All regions use a common format for sending in the data to the central database based on a checklist which includes sections on air and climate change, and energy efficiency issues, and contains indicators and questions including on the use of fossil fuels, project impacts on energy efficiency etc. This SEA monitoring system is integrated in the overall Cohesion Policy monitoring system and once fully operational, should provide the basis for collecting and comparing data related to

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<sup>171</sup> Ibid.

<sup>172</sup> Nordregio, European Policies Research Centre, Austrian Institute for Spatial Planning (ÖIR) and SWECO (2009) *The potential of regional development instruments 2007-2013 to contribute to the Lisbon and Göteborg objectives for growth, jobs and sustainable development*. Final report for the European Commission.

<sup>173</sup> IEEP et al. (2011) *Sustainable development and Cohesion Policy*. Final report for DG Regional Policy, February 2010.

the climate change impacts of OPs and different projects.<sup>174</sup> See Box 13 for more information about the indicators system applied in Austria.

#### **Box 13: Using environmental monitoring indicators: An example from Austria**

Austria has developed a system of environmental monitoring indicators for the 2007–2013 programming cycle which provides an example of best practice, in particular in the way that it tracks potential environmental impacts from non-environmental projects. Although Structural Fund projects in Austria do not report their overall reduction in energy use, they provide the following data:

- reduction of use of fossil energy in MJ/year;
- reduction in CO<sub>2</sub> emissions.

These two indicators are closely related and the second indicator is especially useful as it provides results that can be compared to the EU objective of reducing GHG emissions. Investments in renewable energy and energy efficiency should directly lead to a reduction in CO<sub>2</sub> emissions. Although the OPs may have other goals, e.g. improving enterprise technology and promoting economic growth and jobs, reducing CO<sub>2</sub> emissions should be a result of any investment in this area.

*Source: EEA. 2009. Territorial cohesion: Analysis of environmental aspects of the EU Cohesion Policy in selected countries. EEA Technical Report No 10/2009*

The development of a proper system of climate monitoring and reporting is dependent on the availability of data and also on the national/regional/local capacity to collect, analyse, present and utilise this data for the purposes of informing decision-making processes concerning investment programmes and projects. Therefore, it is compulsory that the **necessary capacities and technical basis at regional and national levels are developed, taking into account existing evaluation cultures and practices. Member States should be encouraged to harness already available funds for technical assistance, for instance to invest in developing expertise, capacity and data sets for such indicator systems** in the current 2007-2013 period to develop the necessary governance structures and technical skills.

#### **4.2.7 Carrying Out Thematic Climate Change Evaluations**

Evaluations are a recognised management tool for strengthening the governance for sustainable development and improving policy learning. They are also central to any management approach aimed to strengthen the performance, quality and result-orientation of a plan or programme. Given calls for a reform in this regard, as set out in the EU budget review Communication, improving the thematic reporting and evaluation in relation to climate change should be seen as part of the efforts to climate proof the EU budget. In this

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<sup>174</sup> ENEA-REC (2009) *Improving the Climate Resilience of Cohesion Policy Funding Programmes: An overview of member states' measures and tools for climate proofing Cohesion Policy funds*. ENEA Working Group on Climate Change and Cohesion Policy. November 2009

section we deal with evaluations in terms of the need to introduce appropriate assessment and reporting requirements with regard to climate change during and after the implementation of investment programmes. Similar ex-ante evaluations are discussed in chapter 5.2.3).

There are already a number of requirements for reporting on the implementation of EU funding programmes and projects which mainly focus on progress made or socio-economic trends. For instance, managing authorities are required to submit annual implementation reports and two strategic reports (the latter focusing on the contribution of OPs to attain the objectives of Cohesion Policy and to the priorities set out in the Community Strategic Guidelines). None of these include specific requirements for climate change reporting. This is largely linked to fact that there is not a systematic application of climate change indicators that the reporting can build on. If proper indicator systems are installed, these could be made an integral part of the existing reporting system and therefore provide a channel for information at the EU level on climate change impacts and trends. Reporting at the EU level has also evolved and the Fifth Cohesion report on economic, social and territorial cohesion published in November 2009 included a lot of data on climate change in the context of EU funding programmes. Much of this was more qualitative and showed examples of front running Member States and regions. This practice should be further improved in terms of carrying out more systematic reporting also including more quantitative data.

