BRIEFING
Prepared for the REGI Committee

Climate Spending in EU Cohesion Policy:

State of Play and Prospects

KEY FINDINGS

With more than EUR 55 billion in planned investments, Cohesion Policy seeks to make a significant contribution to the EU´s overall climate-related spending target of 20% in the 2014-2020 period.

There are concrete achievements in a number of areas such as flood and forest fire protection. However, evidence also suggests that Cohesion Policy is at risk of missing some of its targets, including on energy efficiency, renewables and greenhouse gas emissions.

Cohesion policy has also continued to provide support to fossil fuels and biomass, which may hinder the EU's long-term path to climate neutrality.

Moreover, the Commission's current approach to tracking climate-related expenditure in Cohesion Policy has shortcomings. There is a need for a transparent and meaningful methodology, with a stronger focus on performance and results, as repeatedly highlighted by Parliament.

The climate spending target is set to increase to at least 30% under the EU's next Multi-Annual Financial Framework (MFF) and the Recovery Instrument (Next Generation EU). In the period 2021-2027, Cohesion Policy is expected to place even more emphasis on climate and environment-related issues in line with the objectives of the European Green Deal.

1. Introduction

In 2013, the EU committed to spending at least 20% of its 2014-2020 budget on climate action. In view of the EU's commitments under the Paris Agreement, this target is set to increase to at least 30% in the 2021-2027 period. With EUR 355.1 billion delivered through the European Regional Development Fund (ERDF) and the Cohesion Fund (CF), Cohesion Policy amounts to almost one third of the EU's 2014-2020 budget. It also represents a major source of public investment, in particular in the less-developed regions of Central, Eastern and Southern Europe. Cohesion Policy can therefore play a key role in supporting EU climate objectives and its transition to climate neutrality. This briefing reviews the state of play of climate spending in the 2014-2020 EU Cohesion Policy and the prospects for the post-2020 period.

2. The overall context

In accordance with Article 8 of the Common Provisions Regulation, Member States and the European Commission have to promote horizontal objectives, including climate change mitigation and

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adaptation, in Partnership Agreements and programmes[1]. The regulation applies to all five European Structural and Investment Funds (ESIF), including the ERDF, the CF and the European Social Fund (ESF).

Climate mitigation seeks to address the causes of climate change by reducing or limiting the emission of greenhouse gases, in particular through reducing energy consumption, improving energy efficiency and increasing the share of renewable energy[2]. Climate adaptation means dealing with the adverse effects of climate change and taking appropriate action to prevent or minimise the damage they can cause. This may include measures to react to, for instance, floods, rising sea levels or the loss of biodiversity.

Article 9 of the Common Provisions Regulation sets out 11 thematic objectives, several of which relate to climate action[3]:

- Thematic objective 4 "Supporting the shift towards a low-carbon economy" and Thematic Objective 5 "Promoting climate change adaptation, risk prevention and management" most directly support climate action.

- Thematic objective 6 "Preserving and protecting the environment and promoting resource efficiency" and Thematic Objective 7 "promoting sustainable transport and removing bottlenecks in key infrastructures" support climate action to some extent.

Supporting the shift towards a low carbon economy (thematic objective 4) is one of the key priorities of the ERDF, with more than EUR 29 billion in funding available in the 2014-2020 period[4]. This includes investments in energy efficiency in buildings, renewable energy, smart distribution electricity grids or sustainable urban transport as well as research and innovation, in line with the objectives of the EU Energy Union. A minimum share of the available funding must be invested in more developed regions (20%), in transition regions (15%) and in less developed regions (12%).

Thematic objective 5 supports adaptation measures by promoting ecosystem-based approaches, developing new infrastructures or retro-fitting existing infrastructures. Moreover, it contributes to developing disaster resilience at regional and local level. This includes, for instance, the development of strategies and contingency plans, reinforcement of coordination, monitoring and early warning systems, awareness-raising and education, flood and coastal defence, protection against forest fires and wildfires, equipment for civil protection units, ecosystem-based solutions or disaster-resilience and climate-proofing of public infrastructure. In this context, "climate-proofing" is the practice of making sure that buildings and infrastructure are well adapted to the changes in the environment. In the 2014-2020 period, more than EUR 8 billion is available in Cohesion Policy funding for investments in these areas.

