Institute for European Environmental Policy

Criteria for maximising the European added value of EU budget: the case of climate change

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1 INTRODUCTION

1.1 European Added Value and EU budget

In times of continued economic and financial crises it is even more important to spend public money in a prudent manner. This is particularly true for the EU budget which is an 'investment budget', with more than 90 per cent being spent in EU Member States.[1] Maximising the 'European added value' (EAV) of this spending is a key ambition of the European Commission for the 2014-2020 EU Multi-annual Financial Framework (MFF) and related funding instruments. The Commission proposes to set out EAV as a 'key test' to justify spending at the EU level'[2]. EAV, however, is also a multi-faceted concept, which has different meanings to different actors.

Deployment of EAV as a principle for distinguishing appropriate policy initiatives and spending plans is far from new. In the past decades, various attempts have been made both to conceptualise EAV and to seek political agreement on the implications of trying to operationalise it. However, until now the only widespread agreement among observers is that EU spending is not necessarily allocated where it could bring the highest added value. There is no commonly shared understanding of EAV as a concept in itself, for both methodological and political reasons. Some relate the EAV concept to legal EU principles such as subsidiarity and proportionality[3], some refer to an economic efficiency rationale[4], while others argue that it implies solidarity and the dissemination of best practice across the Union.[5] All these perspectives are valid in some sense. Taking a bottom-up perspective, EU funding instruments have different underlying logics and follow varying rationales, as they support different policy objectives. Coming up with a common approach applicable to the different EU funding instruments is therefore a challenging task.

Agreeing on a more operational approach to EAV would however be helpful, both in terms of political coherence and economic prudence. Clear criteria are needed to moderate and to some extent rationalise the political debates which are usually influenced heavily by national perspectives. EU Member States fiercely defend their national interests and seek maximum control over EU funding which is accessible to them. While they can realise some short-term gains for themselves this is not in the longer-term collective interest. On the revenue side of the equation, the current system of raising funds for EU expenditure disincentivises open discussion about reforming spending patterns strictly according to EAV. First, Member States are pre-occupied with defending their net paying positions (a *juste retour* orientation).[6] Furthermore, the allocation of EU expenditure is often driven by the objective of achieving optimal absorption of the available funds within the Member States or the promotion of projects that bring high political dividends instead of delivering genuine EAV. In the case of funding instruments that operate under shared management (e.g.

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[1] EC (2011) *The added value of the EU budget,* Commission staff working document accompanying the Commission Communication 'A budget for Europe 2020', SEC(2011)867, 29.6.2011, Brussels.

[2] EC (2010) *EU Budget Review*. Communication form the Commission, COM(2010)700, 19.10.2011, Brussels.

[3] See Ederveen, S., G.Gelauf and J. Pelkmans (2006), European Commission (2007)

[4] See Tarschys, D (2005), Gros, D. (2008), Molino, E. and Zuleeg, F. (2011), Vertes, A. (2011)

[5] EC (2011*) The added value of the EU budget*, Commission staff working document accompanying the Commission Communication 'A budget for Europe 2020', SEC(2011)867, 29.6.2011, Brussels

[6] Wostner, P. (2011) *EU budget, selection criteria and fairness*. In: The EU budget – what should go in? What should go out? Report 3 Ed. by Daniel Tarschys, SIEPS: Stockholm.

Cohesion Funds and CAP), divergent national and regional priorities and implementation capacities add complexity to the process of priority-setting for EU spending.

The conceptual, methodological and political difficulties of bringing EAV criteria to the centre of the EU budget debate have contributed to a lack of clear operational criteria to guide the prioritisation of spending in several funds. There has been less than optimal performance in achieving EAV. In some cases, funds have been scattered on a 'sprinkler principle' (i.e. a little for everybody) without sufficient prioritisation and proper evaluation.[7] In other cases, significant public funding has been provided to induce changes which would have happened anyway, also known as 'deadweight' situations.[8] Given the particular sensitivities and challenges of the 2014-2020 EU budget, more stringent pursuit of maximising the EAV of EU spending is necessary. This paper seeks to contribute to the debate, using climate change related expenditure as a case for illustration.

1.2 Climate change and the EU budget

Amongst the most pressing objectives on the EU agenda beyond the current crisis, and central to the development challenge, is the need to address climate change. The Europe 2020 Strategy for 'smart, sustainable and inclusive growth', includes the EU's 20-20-20 climate and energy targets as one of the five headline targets defining where the EU should be in 2020. Theoretically at least, climate change concerns have thus achieved considerable political weight in the EU economic governance agenda.[9] The Europe 2020 Strategy is implemented through seven 'Flagship Initiatives' which set up *inter alia* long-term policy roadmaps which aim to turn Europe's economy into a low-carbon, climate resilient and resource-efficient economy that operates within safe environmental thresholds.

Estimates of the scale of investment required to meet this goal have been enormous. The Commission's roadmap for moving to a low carbon economy by 2050 alone identifies very sizeable investment needs in various sectors such as boosting renewable energy supplies, smart grids, passive housing, carbon capture and storage, advanced industrial processes and electrification of transport systems. It estimates that on average, €270 billion of investment is needed annually over 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 the current investment.[10] It has been estimated that the new EU-27 energy infrastructure alone will require an investment push of about €1 trillion in the next decade. This will include investment in the capacity to connect renewable energy generation to the delivery network and transmit it to major consumption/storage centres, as well as contributions to energy efficiency and smart electricity use.[11]

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7 Sapir, A. (2003) *An agenda for a growing Europe: making the EU economic system deliver*. Report of an Independent High-Level Study Group established on the initiative of the President of the European Commission.

8 Eureval and Ramboll (2008) *Meta-study on lessons from existing evaluations as an input to the review of EU spending*. Final report. European Commission.

9 Medarova-Bergstrom, K., Volkery, A., Schiellerup, P., Withana, S., Baldock, D. (2011) *Strategies and Instruments for Climate Proofing the EU Budget.* IEEP, Brussels.

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

11 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.

EU public expenditure plays an important part in the policy mix needed to kick-start and to facilitate such long-term transformation processes. Hence, climate change is clearly recognised as a priority by the Commission, not least in the June 2011 proposals for the 2014-2020 EU MFF. With a planned expenditure of €1,025 billion, it is envisaged that the next MFF will be aligned strongly to the Europe 2020 Strategy and its Flagship Initiatives. The mainstreaming of climate change into a range of EU funds is stressed as the main mechanism for climate change financing. For the first time in the history of the EU budget, it is envisaged that the proportion of the budget targeting climate change measures should be increased to at least 20 per cent, with contributions from all the major EU funds. Only a small proportion of this is anticipated to come from a new dedicated climate change component in the future LIFE instrument (amounting to about €800 million, which is in addition to €2.4 billion proposed for the environment component). The Commission also emphasises the need to leverage private resources through innovative financing instruments in the next MFF, to provide additional options for climate change financing and other priorities.[12]

The EU budget, given its relatively small size, should therefore focus on those areas where it can really make a difference. In other words, it should target investments relevant for climate change which can deliver genuine added value with a clear European dimension. This will require the development of a set of workable criteria to guide the identification of future spending priorities.

1.3 Scope and structure of this report

The aim of this report is to revisit the concept of EAV as it applies to the sensitive topic of the EU budget and apply it to the evolving climate change objectives and long-term decarbonisation agenda. Specifically, it seeks to develop a set of criteria which can be used to guide the selection of priorities and implementation of spending under the EU funds whilst taking into account the current political realities.

The paper is organised around four main questions:

1) How best to define ‘European added value’;
2) How to define the priorities for EU climate change related expenditure;
3) How to define criteria to maximise the EAV of EU spending under these priority areas; and
4) How to define a set of functional criteria to aid the planning, implementation and evaluation of climate change spending.

Besides a literature review, the analysis builds on interviews and informal communication with a range of stakeholders. As part of this exchange a draft of the report was subject to discussions during a policy dialogue platform ‘Climate change in the post-2013 EU budget: priorities, criteria and indicators for European Added Value’ organised by IEEP, which took place on 20 September 2011 in Brussels. The workshop discussion also contributed to finalising the report.