A 2009 EEA assessment found that many evaluations of EU funding programmes tend to focus on the level of spending or on the distribution of investments between sectors rather than on the actual effectiveness of measures and their impacts and are often not used to feed into preparations for the next programming cycle.<sup>175</sup> This is linked to some extent to the lack of explicit requirements for thematic climate change evaluations in the regulatory framework, but is also due to the lack of demand for such evaluations within the current governance system for EU spending. The issue of appropriate and effective valuation systems in this regard is crucial and although posing some methodological and operational challenges, it needs to be further taken into consideration when designing the future monitoring and evaluation system for EU spending programmes. Without proper assessment or evaluation to aid decision-makers to comprehend the inter-relationship between Cohesion interventions and climate change trends, it is unlikely that the necessary feedback loops would provide sufficient data and evidence to improve EU funding programmes and instruments and spur policy learning. Therefore, specific requirements for thematic reporting and valuations with regard to climate change should be formulated in the regulatory framework of future EU funding instruments and some funding should be set aside to financially secure the production of such reports and evaluations both during and after the implementation of programmes. The Commission should in turn publish these evaluations, highlighting good practices and lessons learned and organise skills shares and seminars for disseminating these lessons and encourage their up-take together with Member States and managing authorities.

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<sup>175</sup> EEA (2009) *Territorial cohesion: Analysis of environmental aspects of the EU Cohesion Policy in selected countries*. EEA Technical Report No 10/2009

## 5 Part II: A Quick Guide for Policy-makers

This quick guide is intended to aid policy-makers in the forthcoming preparations and negotiations of the post-2013 EU Multi-annual Financial Framework (MFF). It aims to clarify what climate proofing the EU budget actually means and how it can be operationalised in the context of the next long term EU budget, using the future Cohesion Policy as an important case example. It also intends to address some of the key questions emerging in the on-going debates on the future EU budget, including: whether or not the main priorities and policy goals enshrined in the EU budget are supportive to, and coherent with, the EU's climate change objectives? If not, what could and should be done about this? And how can the EU budget be turned into a tool to support efforts to tackle climate change?

### What is climate proofing about?

Climate proofing is about *stepping up and promoting spending that is both carbon saving and climate resilient*, while at the same time *minimising and gradually phasing out spending that is counterproductive to these objectives*. Therefore, climate proofing the EU budget should be understood as the interplay of two *overarching strategic components*:

- 1) Scaling up funding both through a separate dedicated climate change fund and in existing funds, including reforming and phasing out carbon harmful spending; and
- 2) Improving climate change performance and making EU spending more result oriented.

### How to climate proof the EU budget?

Each of these strategies requires a *combination of different operational instruments* designed to facilitate and deliver the desired policy choices and climate change objectives through the EU budget. Importantly, there are different instruments that should be deployed at *different stages of the EU budget's 'lifecycle'* from strategic planning and implementation, to monitoring, reporting and evaluation. Even if convincingly designed as a concept, climate proofing can fail if *corresponding implementing structures* are not in place or the *respective political conditions and their opportunity structures* are not taken into account. Finally, proofing the EU budget is not a one-off exercise but a long-term process that evolves and *needs to be pursued over time beyond 2020*.

The table below provides an overview of the different instruments that can be applied to deliver the two strategic components of a climate proofing strategy. The table sets out the main characteristics of each instrument and provides an indication of which instruments should be given particular priority in the post-2013 MFF and their political feasibility. The table is followed by a figure setting out a potential implementation scenario of the possibilities to climate proof the next MFF and the legislative acts on Cohesion Policy in the forthcoming political process (see Figure 4).