Thematic objective 6 supports investments in waste and water management, biodiversity, innovative technologies to improve environmental protection and resource efficiency, with more than EUR 34 billion in funding available under the ERDF and CF.

Thematic objective 7 supports environmental friendly and low carbon transport systems, inland waterways and maritime transport, ports, multimodal links and airport infrastructure as well as energy efficiency and security of supply through the development of smart energy distribution, storage and transmission systems and through supporting actions that promote more sustainable transport, including rail transport. More than EUR 56 billion is available for investment in these areas.

Network infrastructures in transport and energy, environment protection and resource efficiency, as well as climate change adaptation and risk prevention, are key priorities of the CF.

Partnership Agreements concluded with each Member State and the Operational Programmes for each fund further set out the main investment priorities as well as the indicative allocations.

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1 Regulation EU No 1303/2013

2 European Court of Auditors, Special report No 31 2016: Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short, p. 9.

3 For a detailed analysis see: COWI, Mainstreaming of Climate Actions into ESI Funds, 2016; and Nesbith, Paquel et al: Research for REGI Committee - Cohesion policy and Paris Agreement Targets, 2017.

4 Figures used in this section are based on the ESI Open Data Platform, unless otherwise cited.

Compared to the ERDF and the CF, the ESF allocates a very low share of funding to climate action, i.e. 1.4% of its total budget of EUR 83 billion, despite an increasing demand for "green jobs" (e.g. in the energy efficiency field) and the need for workers to learn new skills in fossil-fuel based sectors.[5]

The EU has ambitious policies in place for addressing climate change with binding targets. The 2020 climate and energy package foresees a 20% reduction in greenhouse gas emissions (compared to 1990 levels), a 20% improvement in energy efficiency and a 20% energy share from renewables by 2020.[6]

The Common Provisions Regulation, the programme-specific regulations and ERDF and CF Operational Programmes lay down a series of output and results indicators to measure the contribution of Cohesion Policy to these objectives, among others.

3. Tracking climate related expenditure in Cohesion Policy

In Cohesion Policy as in other policy areas, the Commission is using climate coefficients to track climate related expenditure. The latter are based on the OECD's "Rio markers", developed to measure the mainstreaming of environmental objectives such as climate change in development aid projects. Unlike the OECD, however, the Commission adapted these markers to quantify climate-related expenditure, applying them to each policy area, programme or measure[7]. Therefore, in an EU context, climate tracking means measuring the financial contribution of funds towards the overall 20% spending target. Expenses are given three types of coefficients, depending on their expected contribution to climate action:

- 100%: for expenditure expected to contribute significantly to climate objectives;
- 40%: for expenditure expected to contribute moderately to climate objectives;
- 0%: for expenditure not contributing to climate objectives.

In contrast to the OECD Rio markers, the EU coefficients are not based on the stated objectives of a measure, but solely on the expected contribution. There are also considerable differences in the way these markers are applied across spending programmes, and consequently how precisely climate expenditure is tracked. The system used in Cohesion Policy is fairly detailed, compared to other policy areas, such as agriculture. Annex 1 of the European Commission Implementing Regulation (EU) No 2015/2014[8] sets out a detailed list of 101 intervention fields covering the types of investments to receive funding from the ERDF and the CF. A climate coefficient of 100%, 40% or 0% is attached to each field, resulting in 32 climate relevant categories in total (see table below).