[12] See Withana, S., Núñez Ferrer, J., Medarova-Bergstrom, K., Volkery, A., and Gantioler, S. (2011) *Mobilising private investment for climate change action in the EU: The role of new financial instruments*, IEEP, London/Brussels.

The report is divided into two parts. The first considers the concept of EAV in broad terms and in relation to European climate objectives. The second aims to apply the general principles of maximising EAV to the selection of priority measures for EU funds beyond 2014.

2 PART 1: DEFINING THE EUROPEAN ADDED VALUE OF EU EXPENDITURE

There is a considerable body of literature that discusses different approaches to defining EAV. Whilst there is diversity amongst the definitions, most of them address a set of common underlying questions such as:

- Why is action at the EU level needed?
- Why is public expenditure needed? and
- How will EU level expenditure generate synergistic effects?

In 2010, the Commission Communication on the EU Budget Review established EAV as one of the major principles to underpin the future EU budget and a 'key test to justify spending at the EU level'.[13] EAV is envisioned to be delivered through support for EU public goods, actions that Member States and regions cannot finance themselves, and in cases where it can secure better results than national expenditure. The Commission further argues that there may be other manifestations of EAV including coordination gains, legal certainty, greater effectiveness in achieving policy objectives and complementarities between actions.[14] An open question however remains as to what this would mean in practice and how it will be operationalised in the regulatory framework of the different EU funding instruments.

The following section looks at the academic and grey literature and reviews different approaches defining EAV in order to build a foundation for the subsequent discussion of selecting appropriate criteria for setting priorities for EU climate spending.

2.1 Conceptual perspectives on EAV

Two main perspectives on EAV can be distinguished: economic and political. Economic perspectives usually refer to the additional benefits that could be realised through EU support for public goods, including the attainment of economies of scale, tackling market failure and addressing externalities (both positive and negative). In contrast, political perspectives consider heterogeneous political preferences, the legitimacy of policy choices and the interest of European citizens. They are presented briefly below.

[13] EC (2010) *EU Budget Review*. Communication from the Commission. COM(2010)700, 19.10.2011, Brussels

[14] EC (2011) *The added value of the EU budget,* Commission staff working document accompanying the Commission Communication 'A budget for Europe 2020', SEC(2011)867, 29.6.2011, Brussels

- ***Economic perspectives***

EU expenditure is often discussed in relation to the provision of ***European public goods***.[15] Public goods are termed in the economics literature as those which are non-rival and non-excludable.[16] '*European*' public goods have a clear European dimension and often have been discussed as a synonym of the term 'EU added value'.[17] Molino and Zuleeg attempt to coin a definition of European public goods in relation to the EU budget and propose the following two elements: 1) EU spending promotes public goods which can provide the highest 'benefit' and 2) EU spending focuses on those public goods that it can produce more efficiently/effectively than Member States acting alone.[18] Illustrations of European public goods often quoted in the literature include: transnational infrastructure investments, protection of the environment (including combating climate change), maintaining food security and safety, promoting European identity (e.g. by means of mobility programmes in education) and external border protection.[19]

Vertes proposes an 'experimental typology' of European public goods that can deliver added value[20]:

1) Fiscal, monetary and financial stability enhancing policies at EU level;
2) Projects with large scale multiplier or economies of scale effects, transnational or cross border effects (e.g. climate change);
3) Actions with strong and long term forward and backward linkages (e.g. food security, environment, natural resources);
4) Synergies in the operation of the internal market;
5) Spill-over or catalytic effects (e.g. excellence in research, knowledge base); and
6) External savings or surpluses (e.g. the EU as a global player, neighbourhood policy).

A key conclusion is that not all European public goods could or should be financially supported by the European budget, since it is relatively small. Hence, there is a need to establish a way of prioritising between the different types of European public goods. We argue that addressing climate change, environmental protection and resource efficiency fulfils the requirements (directly or indirectly) of several of the categories under the proposed typology and therefore should be considered as priority interventions for the EU budget.

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15 Gros, D. (2008) *How to Achieve a Better Budget for the European Union*, CEPS Working Document No. 289.

16 Public goods are goods or services that can simultaneously be consumed by several individuals without diminishing their overall value (non-rivalry) and regardless of whether or not the individual pays for it (non-excludability) for instance, fresh air, a public park, a beautiful view, public defense.

17 Molino, E. and Zuleeg, F. (2011) *The EU value added test to justify EU spending; what impact for regions and local authorities*? EPC, Brussels.

18 Molino, E. and Zuleeg, F. (2011) *The EU value added test to justify EU spending; what impact for regions and local authorities*? EPC, Brussels.

19 CEC (2008) *Reforming the budget, changing Europe: short summary of contributions*, Working document prepared by the Secretariat-General and DG Budget. SEC(2011)2739, 3.11.2008, Brussels

20 Vertes, A. (2011) *Own resources and European added value. In: The contribution of 16 think tanks to the Polish, Danish and Cypriot Trio Presidency of the European Union*. Notre Europe.

The concept of ***positive and negative externalities*** provides another way of approaching EAV. Externalities are a common by-product of market failure where the cost of the effect of an action, production process or policy is not taken into account by the decision-maker. Externalities (both negative and positive) can have cross-border implications, which in some cases could only be effectively tackled, or more efficiently exploited, at higher tiers of governance, i.e. at the EU level. For example, climate change is an issue that has impacts across national borders and in many respects is likely to be tackled most efficiently and effectively at EU level, which is why there is an extensive body of EU law on climate mitigation measures. Other ways of adding value include those that capitalise on positive externalities which arise beyond Member States' boundaries through ***cross-border actions*** and ***trans-national networks*** and partnerships. Arguably, well designed activities of this type can deliver EAV through mutual learning, benchmarking, creative thinking and raising new ideas.[21] Some of these gains have the potential to lead to far-reaching system changes.[22]

The potential achievement of economies of scale is another rationale for centralising action at the EU level. The principle is that ***economies of scale*** can be captured at EU level in cases where collective action, for example the development of a new technology, is more efficient than the separate pursuit of the same goal by Member States acting alone, with the economic benefits clearly outweighing the associated costs. This discussion is closely linked to the less precise political principles of ***subsidiarity*** and ***proportionality*** which are firmly anchored in the Treaty and in theory underpin all EU action. Subsidiarity means that the EU should only act in areas outside the realm of established Common Policies when policy objectives cannot be achieved satisfactorily by Member States alone but can be better achieved at the EU level. Proportionality requires that EU actions should not go beyond what is necessary in order to achieve the objectives of the Treaty.[23] Translated into the language of public expenditure, this means that EAV is achieved when a euro spent through the EU budget on a specific subject brings more return than a euro spent at national level on the same subject. In other words, pooling national resources at EU level can bring about savings for national budgets.[24] The European Parliament frames this as the 'European dividend' of action at EU level, which is created by 'applying the principle of subsidiarity in financial matters'.[25] This understanding is also supported by the majority of responses to the 2007-2008 EU Budget Review consultation where EAV is mostly viewed in relation to subsidiarity and proportionality.[26]

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[21] Eureval and Ramboll (2008) *Meta-study on lessons from existing evaluations as an input to the review of EU spending*. Final report. European Commission.

[22] Ibid.

[23] The Treaty on the Functioning of the EU (TFEU) prescribes provisions for subsidiarity and proportionality as follows:
•Subsidiarity: "*In areas which do not fall within its exclusive competence the Union shall act only if and insofar as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather by reason of the scale or effects of the proposed action be better achieved at Union le*vel".
•Proportionality: *"The content and form of Union action shall not exceed what is necessary to achieve the objectives of the Treaties".*

[24] CEC (2004) *Financial Perspectives 2007 – 2013*, Commission Communication COM(2004)487, Brussels

[25] European Parliament resolution on building our common future: policy challenges and budgetary means of the enlarged Union 2007-2013 – OJ, C104 of 30 April 2004, p. 991.