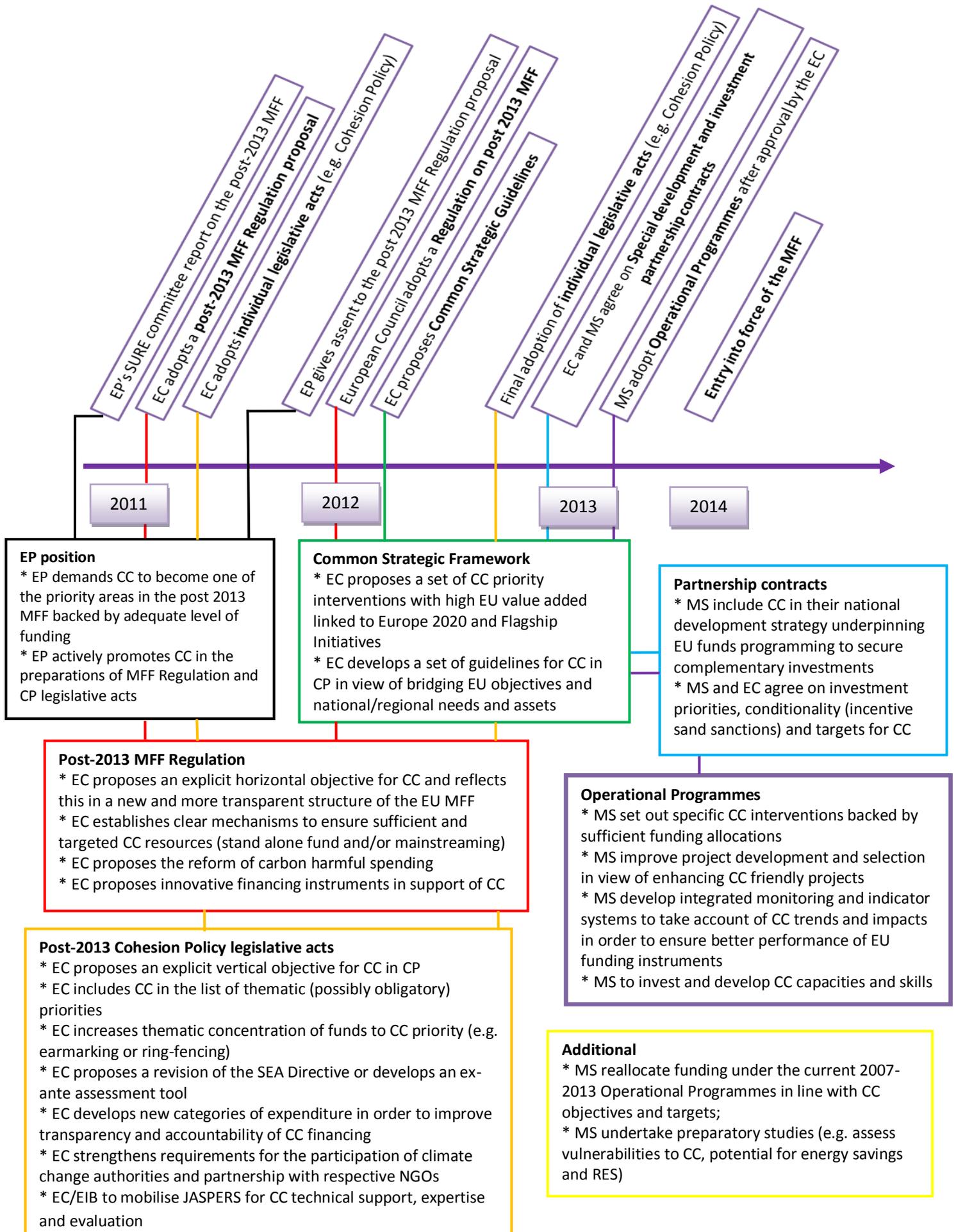
<b>Component 1</b>	<b>Priority</b>	<b>Political feasibility</b>	<b>Component 2</b>	<b>Priority</b>	<b>Political feasibility</b>
<p><b>Setting horizontal and vertical CC priorities and objectives</b></p> <ul style="list-style-type: none"> <li>Anchor CC objectives <i>horizontally</i> for the entire post-2013 MFF;</li> <li>Anchor CC objectives <i>vertically</i> within the different funding instruments;</li> <li>Include a specific budget line or sub-heading for CC investments in the EU budget.</li> </ul>	+++	++	<p><b>Undertaking preparatory studies and mapping vulnerabilities to climate change</b></p> <ul style="list-style-type: none"> <li>Carry out preparatory studies and prepare vulnerability maps (e.g. link to the EU Floods Directive) at regional and national levels;</li> <li>Mobilise technical assistance, exchange methodologies and good practices, and provide guidance to local and regional authorities.</li> </ul>	++	++
<p><b>Improving the strategic framework for CC with investments</b></p> <ul style="list-style-type: none"> <li>Establish a strategic planning framework to coordinate investment and concentrate them more strategically on achieving CC objectives;</li> <li>Link to national planning systems to increase coherence and bridge EU priorities to local needs.</li> </ul>	++	+	<p><b>Developing administrative capacities for CC</b></p> <ul style="list-style-type: none"> <li>Enhance administrative capacity both for managing and absorbing available CC funding and ensuring CC integration;</li> <li>Provide guidelines, communicate win-win opportunities from CC measures, organise seminars and promote good practices;</li> <li>Harness the European Social Fund to invest in soft measures;</li> <li>Mobilise technical assistance (e.g. JASPERS) to strengthen administrative capacity and expertise.</li> </ul>	+++	++
<p><b>Allocating sufficient funds for climate change</b></p> <ul style="list-style-type: none"> <li>Create a dedicated fund for CC;</li> <li>Earmarking or ring-fencing to guarantee a specific amount of funding is allocated for CC objectives within existing instruments.</li> </ul>	+++	+	<p><b>Introducing an ex-ante carbon screening tool</b></p> <ul style="list-style-type: none"> <li>Establish a specific carbon screening tool aiding decision-making and investment portfolio management;</li> <li>Develop methodological instructions and guidelines for its application; A specific tool could feed into the possible reform of existing tools such as the SEA.</li> </ul>	++	+
<p><b>Identifying priority measures for addressing climate change</b></p> <ul style="list-style-type: none"> <li>Give priority to win-win integrated solutions where multiple benefits for the climate, economic and social domains can be realised in the most cost-effective way;</li> <li>Apply criteria to ensure balanced investments (technology vs. softer approaches e.g. ecosystem based approaches to adaptation and mitigation).</li> </ul>	++	++	<p><b>Applying conditionality and incentives</b></p> <ul style="list-style-type: none"> <li>CC objectives should be systematically built into the system of conditionality;</li> <li>Withholding EU funding has been found an effective tool to increase pressure on EU MS to comply with specific EU objectives;</li> <li>Financial incentives can reward MS or regions extraordinary achievements. This could include setting aside an increased performance reserve.</li> </ul>	+++	+