Intervention fields with a 100 % marker	
009	Renewable energy: wind
010	Renewable energy: solar
011	Renewable energy: biomass
012	Other renewable energy and renewable energy integration
013	Energy efficiency renovation of public infrastructure, demonstration projects and supporting measures
014	Energy efficiency renovation of existing housing stock, demonstration projects and supporting measures
015	Intelligent Energy Distribution Systems at medium and low voltage levels
016	High efficiency co-generation and district heating
023	Environmental measures aimed at reducing/avoiding greenhouse gas emissions
065	Research and innovation infrastructure, processes, technology transfer and cooperation in enterprises focusing on the low carbon economy and on resilience to climate change
068	Energy efficiency and demonstration projects in SMEs and supporting measures
070	Promotion of energy efficiency in large enterprises

5 ECA, Special report No 31 2016, p. 45.
6 https://ec.europa.eu/clima/policies/strategies/2020_en
7 European Court of Auditors: review No1 2020: Tracking climate spending in the EU budget, 2020
8 Commission Implementing Regulation (EU) No 215/2014

071	Development and promotion of enterprises specialised in providing services contributing to the low carbon economy and to resilience to climate change
087	Adaptation to climate change measures and prevention and management of climate related risks
090	Cycle tracks and footpaths
Intervention fields with a 40 % marker	
003	Productive investment in large enterprises linked to the low-carbon economy
025	Railways (TEN-T comprehensive)
026	Other railways
027	Mobile rail assets
035	Multimodal transport (TEN-T)
036	Multimodal transport
039	Seaports (TEN-T)
040	Other seaports
041	Inland waterways and ports (TEN-T)
042	Inland waterways and ports (regional and local)
043	Clean urban transport infrastructure and promotion
044	Intelligent transport systems
069	Support to environmentally-friendly production processes and resource efficiency in SMEs
083	Air quality measures
084	Integrated pollution prevention and control (IPPC)
085	Protection and enhancement of biodiversity, nature protection and green infrastructure
086	Protection, restoration and sustainable use of Natura 2000 sites

Source: Nesbith, Stainforth et. al: Documenting climate mainstreaming in the EU budget, 2020, p. 18/19.

For each type of project, Programme Authorities classify expenditure commitments according to the above-mentioned intervention fields. This data is reported annually to the Commission. In the case of the ESF, Member States may choose the "secondary theme" for investments in education and training supporting the shift towards a low-carbon and resource-efficient economy (e.g. green jobs), in which case a 100 % marker may apply[9].

The marker system used in Cohesion Policy has a number of strengths. It provides for a simple calculation method and a low level of administrative burden, avoiding excessive bureaucracy. It is generally robust and detailed. However, this tracking approach has also a number of weaknesses:

- It focuses on planned rather than actual expenditure;
- It measures expected benefits rather than actual achievements;
- It focuses on the nature of the expenditure, not the stated motivation[10];
- It does not distinguish between climate adaptation and climate mitigation expenditure;
- It does not take into account the negative impacts of climate spending, such as additionally emitted greenhouse gases;
- The logic behind the coefficients attached to certain intervention fields is not always clear;[11]
- It does not take into account financial instruments used in Cohesion Policy (e.g. loans, guarantees, equity and other risk-sharing mechanisms);
- It relies on the assumption that programme authorities in the Member States correctly assign investments to climate relevant intervention fields.

9 Nesbith, Stainforth et. al: Documenting climate mainstreaming in the EU budget - making the system more transparent, stringent and comprehensive, 2020, p. 18/19.

10 Thus, for example, any kind of rail investment always counts 40 % towards climate action, without taking into account the actual scope and content of the investment in question.

11 E.g. the 100 % marker for biomass, which has potentially negative effects on the environment, or the 40 % marker for investments in seaports and ports.