[26] CEC (2008) *Reforming the budget, changing Europe: short summary of contributions*. Consultation report. Working document prepared by the Secretariat-General and DG Budget. SEC(2008)2739, 3.11.2008, Brussels.

Certain EU funding instruments have the potential to offer specific forms of EAV through the provision of 'additional' effects. These can be 'unintended' in nature, meaning that they are not the primary goal of the funding instrument but occur as side effects or co-benefits. EU Cohesion Policy for example is often discussed in terms of adding value through its ***leverage effects.*** These could involve direct leverage effects in terms of mobilising national public and/or private financing to co-finance EU Structural Funds programmes but also indirect leverage effects, exemplified by improving governance systems and strengthening partnerships. Such benefits can be achieved not simply by EU expenditure itself but through conditionality clauses in the funds' regulatory framework. This is sometimes termed 'solidarity with strings attached'.[27]

- ***Political perspectives***

Political perspectives on EAV often make the implicit assumption that an economic perspective provides too narrow an analytical perspective on EAV. First of all, the EU budget is not large enough to be allocated to all the areas in which EU public spending could theoretically be more effective compared to national expenditure, hence further decision criteria are needed.[28] Tarschys notes, uncontroversially, that not all interventions which deliver European public goods are equally cost-effective.[29] Moreover, there are some other benefits that are sought, which are not justified on the grounds of economic efficiency but on the basis of political needs e.g. solidarity or demonstrating global leadership of the EU.[30]

The European Parliament for instance has declared that 'the concept of European added value must not be limited to advanced cooperation between Member States but should also contain a visionary aspect'.[31] In this sense, the economic rationale should be complemented by a political rationale. EAV is defined as the promotion of actions that support the delivery ***of high level political priorities***. These could include the objectives and priorities enshrined in the Europe 2020 Strategy, related Flagship Initiatives and 2050 Roadmaps for a low-carbon economy, for example. These priorities will however change over time meaning that the EAV of planned EU expenditure should always be required to pass a test of its political relevance.

Political perspectives are also useful in illuminating the constraints on devising an operational approach to EAV. There are ***historical path dependencies*** in the main policy objectives of important EU policy areas (e.g. CAP) and the distributional patterns associated with them. These distributional rigidities frequently constrain initiatives that are looking for a major alteration in policy. Consequently, it can be difficult to change the balance substantially between investment pathways focussed on national interests to pathways that instead try to meet genuine European priorities. Economic efficiency arguments do not necessarily carry weight in these circumstances. Instead, a recognition of the institutional

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[27] Jouen, M. and Rubio, E. (2007) *Synthesis Paper. Seminar "The EU Budget: What for?",* 19 April 2007, Brussels.

[28] Figueira, F. (2009) *How to reform the EU budget? A methodological toolkit*. SIEPS 2009:5, Stockholm.

[29] Tarschys, D (2005) *The enigma of European added value: setting priorities for the European Union*. SIEPS 2005:4, Stockholm

[30] EU-Consent (2008) *Contribution from members of Team 18 of the EU-CONSENT network of excellence*.

[31] European Parliament resolution on building our common future: policy challenges and budgetary means of the enlarged Union 2007-2013 – OJ, C104 of 30 April 2004, p. 991.

and political bottlenecks and a focus on opportunities for shifting entrenched positions need to be at the heart of any initiative for change.

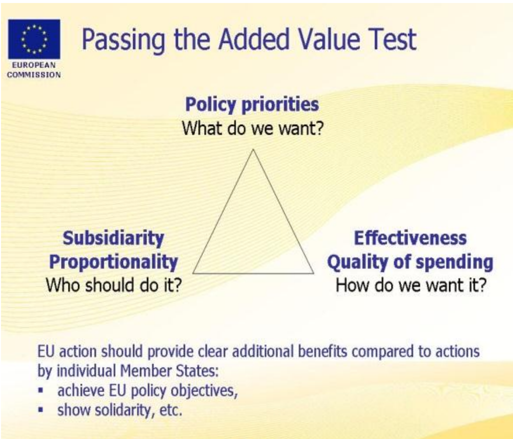
Clearly a variety of ***national/regional political preferences, norms and values*** are critical to the identity of the EU and play a major role in the policy-making process. While it is true that they can often give rise to sub-optimal solutions, it would be unwise to disregard or belittle the diversity and significance of national priorities and needs. The legitimacy and public acceptance of the decision-making process can be understood as part of EAV.[32] This is particularly valid for policy areas such as EU Cohesion Policy which is implemented at lower tiers of governance closer to the citizen.[33]

In conclusion, there are tensions and complementarities between the political and economic conceptions of EAV, but both have validity and need to be taken into account when trying to identify the greatest EAV to be derived from limited EU spending on climate change.

2.2 Criteria for EAV

There is a burgeoning literature on criteria for analysing the EAV of expenditure at EU level. The Commission's 2007 EU Budget Review consultation paper puts forward a simple, three-step 'added value test' combining both economic and political perspectives on EAV[34]. It includes the following criteria and is visualised in Figure 1.

Figure 1. A test for 'EU added value'



Source: European Parliament[35]

There are two additional criteria which are particularly relevant to expenditure programmes and need to be taken into account, although they do overlap considerably with the criteria

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[32] Figueira, F. (2009) *How to reform the EU budget? A methodological toolkit*. SIEPS 2009:5, Stockholm.

[33] Barca, F. (2009) *An agenda for a reformed Cohesion Policy: a place based approach to meeting European Union challenges and expectations*. Independent report prepared at the request of Danuta Hübner, Commissioner for Regional Policy, April 2009.

[34] European Commission, Reforming the budget, changing Europe: http://ec.europa.eu/budget/reform/library/roadshow/roadshow_web_EN.pdf

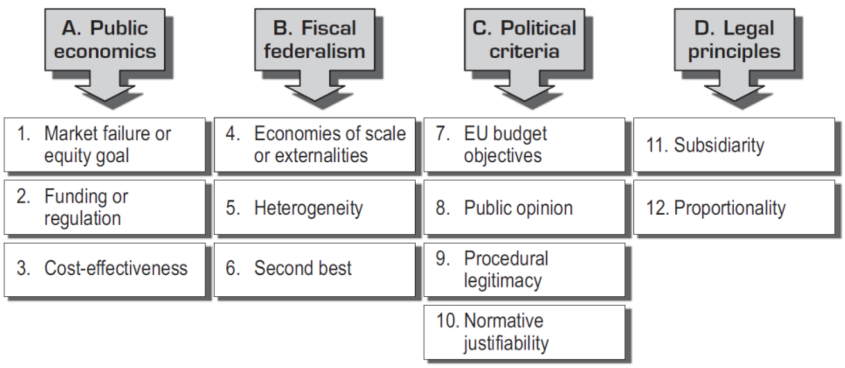
[35] European Parliament (2010) *Reflection paper on the European added value*. SURE committee, 21.9.2011, Brussels.

discussed already. They are defined in the Commission's guidelines for assessing the EU value added of expenditure programmes financed using EU funds:

- The ***additionality*** principle, which means that the EU should act only where there are clear *additional* benefits from collective efforts, compared with action by Member States, either individually or in cooperation.[36] This is similar in some ways to the principle of proportionality but it implies that the financial support given from the EU budget should not replace public or other equivalent expenditure by the Member State (crowding-out); and
- The principle of ***complementarity***, which implies that the benefits generated should *exceed* those that would have been realised in the absence of public expenditure.[37] Moreover, EU funded actions should be consistent and complementary to those supported in other EU and national programmes with a view to achieving synergetic effects and avoiding duplications.

Trying to mesh together these criteria in a coherent and operational form can be challenging. One such example is proposed by Figueira, integrating theories of public economics and fiscal federalism, political considerations and legal principles.[38] Figueira argues that the EU budget is 'out of touch with the realities of today's EU', with almost half being allocated to sectors with declining significance, while policy areas which are becoming increasingly important for the EU are supported only marginally. She puts forward a 12-step test grouped into four sets of criteria to analyse the extent to which the EU budget is consistent with current political challenges. This is shown in Figure 2 below. In principle, following a systematic checklist of this kind would make it possible to identify both the broader policy areas that should receive funding and those parts *within* a policy area that should be prioritised from the perspective of delivering high EAV.