<p><b>Reforming and phasing out harmful spending</b></p> <ul style="list-style-type: none"> <li>• Identify any climate harmful spending among the planned funding allocations.</li> <li>• Reform expenditure through shifting support to measures that deliver the same objective through different means; deliver different objectives; or integrate conditionality.</li> <li>• Gradually phase out climate harmful spending.</li> </ul>	+++	+	<p><b>Strengthening climate change in project development and selection criteria</b></p> <ul style="list-style-type: none"> <li>• Integrate CC in all phases of the project formulation cycle, such as calls for proposals, application forms, clear guidance documents, appropriate selection criteria and project check lists;</li> <li>• Use soft guidance and establish appropriate institutional mechanisms to work with beneficiaries and strengthen the project selection process from the CC perspective</li> </ul>	+	++
<p><b>Restructuring categories of expenditure</b></p> <ul style="list-style-type: none"> <li>• Capture CC issues more effectively in order to provide a signal to Member States;</li> <li>• Modify categories to become more explicit and clearer in order to aid the reporting and transparency of EU spending.</li> </ul>	++	++	<p><b>Climate change indicators and reporting</b></p> <ul style="list-style-type: none"> <li>• Complement traditional input-output indicators with a system of results- and impact-based indicators for CC that allow for a more transparent and coherent reporting;</li> <li>• Streamline these indicators in existing indicator and reporting schemes.</li> </ul>	+++	+
<p><b>Coordination structures and partnerships</b></p> <ul style="list-style-type: none"> <li>• Strengthen coordination and implementation capacities at all levels in order to enhance the effectiveness and efficiency of spending;</li> <li>• Create new institutional arrangements to improve horizontal policy and investment coordination.</li> </ul>	++	++	<p><b>Ex-post evaluations</b></p> <ul style="list-style-type: none"> <li>• Gear ex-post evaluations towards assessing the actual effectiveness of measures and their impacts with regard to CC, and link their results to preparations for the next programming cycles.</li> <li>• Make thematic CC evaluations mandatory</li> </ul>	++	++
<p><b>Harnessing innovative financing instruments</b></p> <ul style="list-style-type: none"> <li>• Explore novel instruments to enhance the leverage effect of EU budget grants and loans, guarantee schemes, risk-bearing instruments and equity;</li> <li>• Potential instruments include enhancing the role of the EIB, project bonds, and financial engineering under Cohesion Policy</li> </ul>	++	+++			

**Legend**

Priority for EU Action in terms of securing that future EU MFF is climate-proofed		Political feasibility in terms of commitment and readiness to implement	
+++	Indispensable	+++	High
++	Very important	++	Medium
+	Important	+	Low

Figure 4: Climate proofing the post-2013 MFF (including Cohesion Policy): An implementation scenario



## 6 Conclusions

Policies to mitigate climate change have gained increasing prominence in EU policy-making in recent years. Climate adaptation policies are starting to follow this trend. **The need for decarbonisation and a more resilient and resource efficient economic model** has clearly been established. A number of studies have shown that the economic costs of such a strategy are small compared to the cost of inaction, and should be more than compensated for by the overall socio-economic benefits. Policy is gradually moving in this direction as confirmed by elements of Europe's 2020 Strategy and the recently published 2050 Roadmap for a low carbon economy.