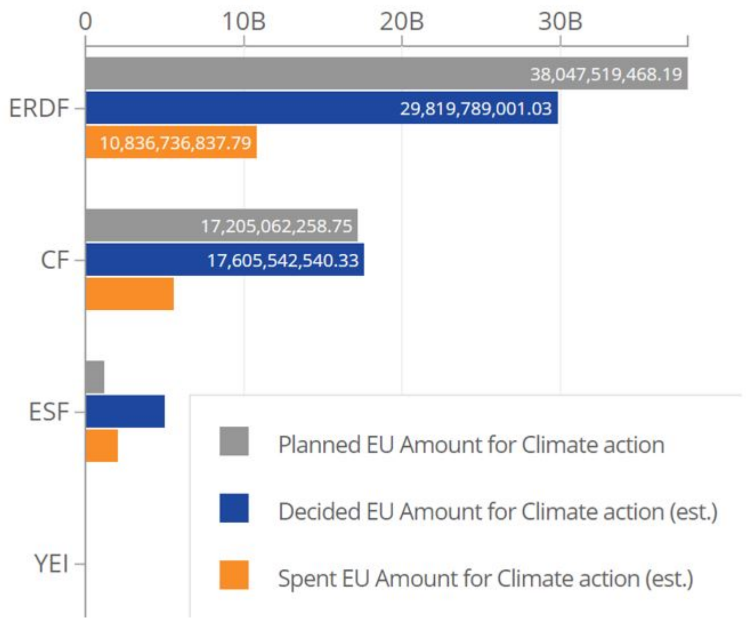
Both a recent review of the European Court of Auditors and a European Parliament study therefore take a rather critical view. The European Parliament has repeatedly called on the Commission to develop an effective, transparent and meaningful tracking methodology[12]. The Commission itself acknowledges that the system provides a broadly accurate estimation, rather than precise results.

4. State of play and achievements

In the 2014 – 2020 period, the EU commits EUR 210 billion to climate action, or 19.83% of its total budget[13]. According to the Commission, Cohesion Policy contributes significantly to the EU's overall climate-spending target, with EUR 55 billion in planned investments[14]. However, this amount represents planned not actual expenditure, taking into account the application of the 100%, 40% and 0% climate markers attached to the specific intervention fields.

For the ERDF, the share of climate related spending amounts to 18.29% of the total budget; for the CF to 26.78%.[15] By contrast, the share of the ESF in climate related funding is quite low. According to the most recent data reported by Member States from the end of 2019, a high share of planned investment is already committed to concrete projects. However, only a fraction of the funds has been spent so far (see figure 1 below). The Commission attributes this to the specific nature of Cohesion Policy investments, which often have a long implementation cycle, to the late start of the 2014-2020 programmes, as well as to the so-called N+3 rule, which allows Member States to spend the funds until the end of 2023.

Figure 1: Climate related spending in EU cohesion funds in the 2014-2020 period, in billion EUR (end 2019)



Source: Cohesiondata.ec.europa.eu

As shown in figure 2 below, the single most important climate relevant investment category reported by Member States is the energy efficiency renovation of public infrastructure. This includes, for instance, measures aimed at improving energy consumption in schools, hospitals, nurseries, sport facilities and