Figure 2. Criteria for EAV of EU budget



Source: Figueira 2009

[36] HM Treasury (2008) *Global Europe: Vision for a 21st century budget*, June 2008. London.

[37] EC (2001) *Ex-ante evaluation: practical guide for preparing proposals for expenditure programmes*. DG Budget, Brussels.

[38] Figueira, F. (2009*) How to reform the EU budget? A methodological toolkit*. SIEPS 2009:5, Stockholm.

Although this approach is more comprehensive than the Commission's, the criteria are still broad, their relevance to specific funding instruments varies and it would be rather demanding in procedural terms to operationalise such a framework. A more realistic approach therefore might lie somewhere between this model and the Commission's more schematic one.

2.3 EAV in relation to climate change expenditure

Only a limited corner of the extensive EAV literature has explored the application of the concept to environmental / climate change expenditure. The majority of studies suggest that added value in this domain is most likely to be derived from tackling externalities, capturing economies of scale and improving alignment with EU political priorities.[39,40] Climate change, like many other environmental issues, is of a ***trans-national nature*** and the problem cannot be solved by Member States acting alone or, indeed, without stronger international cooperation. Moreover, the global nature of the issue means that national governments are more likely to under-spend and have limited ambition to address this issue themselves. The need for a collective and concerted effort has always been a fundamental argument for EU environmental action.[41]

Pooling of resources and expertise at a supra-national level can help to maximise policy impact[42], for example through taking advantage of economies of scale. This is the rationale for concerted EU research efforts (such as in successive Research and Technological Development (RTD) Framework Programmes) and for supporting the joint development and deployment of environmental technologies through such programmes as the Environmental Technologies Action Plan (ETAP) and the Competitiveness and Innovation Framework Programme (CIP)[43] (see Box 1). EU level support can often add value even to more localised environmental problems by identifying, disseminating and transferring best practice, know-how and innovative ideas across Member States. Since most of Europe's natural assets are distributed unevenly across Member States and regions, yet good management of them is in the common interest, there are arguments that a coordinated approach to their conservation and management (e.g. Natura 2000) or potential exploration (e.g. renewable energy) could be more cost-effective.[44]

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39 Begg, I. (2009) *Fiscal federalism, subsidiarity and the EU Budget Review*. SIEPS/1: Stockholm.

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

41 Adelle, C., Pallemaerts, M. and Baldock, D. (2008). *Turning the EU Budget into an Instrument to Support the Fight against Climate Change*. SIEPS: Stockholm.

42 Wilkinson, D., Baldock, D., Farmer, M. (2007) *HM Treasury Principles for the EU Budget Review 2008-9: Implications for Environmental and Land Management Policies*. IEEP. London. (Unpublished Report).

43 Ibid.

44 EC (2011) *The added value of the EU budget*, Commission staff working document accompanying the Commission Communication 'A budget for Europe 2020', SEC(2011)867, 29.6.2011, Brussels

Box 1. Potential EAV of RTD expenditure targeting climate change

Research and Development needs to be taken forward at different scales and there is strong political support for a substantial level of EU expenditure in this area. A number of arguments have been made about why there could be significant EAV from European rather than purely national RTD investments in combating climate change. These include:

- Potentially wider spill-over effects for eco-innovation;
- The danger of underspend on a supra-national priority is reduced;
- Pooled and centrally managed resources can increase the efficiency of overall effort and extend the reach to potential innovators;
- The diffusion of new technologies can be enhanced; and
- Coordinated expenditure for climate change in developing countries is likely to be more effective and better targeted.

Source: ECORYS 2008[45]

Both abating and some forms of adapting to climate change are ***public goods*** in the sense that nobody can be excluded from enjoying the benefits of such public intervention.[46] Since all citizens gain from pure public goods, it can be argued that the highest level of government should have a role in determining (though not necessarily implementing) the expenditure.

There is also a ***burden sharing*** dimension to the EAV debate in relation to climate, where there are agreed EU climate change objectives and targets. The measures required to meet collective European climate targets may well impose disproportionate burdens on some Member States. For example, maintaining forest cover in the new Member States for the purpose of providing carbon sinks would be a more effective way of reducing emissions than deforestation accompanied by the planting of biofuels, and would secure additional biodiversity gains at the same time. However, the (substantial) income foregone might need to be offset by compensatory payments from the rest of the EU in order to establish an incentive for maintaining public goods at a European scale. Similarly, the best sites in Europe for establishing renewable energy infrastructure (for example, offshore wind farms or tidal barrages) are unlikely always to be located in Member States that can afford to construct them or in Member States with the most demanding targets for renewables. This, too, might be proposed as a possible occasion for compensatory payments, where EAV might be delivered on solidarity and not cost-efficiency grounds.[47]

EU expenditure as an act of ***solidarity*** with disaster stricken Member States, is increasingly being seen by some as 'adding value', particularly in relation to climate change adaptation efforts.[48] Arguably, this could justify some form of collective EU action to protect or reinstate affected sites threatened by a major climate-induced disaster in Member States.

Given the strength of the case for the EU budget to promote climate change objectives, the next step is to clarify what types of action would provide the highest EAV. Climate change measures are broad in range, include both mitigation and adaptation, and cut across

45 ECORYS *et al.* (2008) *A study on EU spending*. Final report. DG Budget.

46 Begg, I. (2009) *EU expenditure to support transitions to a low carbon economy*. EU-Consent EU Budget Working Paper No.9, May 2009

47 Adelle, C., Pallemaerts, M. and Baldock, D. (2008). *Turning the EU Budget into an Instrument to Support the Fight against Climate Change*. SIEPS: Stockholm.

48 Ibid.

different economic sectors and policy domains (e.g. energy, transport, water, etc). In view of the requirement to mainstream climate change into the different funds within the 2014-2020 EU financial framework, what type of actions should be prioritised and how can this be achieved in practice? The next chapter seeks to respond to these two questions.

3 PART 2: MAXIMISING EUROPEAN ADDED VALUE OF EU EXPENDITURE FOR CLIMATE CHANGE

3.1. The policy context: the 2014-2020 EU budget

The Commission proposals on the 2014-2020 MFF, published on 29 June 2011, set out the strategic orientations that will govern the development and implementation of the different EU funding instruments. Strengthening the EAV of EU spending is spelled out as a first order principle to guide the allocation of the EU budget across and within different policy areas. Climate change concerns feature prominently among the priorities for the future budget. The Commission envisages that at least 20 per cent of the EU budget should support climate change activities[49]. This aspirational objective is to be achieved mainly through the mainstreaming of climate change across different funding instruments (those for cohesion, research, agriculture and development cooperation), while the Commission is also proposing a new climate change component within the LIFE programme to focus a modest level of direct spending on climate mitigation and adaptation.

The new **'Climate Action' component of the 2014-2020 LIFE programme** will promote activities previously covered under the thematic component 'Environment Policy and Governance'.[50] Its total budget is €904.5 million (€800 million in constant prices i.e. according to the base year; €46 million is allocated to administrative issues) and will be distributed to three specific priority areas: 'Climate Change Mitigation', 'Climate Change Adaptation' and 'Climate Governance and Information'. Specific objectives have been outlined for each of the three areas, which with regard to mitigation should contribute to greenhouse gas monitoring and reporting, policies relating to land use, land use change and forestry (LULUCF), emissions trading systems, renewable energy, energy efficiency, transport and fuels amongst others. Concrete examples of funding possibilities for climate change adaptation have not been outlined in the proposal. This component of the future LIFE programme remains, although important symbolically, a rather small stream of funding for climate change action. Therefore, the biggest contribution to the proposed 20 per cent spending commitment of the MFF will be delivered through the mainstreaming approach.

This approach offers both opportunities and challenges for maximising the EAV of climate change expenditure. On one hand, given the horizontal and cross-cutting nature of climate change, it makes a lot of sense to integrate climate change objectives and actions into the different policy areas so as to pursue the effective decarbonisation and resilience of

[49] EC (2011) *A budget for Europe 2020*, Commission Communication, COM(2011)500, 29.6.2011, Brussels.