However, such policy shifts risk failing to deliver if they are not underpinned by a corresponding change in spending objectives and priorities. Climate change is a key challenge facing an out-dated EU budget that largely mirrors the challenges of past decades. There is widespread public support for moving climate change mitigation and adaptation action from the periphery to the core of the EU budget, as the outcomes of the public consultation on the budget demonstrated. The formal EU Budget Review Communication and the conclusions of the Fifth Cohesion report reiterate this position. Making it happen is, however, anything but easy. The political context is difficult and allows only limited room for manoeuvre between European institutions in the short term. At the same time, a range of conceptual and technical questions require answers. A simplistic strategy of trying to expand dedicated EU climate change spending in isolation could fall into the trap of policy incoherence. Discussions about the value added of European spending ought not to be restricted to what should or should not be financed, but should also consider ways to invest more smartly and efficiently. **The EU budget as a whole needs to take into account impacts on European climate change objectives and support a coherent strategy to achieve these objectives.**

How can an adequate scale of financing for climate change action be secured while simultaneously ensuring that overall spending does not undermine the efforts of such targeted spending? The concept of climate proofing the EU budget aims to tackle these challenging questions and we are still in the early stages of thinking about this concept and how it would work in practice. This report has taken stock of the current discussion and has aimed to contribute to our understanding of what climate proofing is and how it can be implemented in practice. **Different approaches to defining and operationalising the concept of 'climate proofing' have been explored in relation to the forthcoming discussions around the post-2013 MFF.**

Two key critical dimensions of the concept need to be distinguished. These are not mutually exclusive but should be considered complementary to each other:

- **Scaling up funding for climate change action (mitigation and adaptation).** In practice this needs to be advanced both through a new separate dedicated fund and through appropriate mechanisms in existing EU funds. The latter should include the reform and systematic phasing out of climate perverse spending; and
- **Improving the climate change performance of EU spending and making it more results oriented in order to increase its value added.**

The main objective of a climate proofing strategy has to be clear. This report puts forward **net carbon-savings and climate resilience as the main strategic objective for the forthcoming EU budget**. Two sets of instruments to help achieve this objective in a complementary and coherent way are proposed, drawing on evidence from a range of sources including a stakeholder workshop. In their simplest form, these two tool boxes can be used as a checklist to ensure that a full range of options are considered when thinking about actions to climate proof the EU budget. These instruments should help, to different degrees and combinations, **to integrate climate change at each stage of the EU budget lifecycle and each level of the shared management system in which the majority of EU spending occurs**. It is imperative that most instruments are deployed early in the policy cycle (e.g. strategic planning) as this will determine to a large extent the effectiveness of subsequent instruments applied at later stages (e.g. implementation and monitoring). There is scope for developing many of these already during the current 2007-2013 programming period (e.g. technical assistance, mapping vulnerabilities, etc.) in order to inform and improve the programming of post-2013 spending plans. Others might become fully operational only after 2020 (such as phasing out climate harmful spending). Each tier of governance has a role and responsibility in the implementation of such climate proofing instruments in order to match EU objectives with regional potentials, assets and needs.

**There is a range of practical instruments available for implementing climate proofing which can be feasibly applied.** Some of these instruments are already used in some form at the EU or national level but need to be reviewed and strengthened so that they are focused specifically on climate change (e.g. the SEA and EIA Directives, thematic evaluations). At the same time, more 'novel' instruments (ex-ante carbon screening tools, innovative project selection mechanisms) are already being established as good practice in a number of Member States and regions. This report finds that most of these practices can be either replicated elsewhere or can provide important lessons to improve the governance system of the post-2013 MFF. Although introducing new or strengthened procedural tools and governance structures might bring some additional administrative costs, tools to deliver more specific and effective results of EU spending are essential. Moreover, the costs incurred are likely to be outweighed by the long term benefits they yield.

**The challenges involved in reforming the EU budget into an effective strand of climate policy governance are not purely conceptual or technical, they are also political.** The process of producing the next MFF is approaching. There will be a critical turning point in the political debate with the publication by the Commission of the formal legislative package for the post-2013 MFF which is expected to be presented in July 2011. Important political choices concerning the spending priorities and the introduction of novel financing options need to be made now as they will determine the development path of the EU well beyond 2020. While the challenge is huge, it is not insurmountable. Currently, there is a window of opportunity to bring forward more concrete policy proposals and options to the debate. Therefore, **climate proofing should be seen as a critical strategy to ensure that future MFFs support the EU's political priorities related to climate change mitigation and adaptation**, preventing high carbon lock-in path dependencies, and mobilising a critical mass of strategic investments in the transition towards a green and competitive economy.