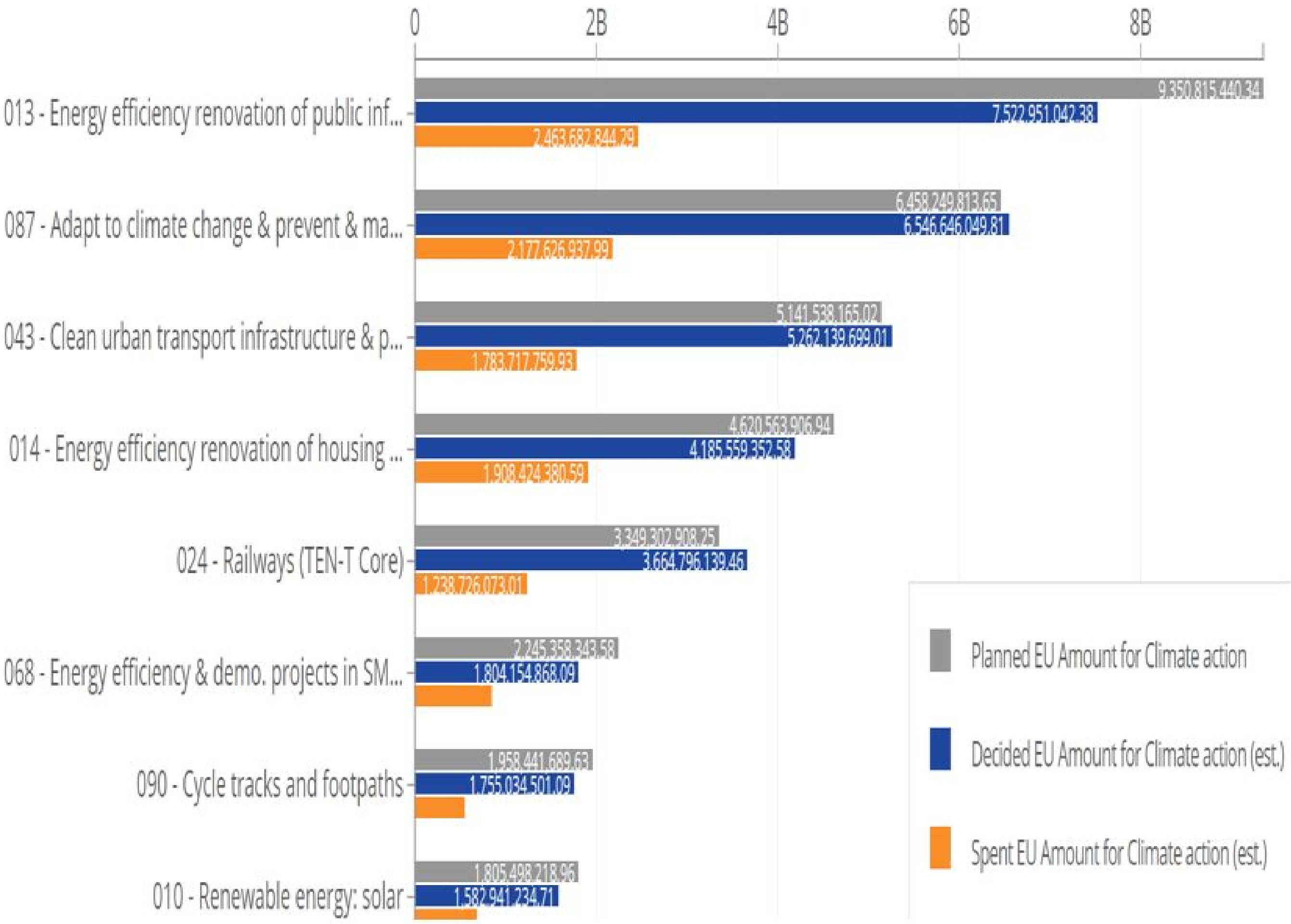
12 See for instance the EP MFF resolution of 10 October 2019.
13 See European Commission, Programme Statements of operational expenditure, Draft Budget 2021, p. 7.
14 https://cohesiondata.ec.europa.eu/stories/s/Tracking-climate-related-investments/a8jn-38y8/
15 See ERDF and CF Programme Statements, Draft Budget 2021.

other public buildings. Out of a total amount of EUR 9.3 billion, EUR 7.5 billion has been committed to concrete projects, and EUR 2.46 billion already spent.

The second most important climate related investment category comprises the adaptation to climate change measures as well as the prevention and management of climate related risks. This includes investments to address specific risks such as erosion, fires, flooding, storms, drought or landslides, the promotion of an ecosystem-based approach such as floodplains or wetlands, disaster resilience as well as disaster management systems and infrastructure.

Other important investment categories reported by Member States are clean urban transport infrastructure, the energy efficiency renovation of housing stock as well as various rail investments.

Figure 2: Climate related spending in ERDF and CF - most important intervention fields, in billion EUR (end 2019)



Source: Cohesiondata.ec.europa.eu

Investment priorities vary depending on the fund concerned. For the ERDF, investments in energy efficiency in public buildings and housing stock are the biggest spending categories; for the Cohesion Fund, climate related risk adaptation and prevention as well as various rail investments are predominant.