[50] EC (2011) Proposal for a Regulation of the European Parliament and of the Council on the establishment of a Programme for the Environment and Climate Action (LIFE). Communication from the Commission. Brussels

different economic sectors. However, in the absence of clear and detailed obligations the success of this approach depends on the political commitment of sectoral policy-makers to bring forward the necessary policy reforms in the Fund-specific regulatory frameworks and national/regional planning documents. There is no guarantee that the concrete mechanisms required for effective climate change integration will be put in place, or that the financing will be deployed on an adequate scale. Moreover, the EAV in relation to climate change will be interpreted differently in the context of CAP, Cohesion or Energy Policy.

On 6 October 2011, the European Commission unveiled a legislative package which contained a draft Regulation setting out common rules governing the five EU funds under shared management (i.e. the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF))[51]. The Regulation sets out eleven new thematic objectives, closely aligned to the Europe 2020 priorities, including the 20-20-20 climate and energy targets. The aim is more strategic planning of the funds. Three of the thematic objectives are of relevance for climate change: (4) supporting the shift towards the low-carbon economy in all sectors; (5) promoting climate change adaptation and risk prevention and management, and to some extent (7) promoting sustainable transport and removing bottlenecks in key network infrastructures.

All five funds under shared management are now put under the umbrella of a ***Common Strategic Framework (CSF)***, due to be proposed in March 2012. The Commission envisages the CSF as a document that translates the objectives and targets of the Europe 2020 Strategy into key actions for the relevant Funds, establishes key areas of priority for support and territorial challenges to be addressed. Policy objectives as well as coordination mechanisms for the CSF Funds and other EU funding instruments should be spelled out alongside mechanisms for establishing coherence and consistency with the economic policies of Member States and the Union. The concept of EAV should serve as a yardstick for defining priorities and concentrating EU spending under the CSF. Subsequently, EAV criteria should guide the preparations of the Partnership Contracts and Operational Programmes.

Under ***Cohesion Policy***, Member States will be required to integrate climate change mitigation and adaptation throughout the planning, implementation and evaluation of their Partnership Contacts and then translate these into investment priorities in their respective Operational Programmes. To this end, the so called 'competitiveness / transition regions' (the more prosperous parts of the EU) will be required to direct at least 20 per cent and the 'less developed regions' six per cent of their funding allocations towards energy efficiency and renewables.[52] While this quantified 'earmarking' sends a clear signal for priority to be given to energy efficiency and renewable energy amongst other priorities, it is far from clear whether it will deliver funding on an adequate scale, especially in view of the overall 20 per cent ambition. Other incentives for promoting more climate favourable expenditure are also envisioned. These include, *inter alia*, ex-ante conditionality, a performance framework with

[51] Proposal for a Regulation laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1083/2006, COM(2011)615, 6.10.2011, Brussels

[52] Proposal for a Regulation on specific provisions concerning the European Regional Development Fund and the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006, COM(2011)614,6.10.2011, Brussels

targets, mid-term milestones and indicators, performance reserves for rewarding front runners and the possibility of suspension of funding in cases where there is a lack of progress against the pre-defined milestones.[53]

In ***agriculture***, under Pillar One of the CAP, Member States would be required to introduce a 'green' payment for agricultural practices beneficial to climate change and the environment (30 per cent of the national ceiling).[54] There are three measures with which farmers must comply: (1) crop diversification, (2) protecting permanent grassland and (3) establishing Ecological Focus Areas (e.g. landscape features, fallow land, buffer strips, etc). There is considerable debate amongst environmental stakeholders as to whether these measures will deliver much added environmental value or whether they rather represent a case of 'green-washing'.[55] The changes proposed for Pillar Two focus on structure rather than content. Six rural development priorities will replace the current axes, including one priority to promote resource efficiency and the transition to a low carbon economy. Some earmarking of funds is proposed. A minimum of 25 per cent of the total EAFRD contribution should be allocated to 'climate change mitigation and adaptation and land management, through the agri-environment-climate, organic farming and payments to areas facing natural or other specific constraints measures'.[56] A new initiative, the European Innovation Partnership for agricultural productivity and sustainability, has also been introduced. This aims, amongst other things, to 'promote a resource efficient, productive and low emission agricultural sector, working in harmony with the essential natural resources on which farming depends'.[57]

The adopted proposals on the ***Connecting Europe Facility (CEF)*** incorporate a number of provisions which take climate change considerations into account.[58] As a new, centralised EU funding instrument, it brings together plans for financing large-scale priority projects of European significance in the fields of transport, energy and communications. In the preamble the Regulation stipulates that infrastructure investments under the CEF should contribute to promoting the transition to a low-carbon and climate-resilient economy by incorporating both mitigation and adaptation measures in the preparation, design and implementation of projects of common interest, explicitly referring to the 20 per cent climate earmarking target. This clarity is welcome. Importantly, one of the general objectives of the CEF is to enable the EU to reach the 20-20-20 climate and energy targets while ensuring greater solidarity among Member States. Specific objectives for transport include the promotion of sustainable and efficient transport (by focusing primarily on rail); a

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[53] Proposal for a Regulation laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1083/2006, COM(2011)615, 6.10.2011, Brussels

[54] European Commission (2011) *Proposal for a Regulation of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy*, COM(2011) 625/3, 2011/0280(COD)

[55] Anon (2011) *Commission publishes CAP reform proposals*, Agra Europe, 12 October 2011; RSPB (2011), *CAP proposals are bad news for wildlife and farmers*, Press Release, 12 October 2011; and BirdLife (2011), *CAP disappoints on green hopes*, Press Release, 12 October 2011

[56] European Commission (2011*) Proposal for a Regulation of the European Parliament and of the Council on the financing, management and monitoring of the common agricultural policy*, COM(2011) 628/3, 2011/0288(COD)

[57] European Commission (2011*) Proposal for a Regulation of the European Parliament and of the Council on the financing, management and monitoring of the common agricultural policy*, COM(2011) 628/3, 2011/0288(COD)

[58] European Commission (2011) *Proposal for a Regulation of the European Parliament and of the Council establishing the Connecting Europe Facility*, COM(2011)665/3, Brussels

specific objective for energy concerns the integration of energy from renewable sources into the transmission network and the development of carbon dioxide networks (carbon capture and storage). It is also implied that the focus on projects that contribute to climate change objectives is one of the ways that the CEF will deliver EAV. Ironically, one side effect of this focus is that pressure on public funding for roads is likely to intensify within Cohesion Policy, as it continues to be a priority for many EU Member States, particularly from the EU-12. Clearly it is important that the benefits of targeted climate change financing should not be offset by carbon intensive projects. Policy coherence is thus a key criterion to consider. As part of coherence, questions will also arise about the categorisation and prioritisation of projects on the energy side of CEF, for example the provision of support for gas pipelines and carbon capture and storage projects. This is part of the challenge of mainstreaming.

On 30 November 2011, the European Commission unveiled its proposals for ***Horizon 2020 - The Framework Programme for Research and Innovation***. With a proposed total budget of €87 billion, the Commission wants to increase and better streamline funding for research and innovation over the seven-year period from 2014 to 2020. Key priorities include support for excellence in science, industrial innovation and addressing societal grand challenges including the achievement of a bio-based economy, clean energy, sustainable transport systems, climate change and resource efficiency. The Commission proposes that at least 60 per cent of the total Horizon 2020 budget will be in support of sustainable development objectives. Out of this, around 35 per cent will be climate change related, amounting to some €29 billion for the 2014-2020 period. There are however no further details on what actions could and should be prioritised in order to deliver the highest EAV.