There are also differences between countries. In Germany, for instance, support to energy efficiency in public buildings is the biggest investment category; in Poland this is clean urban infrastructure, while in Romania it is railways. In Italy, by contrast, the main priority is climate related adaptation and prevention while in France and Spain, the energy efficiency renovation of housing stock comes out on top.

Of all EU Member States, Poland is, by far, the country with the highest reported climate relevant spending overall, followed by Hungary, Italy and Romania.

The data presented above provides interesting insights. However, it also shows the shortcomings of the Commission's approach to climate tracking. The latter is solely focused on measuring the financial contribution of Cohesion Policy to the overall 20% climate spending target, rather than the concrete results and outcomes of Cohesion Policy spending. Obviously, the latter is much more difficult. First, only 36%-39% of ERDF and CF funding has been spent so far, and whether the already committed expenditure will translate into actual spending is far from certain[16]. Second, the bulk of achievements usually only materialises in the second half of the programming cycle, i.e. from 2019 onwards. The Commission argues that this is due to the specific nature of Cohesion Policy investments, notably the significant time gap between the selection of projects and the reporting of achievements.

The Commission is measuring the results of Cohesion Policy on the basis of a range of common and programme-specific indicators[17]. For the ERDF and the CF, climate and environment-related indicators include for instance the additional capacity of renewable energy production, the number of households with improved energy consumption classification, the number of users connected to smart energy grids, the decrease in greenhouse gas emissions or the population benefiting from flood and forest fire protection. Member States transmit the related data annually to the Commission. The Commission reports on it in the context of the Draft Annual Budget and its Annual Management and Performance Report for the EU Budget.

According to the latest available data from the end of 2019, the actions financed by the ERDF and the CF have already delivered[18]:

- A reduction in greenhouse gas emissions equivalent to 1.3 million tonnes of carbon dioxide per year;
- An improvement of flood-protection systems and forest-fire systems for between 4 and 10.8 million people respectively throughout the EU;
- The conservation of habitats corresponding to an area of almost 3 million hectares, with the conservation of almost 9 million more hectares already planned;
- An improved energy consumption in over 400,000 households;
- The promotion of renewable energy sources and the construction of over 1 000 MW of additional electricity capacity powered by renewable sources.

However, environment and climate protection is also singled out as one of the areas with the biggest potential for improvement[19]. Progress falls short of expectations in a number of areas including waste recycling capacity, water supply, waste water treatment, the rehabilitation of land and certain rail investments. Results are particularly mixed as regards the indicators linked to supporting the shift towards a low-carbon economy. In a recent report, the European Court of Auditors argues that only 1 out of 11 indicators is on track of meeting its target agreed for the end of 2023 (see figure 3 below). All other indicators related to energy and greenhouse gas emissions are at risk of being missed. The Court also notes that increased flexibility introduced in response to the COVID-crisis may affect Cohesion Policy's capacity to reach the climate-related objectives set in the Operational Programmes[20].

16 European Court of Auditors, report on the performance of the EU budget - status at the end of 2019, 2020.
For a full list see the ERDF and CF Programme statements of operational expenditure, Working Document I, accompanying the draft annual budget, p. 13 and p. 6 following.
18 European Commission: 2019 Annual Management and Performance Report for the EU Budget, p. 24.
19 ERDF Programme Statement, p. 13.
20 European Court of Auditors, report on the performance of the EU budget , p. 102.

Figure 3: Indicators linked to supporting the shift towards a low-carbon economy

Indicator	Progress to target	On track?	Type
Additional capacity of renewable energy production (Cohesion Fund)	9 % (2018) 2014 2023	no	output
Additional capacity of renewable energy production (ERDF)	15 % (2018) milestone 100 % (2018) 2014 2023	no	output
Number of households with improved energy consumption classification (Cohesion Fund)	13 % (2018) 2014 2023	no	output
Number of households with improved energy consumption classification (ERDF)	26 % (2018) milestone 19 % (2018) 2014 2023	yes	output
Decrease of annual primary energy consumption of public buildings (Cohesion Fund)	16 % (2018) 2014 2023	no	result
Decrease of annual primary energy consumption of public buildings (ERDF)	5 % (2018) 2014 2023	no	result
Number of additional energy users connected to smart grids (Cohesion Fund)	8 % (2018) 2014 2023	no	output
Number of additional energy users connected to smart grids (ERDF)	0 % (2018) 2014 2023	no	output
Estimated decrease of GHG (greenhouse gases) (Cohesion Fund)	5 % (2018) 2014 2023	no	result
Estimated annual decrease of GHG (greenhouse gas) (ERDF)	6 % (2018) 2014 2023	no	result

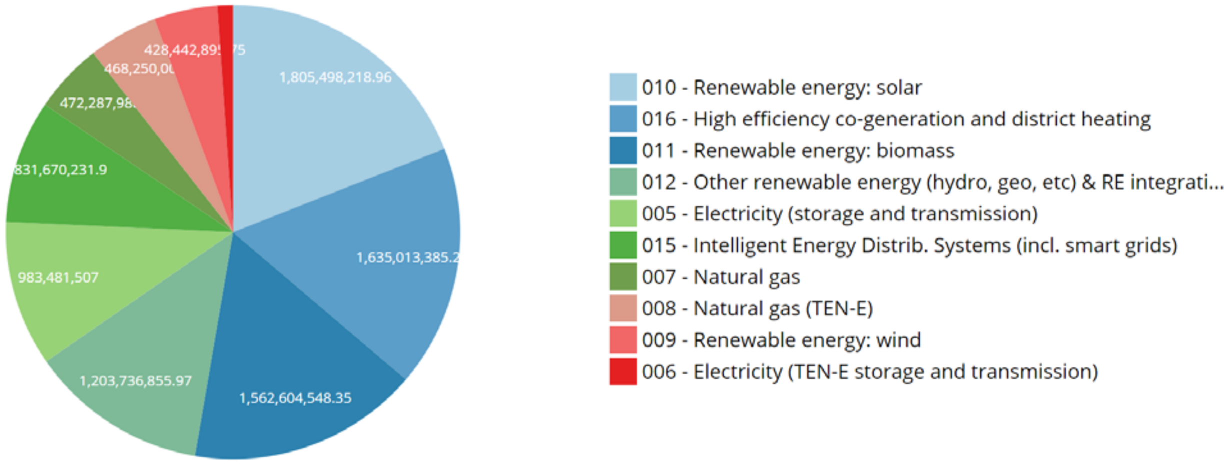
Source: © European Court of Auditors, report on the performance of the EU budget - status at the end of 2019, Figure 3.6, p. 101.

A recent study of the Climate Action Network (CAN), a worldwide network of over 1300 Non-Governmental Organizations (NGOs) in over 130 countries, argues that in the 2014-2020 period, EU Member States are spending only 9.7% out of their total ERDF and CF funding on clean energy infrastructure, energy efficiency and renewable energy[21]. Of particular concern, the study notes, is the relatively high share of cohesion funding for biomass within the EU's energy mix, as well as continued support to fossil fuels. For the 2014-2020 period, EU Member States have allocated more than 940 million in ERDF and CF funding to natural gas; out of this total amount, EUR 450 million have already been

[21] Climate Action Network: Funding climate and energy transition in the EU: The untapped potential of regional funds. Assessment of the European Regional Development and Cohesion Fund's investments in energy infrastructure 2014-2020, 2020, p. 2.

spent.[22] Climate organisations warn that this may lock countries into fuel dependency for decades and hinder the EU's long-term path to climate neutrality.[23]

Figure 4: Planned investments in renewable energy, storage and smart grids from ERDF and CF in the 2014-2020 period



Source: Cohesiondata.ec.europa.eu

22 See: https://cohesiondata.ec.europa.eu/stories/s/Cohesion-policy-supporting-the-Energy-Union/eczs-gij5/
23 Climate Action Network: Funding climate and energy transition in the EU, p.2.