Climate change activities can also be promoted under the 2014-2020 ***EU external instruments*** with a total budget of €70 billion.[59] One of their strategic objectives is 'projecting EU policies to address major global challenges, such as combating climate change, reversing biodiversity loss, and protecting global public goods and resource'. In fact, the EU's role in advancing multilateral discussions and solutions on matters of global concerns such as climate change, environmental protection and energy security through its external action instruments is discussed as a way of delivering EAV. The programme for 'Global public goods and challenges' (with a total budget of €6.3 billion) under the Development Cooperation Instrument (DCI) will target global public goods and challenges *inter alia* climate change, environment and energy, while ensuring coherence with the poverty reduction objective. The draft Regulation establishing a financing instrument for development cooperation stipulates that at least 16 per cent of the programme for 'Global public goods and challenges' shall be allocated to climate change[60] and another 13 per cent for sustainable energy.[61] This amounts to €1.14 billion for climate action and clean energy. Climate change related activities can also be promoted under the proposed Partnership Instrument for cooperation with third countries,[62] but it is unclear what share of the budget

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[59] EC (2011) *A budget for Europe 2020*, Commission Communication, COM(2011)500, 29.6.2011, Brussels.

[60] The draft Regulation stipulates that 32 per cent of the programme for 'Global public goods and challenges' shall target climate change and environmental actions, with the proposed funding allocation equally divided between climate change and environmental protection. This means that 16 per cent should target only climate change.

[61] EC (2011) Proposal for a Regulation establishing a financing instrument for development cooperation, Communication from the Commission, COM(2011)840, 7.12.2011, Brussels

[62] EC (2011) Proposal for a Regulation establishing a Partnership Instrument for cooperation with third countries, COM(2011) 843, 7.12.2011, Brussels

could be used in this regard. Outside of the MFF, there are several other instruments aimed at international action, one of which is the newly proposed Global Climate and Biodiversity Fund.[63] There are however no further details available on this fund as yet.

3.2 Common criteria to guide priority-setting

The proposed legislative packages on the various 2014-2020 EU funding instruments set out the broader framework for delivering EAV in relation to climate change financing and mainstreaming. Nevertheless, at an operational level it is still rather difficult to determine how to allocate the future EU spending in such a way that EAV is maximised. This work needs to be further advanced. For example, the forthcoming Common Strategic Framework (CSF) should provide further opportunities to elaborate a common approach to priority-setting and project selection so as to maximise EAV in the case of funds under shared management. At the next stage, further opportunities to operationalise the EAV concept should be seized in relation to the finalisation of the fund-specific and implementing regulations and in the design of multi-annual implementation programmes.

Against this background, we present a proposal for a set of common criteria to guide priority-setting, in line with Europe's overall climate change objectives and tackling the different levels of programming, design and implementation (Table 3). The criteria reflect the different stages of the policy-making process, notably:

- Step 1 includes two ***pre-conditions*** for justifying any EU expenditure, and hence applies to the main agenda-setting process for the EU budget. All EU expenditure needs to comply with these two established criteria;

- Step 2 supplements Step 1 with three criteria which provide a priority filter for the ***design of different funding instruments****;* and

- Step 3 puts forward three criteria for the implementation of the various funding instruments and expenditure programmes (i.e. during the ***project selection process***) so as to capture the greatest benefits for climate change in a cost-effective manner in compliance with the principles of good governance.

[63] EC (2011) *A budget for Europe 2020*, Commission Communication, COM(2011)500, 29.6.2011, Brussels.

Table 1. Criteria for maximising the EAV of the EU budget in relation to climate change

Criteria	Description
Step 1: Pre-conditions	**General principles**
Subsidiarity	• Action at the EU level should be undertaken only when the objective of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but rather can be better achieved at Union level, e.g. because of the scale involved.
Proportionality	• The content and form of EU action should not exceed what is necessary to achieve the objectives of the Treaties.
Step 2: Priority filter	**Design of funding instruments / expenditure programme**
Alignment to and coherence with low-carbon political priorities	• Actions should be consistent and coherent with strategic political priorities set out by the EU for transitioning to a low-carbon economy. • Financing from the EU budget of actions which threaten to undermine these political priorities should be discouraged.
Complementarity	• Actions should be complementary to already existing instruments / programmes at different levels of governance, thereby seeking to fill gaps and avoid duplications. • Actions should avoid 'crowding out' private investments and should target actions that would not have happened without EU support.
Synergetic effects and cross-border action	• Actions should seek to achieve synergetic effects (i.e. win-win solutions for low-carbon development, employment, the mitigation of greenhouse gas emissions and adaptation to climate change impacts). • Actions should target cross-border challenges and exploit trans-national opportunities and partnerships (including integrated territorial initiatives and actions at the level of functional geographies, e.g. river basins, mountain areas and coastal zones).
Step 3: Targeting	**Programme / project implementation**
Highest benefit	• Actions should demonstrate an ability to achieve the greatest benefits in relation to the goals, e.g. the most substantial reduction in emissions.
Cost-effectiveness	• Actions should demonstrate an ability to deliver the desired results/highest benefits at the least possible cost (e.g. emissions savings per euro spent).
Good governance	• Actions should demonstrate that they comply with and/or promote the principles of good governance.

Source: own compilation

The principles in **Step 1** are quite general and are embedded in the EU Treaties. They form a foundation for identifying key areas for EU intervention, including expenditure. Indeed, in 2008, DG Budget commissioned a study on the EU budget which concluded that there is a clear role for the EU budget to support action on climate change and that this support should be increased in the future.[64] This was reflected in the Commission Communication on the EU Budget Review.[65] This is a helpful foundation. However, further criteria are needed to guide priority-setting under the different funding instruments and expenditure programmes.

Step 2, therefore, is intended to act as a 'priority filter' to identify more specific actions that are likely to deliver the highest EAV. These proposed criteria need to be determined at the EU level and specified explicitly within the CSF and the Fund-specific Regulations. As appropriate, they can be further elaborated in the respective Implementing Acts and guiding documents. In the case of funds under shared management, they should also be embedded in the strategic and operational planning documents (e.g. Partnership Contracts and Operational Programmes). The respective national / regional authorities will need to play a role in applying the criteria.

Step 3 is applied further downstream at the stages of project selection and implementation. The three proposed criteria should guide the call for proposals and the project selection process both in the case of centrally managed funds (the CEF, LIFE+, etc) and also those under shared management, i.e. guiding the spending decisions taken by managing authorities within the Member States. The criteria in Step 3 would give project promoters a strong signal on how to design their projects in order to score better in the project evaluation and selection process.

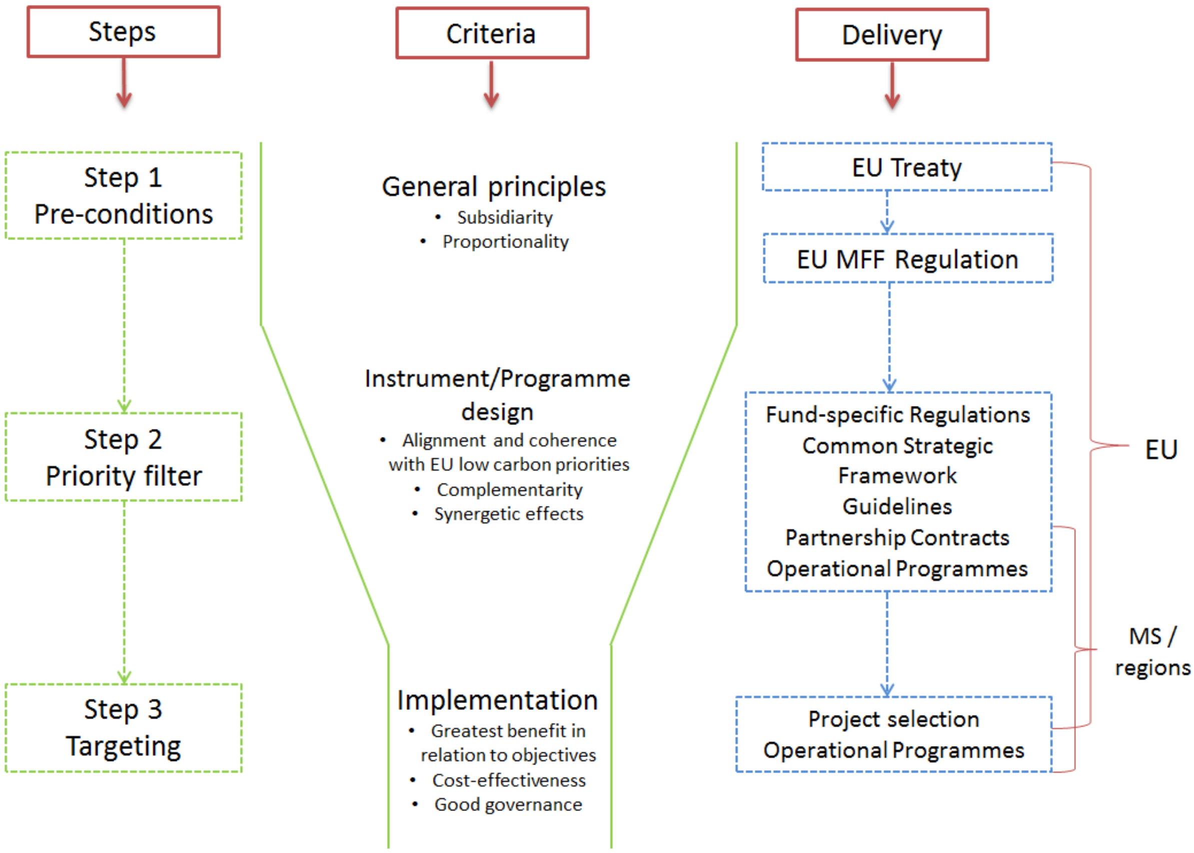
This set of criteria is not exhaustive but is put forward as a potential common approach which is applicable across different funding instruments and expenditure programmes to deliver better, cost-effective and sustainable projects. Managing authorities at the national and regional levels might need to add complementary criteria, particularly at Step 3, to suit local circumstances and needs.

Figure 3 illustrates the interplay between the proposed three-step approach and the main delivery mechanisms during the programming and implementation of EU funding instruments, expenditure programmes and projects from 2014 onwards. To be efficient, the criteria need to be clearly specified at the EU level and applied rigorously at both the EU and national/regional levels according to the nature of the funding instrument (centrally managed or under shared management).

64 ECORYS *et al.* (2008) A study on EU spending. Final report. Commissioned by the European Commission, Directorate General for Budget Contract No 30-CE-0121821/00-57, Brussels.

65 EC (2010) *EU Budget Review*. Communication form the Commission, COM(2010)700, 19.10.2011, Brussels

Figure 3. Three-step criteria for EAV



Source: own compilation

Having reiterated some of the key principles embodied in the Treaty in Step 1, climate specific considerations apply in Steps 2 and 3. The first criterion in Step 2 requires that future EU spending is ***aligned to and coherent with the EU's priorities for transitioning to a low carbon, climate resilient and resource efficient economy.*** These priorities are embodied in the legislation and in the Europe 2020 Strategy, and developed in the Roadmap for a low carbon economy which sets out an ambitious target for reducing domestic greenhouse gas emissions by 80 per cent by 2050. This criterion is needed as a way to 'steer' the future EU budget so that it promotes the EU's high level political priorities for climate change and is not trapped by historical path dependencies which arguably have kept it from evolving along with the political priorities of the Union.[66]

This criterion also has a second function – to guide future non-climate change related spending in order to minimise carbon intensive actions that could undermine the achievement of Europe's principal climate change objectives and targets. Article 11 of the Treaty on the Functioning of the European Union (TFEU) stipulates that *'[e]nvironmental protection requirements must be integrated into the definition and implementation of the Union policies and activities, in particular with a view to promoting sustainable*

[66] Figueira, F. (2009) How to reform the EU budget? A methodological toolkit. SIEPS 2009:5, Stockholm

development'.[67] This includes climate change and relates to any activity promoted by the EU budget. In this sense, this criterion can be seen as an important safeguard that aims to improve the policy coherence and climate performance of EU spending as a whole. Actions that might harm progress towards the low carbon economy should be discouraged and the design of future EU funding instruments needs to reflect this requirement.

The ***complementarity*** criterion comes next; the aim is to ensure that EU funds are allocated to actions that are unlikely to occur without this support. For example, public support from the EU is often needed to unlock development opportunities, cover high initial capital costs or test an innovative technology. This applies to a number of low carbon and climate resilient measures, technologies and solutions. EU spending should however avoid financing actions that are commercially viable and can be financed with private investment (e.g. certain types of renewable energy technology). The priority should be those cases where there is a clear market failure. Providing guarantees for private investment may be more appropriate and cost-effective than offering grants. In the case of energy efficiency, some countries have well functioning national support schemes and therefore EU spending should be complementary to them, filling the investment gaps and/or promoting soft measures (e.g. developing skills, requalification schemes and institutional capacity building).

In order to ensure the complementarity of EU expenditure in practice, both the European Commission and Member States need to put in place effective communication and cooperation mechanisms (e.g. advisory committees, good practice networks, awareness raising events and conferences) as well as information gathering and reporting requirements. Information exchange about existing EU, national and private funding instruments and initiatives should be launched well ahead of the initiation of funding programmes so that those involved are fully aware of the direction of travel and expectations and aligned with a new approach. In the case of shared management funding, Partnership Contracts and Operational Programmes need to include analysis and justification of proposed priority actions based on this criterion.

The role of innovative financial instruments is also important here. Against the background of the sovereign debt crisis and banks' reluctance to provide credit in many Member States, there is a case for the EU budget to explore ways of increasing its leverage to mobilise private investment, especially through risk-sharing and equity types of instruments.[68] Financial instruments could also be a useful means of providing additional sources for financing bankable projects that are capable of generating reasonable returns for investors (e.g. energy efficiency projects), thereby freeing up grant money from the EU budget to focus on other types of actions that are likely to be underfinanced by the private sector, such as climate change adaptation measures. While the use of financial instruments in the context of the EU budget is still being developed, it is worth using financing from the European Social Fund and allocations under technical assistance to enrich Member States'

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67 Consolidated version of the Treaty on the Functioning of the European Union, Official Journal of the European Union, C 115/47, 9.5.2008

68 Withana, S., Núñez Ferrer, J., Medarova-Bergstrom, K., Volkery, A., and Gantioler, S. (2011) *Mobilising private investment for climate change action in the EU: The role of new financial instruments*, IEEP, London/Brussels.

knowledge and capacity to establish their own financial instruments at national and regional levels and harness them for low carbon projects, to the extent possible.

Given that the financial resources for addressing climate change mitigation and adaptation will be mobilised mainly through funding instruments that fundamentally pursue different sectoral policy objectives, seeking to prioritise actions with ***synergetic effects*** is important. This is the third criterion in our proposal. In this case synergetic effects would arise from actions that realise multiple environmental, social and economic co-benefits. For example, many climate change actions provide additional ancillary benefits such as greater competitive advantages, enhanced innovation, job creation, greater energy security, the alleviation of energy poverty, healthier ecosystems and so on. The reverse is also true; many activities pursued largely for social or economic reasons can have climate change benefits, for example labour restructuring schemes can prioritise activities that target workers from declining economic sectors and provide requalification, vocational training and new skills in the low-carbon and eco-innovation sectors. Recognising and seeking to promote actions that can deliver multiple objectives will stimulate sectoral administrations to allocate more funds in a climate-favourable way. Pursuing synergetic effects also has a political dimension, helping to build a new consensus on the value and relevance of climate change action (see Box 2).

Box 2. Win-win benefits trigger commitment to energy efficiency

In debating the Regulation governing the European Energy Programme for Recovery, which aims to channel stimulus money for large scale off-shore wind and carbon capture and storage projects, the European Parliament requested to the European Commission that any unspent money should be allocated to energy efficiency and renewable energy. As the originally planned projects did not materialise in time, €146 million in unspent funds remained at the end of the programme. The Commission reallocated the unspent money to a new Fund - the **European Energy Efficiency Fund** (EEE-F). The EEE-F was designed to absorb a flexible amount of unspent funds which required an amendment to the Regulation to be agreed by the Parliament and the Council. This is considered to have been a difficult and politically sensitive issue. However, in spite of numerous difficulties and the fact that it took a long time, the Commission did eventually succeed in establishing the Fund. It is yet to be seen how the fund will function as it has only recently been launched. However, there are lessons learnt related to the political challenges that had to be overcome, namely that net payer Member States wanted their money back. The EC wanted to put forward a proposal to increase the level of funds available for these objectives by bringing the EIB and private sector actors on board. Energy efficiency was identified as a priority as it is an area where on the one hand much of Europe is lagging behind but on the other hand it can deliver multiple benefits in terms of win-win solutions. Ultimately, there was unanimous backing from the Member States.