5. Climate spending in the 2021-2027 Cohesion Policy

Financing Europe's transition to climate neutrality as foreseen in the European Green Deal will require at least EUR 1 trillion in public and private investments over the next decade.[24] Cohesion Policy, due to its overall share of the EU budget, can play a vital role in delivering on EU climate objectives, and in paving the way for the green transition.

In 2018, the Commission proposed to increase the target for climate spending in the 2021-2027 MFF to 25%, in line with EU commitments under the Paris Agreements and the United Nations Sustainable Development Goals. The European Parliament has called repeatedly for raising the climate-related spending target to 30%, stressing the need for "a transparent, comprehensive and meaningful tracking methodology".[25] Targets for climate and biodiversity spending were discussed in the context of the negotiations on the 2021-2027 MFF and Next Generation EU (NGEU) under the chapter "horizontal issues".

The outcome is included in the Interinstitutional Agreement (IIA) of 10 November 2020 between the European Parliament, the European Council and the European Commission on "budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap for the introduction of new own resources".[26] The provisional agreement, which remains to be endorsed by both the Parliament and the Council at the time of writing, sets an overarching climate spending target of at least 30% for the EU's budget and Next Generation EU expenditures. It also provides for a remedial procedure in case of insufficient progress towards the 30 % target in one or more of the relevant programmes, the establishment of an improved methodology for the tracking of climate and biodiversity spending, including a reference to the contribution to the European Green Deal and the "do no harm" principle (i.e. funds should only support activities which respect EU climate and environmental standards). Methodologies should be transparent, comprehensive, results-oriented and performance-based, and include an annual consultation by the Commission of the European Parliament.

The contribution of each specific programme towards the "at least 30%" climate spending target is to be set by the co-legislators in the context of the relevant ordinary legislative procedure. For the ERDF, the Commission has proposed an indicative share of climate-related spending of 30%, for the CF 37%. In addition, with regard to the Just Transition Fund (JTF), this target reaches 100%. According to the Commission's proposal "resources from the JTF own envelope are additional and come on top of the investments needed to achieve the overall target of budget expenditure contributing to climate objectives". Resources transferred from the ERDF and ESF+ will contribute fully to the achievement of this target. The climate and environmental spending would be tracked through the dimension codes of Annex I of the new Common Provisions Regulation, which are fully applicable to the JTF with a 100% weighting.

The European Parliament has consistently championed a strong focus on climate-related issues. In its resolution of 27 March 2019 on the Commission's proposal for the 2021-2027 Common Provisions Regulation, Parliament stressed for instance the need for the climate proofing of investments in line with Energy Efficiency First Principles and for the European Structural and Investment Funds to contribute to the fight against climate change. [27] In its resolution of 27 March 2019 on the Commission's proposal for a regulation on the 2021-2027 European Regional Development Fund and the Cohesion Fund, the European Parliament voted in favour of excluding the production, processing, transport, distribution, storage or combustion of fossil fuels from the scope of ERDF and CF funding[28]. These issues remain subject to the ongoing negotiations between Parliament and Council in the context of the ordinary legislative procedure. As regards the Common Provisions Regulation, a provisional political agreement

[24] European Commission: The European Green Deal Investment Plan and Just Transition Mechanism explained

[25] See EP resolution of 23 July 2020 on the conclusions of the Extraordinary Council Meeting; EP resolution of 30 May 2018; Interim report of 14 November; MFF resolution of 10 October 2019.

[26] See AFCO draft report, which includes the text of the new IIA: https://www.europarl.europa.eu/doceo/document/AFCO-PR-660218_EN.pdf

[27] EP resolution of 27 March 2019.

[28] EP resolution of 27 March 2019.

has been reached on 1 December 2020, but discussions at technical level continue at the time of writing[29].

Further information

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[29] See EP Press Release of 1.12.2020.