Source: European Commission[69] and workshop discussions[70]

One group of synergies of particular relevance to the EU funds are those associated with transboundary issues where a common or integrated approach would be valuable if it could

69 Regulation (EU) No 1233/2010 of the European Parliament and of the Council of 15 December 2010 amending Regulation (EC) No 663/2009 establishing a programme to aid economic recovery by granting Community financial assistance to projects in the field of energy

70 Workshop discussions 'Climate change in the post-2013 EU budget: priorities, criteria and indicators for European Added Value' organised by IEEP, which took place on 20 September 2011 in Brussels

be financed. There is a range of environmental issues in addition to climate that spill over national borders. Some of the responses required are also trans-frontier, such as coherent infrastructure in water basins that extend into two or more countries. These are often under-financed at national level or there might be political sensitivities that prevent a project from being implemented. They are often a source of high EAV (for example, prioritising funds for the establishment of a trans-European network of green infrastructure for climate adaptation). Synergetic effects with socio-economic and territorial dimensions can be pursued through prioritising spending for collaborative actions, infrastructure and partnerships at the level of functional geographies. Cases in point may include the recent strategies for the Danube and Baltic Sea macro-regions, which seek to promote integrated planning but are difficult to fund. This model can be promoted more rigorously at the design stage of the different funding instruments, and advanced for other functional geographical units such as river basins, mountain ranges, coastal zones and so on.

While the mainstreaming approach to funding climate action depends centrally on capturing synergies, there are also limits to the extent to which it can be applied. On the one hand, many social and economic activities need to be supported even though they do not necessarily have straightforward benefits for climate change. On the other hand, climate change action cannot always be justified through the objective of sectoral policies. Some specific actions will always require dedicated instruments like the proposed future LIFE instrument. For example, dedicated funding is necessary for climate change policy development, pilot projects, capacity-building and improved governance. A dedicated climate change component within LIFE will be required to complement climate mainstreaming under other funding instruments and to respond to categories of need outside the remit of other funds.

These three criteria in Step 2 would form the ‘priority filter’ in pursuit of maximum EAV in relation to the EU’s low carbon objectives and targets. These criteria could be set out by the Commission at two different levels within the EU framework:

- Within the text of the *Regulations/Implementing Acts* for the individual funds; and
- Within the forthcoming *Common Strategic Framework*.

Additional guiding documents are also likely to be needed to aid the programming of the funds under shared management and to guide how these three criteria should be taken forward by the managing authorities in the partnership contracts and operational programmes.

In Step 3, three more criteria for maximising the EAV of EU spending would be applied downstream at the stage of implementation so as to better target expenditure. The first criterion aims to focus the project selection process on the ***achievement of the greatest possible benefit for climate change***. These would be in the fields of emissions reductions, energy savings, forward looking renovation projects, the use of best available technology, and improved adaptive capacities to deal with projected climate change impacts on economic sectors, infrastructures and communities. This criterion should be used to weed out projects that promote maladaptation or controversial practices where achieving climate change policy objectives leads to potential negative impacts on other environmental components that can in turn jeopardise long-term mitigation and adaptation efforts, for example the development of wind energy in sensitive ecosystems or growing biofuel crops in a manner that is harmful to natural systems and food security.

The second criterion is ***cost-effectiveness*,** which should ensure that projects score better in the project evaluation and selection process if they offer good value for money, but not necessarily at the lowest possible cost. Cost-effectiveness is important to guarantee that projects are sound and can deliver good outcomes for climate change, not necessarily through the most expensive technology or man-made infrastructure. For example, ecosystem-based approaches to climate change adaptation offer a way to achieve climate change objectives at a lower cost compared to complex technological and/or large scale infrastructure.

It should be noted that many of the investments needed to kick-start the EU's 2050 decarbonisation agenda are unlikely to be very cost-effective at present, but targeting public support now could make them more cost-effective in the future. Furthermore, if the most cost-effective projects are prioritised there may be considerable distributional implications with some countries/regions being less successful in accessing EU funds. To avoid this, EU funds from technical assistance (e.g. JASPERS, ELENA) or soft grants under the future LIFE programme might be needed to help project preparation at national and regional levels and to improve project quality and cost-effectiveness at the stage of feasibility studies.

The last criterion under Step 3 is more procedural than the first two and implies that projects will receive a better score in the project selection if they comply with principles of ***good governance***. What we mean here is that projects should be prioritised if they demonstrate transparent project development in terms of publishing information about carbon performance, include mechanisms for public participation and civic control during implementation, foresee partnership codes of conduct with environmental authorities and non-governmental actors, and/or include sound monitoring and reporting obligations based on climate-related performance indicators. Usually such procedural criteria have an important secondary function which brings considerable improvements in national/regional governance systems that have positive effects beyond the single project financed.

The implementation stage tackled under Step 3 is important as it requires that projects are selected against robust criteria, trying to maximise the benefits for climate change, to achieve this at the least possible cost and to adhere to principles of good governance. These criteria are more operational and therefore the role of implementing authorities is critical:

- In the case of centrally managed funds, the executive agencies and responsible services within the Commission should specify the criteria in their *multi-annual implementation plans*.
- In the case of funds under shared management, national and regional authorities should apply these criteria in their *Operational Programmes* and respective *implementing documents* so that they are specified in the general rules for *project selection*, integrated in the *calls for proposals* and emphasised in *project application forms*.

4 CONCLUSIONS

Seeking to maximise *European added value (EAV)* is one of the main goals of the EU Budget Review and the Commission proposals on the 2014-2020 EU Multi-annual Financial Framework. Elaborating the EAV concept in a functional form however is not an easy task, as there are multiple discourses (e.g. economic, political) which lead to different perspectives and priorities. Moreover, priority setting under the EU budget is a legitimately political process that follows a different decision-making logic than a purely technical and rational mode of decision-making. More explicit consideration of broad criteria of EU added value and more systematic steps to operationalise them can, however, help to improve the transparency of decision-making and to require better justification for expenditure in relation to meeting key EU policy objectives. Equally, it should help to avoid undermining long-term EU prospects at the expense of short-term national gains.

Climate change and the transition to a low-carbon economy should form a cornerstone of the discussion about EAV as they are crucial in delineating the future orientation of EU economic and environmental governance. This paper proposes a simple three-step methodology to advance policy progress in that direction. It offers clear guidance for the different phases of the decision-making cycle, including setting out pre-conditions for EU expenditure, prioritising actions during the instrument/programme design stage and then selecting specific projects for support. It is acknowledged that the relevance and significance of the different criteria put forward might vary depending on the policy area, the underlying logic of the funding instrument and the administrative level of its implementation. However, the broad principles must be respected. We also show that there could be inherent trade-offs between the criteria, which have to be recognised and properly managed.

In order to make a difference in practice, the EAV criteria need to be operationalised in the policy frameworks governing the various EU funding instruments. The Commission proposals unveiled at the end of 2011 already put forward some broad orientations with regards to criteria for priority-setting for climate change actions. Yet it is critical that a set of operational criteria are further elaborated. The first opportunity for doing this in the ongoing political process is to establish EAV criteria in the Common Strategic Framework which will guide investment priorities for the five funds under shared management, and in Implementing Acts in the case of centrally managed instruments. These should also be accompanied by additional guidance to Member States / regions in the design of their Partnership Contracts, Operational Programmes and project development. Much of the work will therefore need to be done in the next two years to ensure that EAV criteria are defined and operationalised in the legislative framework and planning documents before the new programming period starts in 2014.