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CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

## CEE countries' draft spending plans reveal flaws in environmental mainstreaming in EU funds

Following the entry into force in December 2013 of the legislation on EU Cohesion Policy 2014–2020, Member States began elaborating their framework planning documents on EU regional development funding, namely Partnership Agreements and Operational Programmes, laying down investment strategies and plans for the next generation of European Structural and Investment Funds (ESIF).

While the EU regulations themselves contain many important provisions on integrating environmental protection and fostering sustainable development, opening the opportunity for more forward-looking use of the EUR 351.8 billion available over the next seven years, the proposals presented by national governments do not fully exploit the potential to build a green, sustainable economy with the help of the EU budget.

CEE Bankwatch Network and Friends of the Earth campaigners across the central and eastern Europe region have reviewed the draft documents, detecting a number of problematic issues – both regarding the funding priorities (not enough support for energy efficiency or biodiversity protection) and the process of EU funds programming itself (partnership with civil society, Strategic Environmental Assessment).

It is now up to the European Commission to use its negotiating power to ensure that the draft spending programs will be improved in the key areas described below. Some examples at the end of this briefing show the ways in which Member States are including some sustainable development considerations into their spending plans.

## 1. No real term assessment of the investment scenarios with regard to their impact on climate change

Reducing greenhouse gas emissions is one of the EU's targets for 2020 and beyond. This will be hard to achieve if Cohesion Policy, the second largest budget item of the EU, is not contributing to this goal. Other than considering if the overall amount allocated to climate action within Cohesion Policy for 2014–2020 is sufficient, attention also needs to be given to whether certain supported investments are contradicting the goal of combating climate change. For example, exclusive support for road transport infrastructure can lead to increased traffic and related emissions if a sustainable transport strategy is not in place.

All programs supported by the EU funds should be assessed in terms of their impact on greenhouse gas emissions and alternative, less emission-intensive scenarios should be seriously considered. A number of practical tools, such as the European Commission's 'CO2MPARE', have been developed to make this process easier for national authorities. However, the Strategic Environmental Assessment (SEA) – which is required for most Operational Programmes (OPs) – fails to include the strategic climate impact of the spending plans. Proper, rigorous carrying out of SEAs for member states' spending plans is not only a legally required 'ex-ante conditionality' for EU funds disbursement, it is the EU's key tool for ensuring strategic coherence in achieving sustainable development. By reducing it to a mere 'tick-the-box' exercise a good opportunity to do long-term planning in harmony with the environment is being lost.

In **Slovakia**, two major draft OPs with regard to climate – OP Integrated Infrastructure and OP Quality of Environment – have failed to provide a clear methodology for evaluating the climate impacts within the SEA reports. Values and explanations are general and not backed up by any methodology notes or sources of evidence.

In the **Czech Republic**, no real assessment of the most effective ways to mitigate climate change impacts has been done. Although measures such as energy efficiency and renewables in buildings are proposed, any rationale about the level of investments and the choice of such measures as compared to other measures is missing. Such weak mainstreaming of climate change is leading to the paradoxical situation in the Czech OPs where the building of gas networks or the reconstruction of boilers to fossil fueled ones will take place again. The role of the CO2MPARE tool, instead of being used as an effective strategic tool for decision making on allocations, is being limited to mere ex-post evaluations.

The allocation for climate action is too small in **Latvia** and fails to fulfill the European Council conclusions – the share of total climate related expenditure is below 20 percent. Analysis of climate change vulnerabilities and the impact on different sectors of the economy needs to be more comprehensive. Green infrastructure and enhancing the capacity of ecosystems should be considered as an option to cope with flood risks and coastal erosion, i.e. climate change adaptation. The description of this thematic objective is very limited and needs to be improved. For instance, clarification on the planned promotion activities, as well as flood reduction measures should be provided. Green infrastructure solutions and measures should be considered to ensure viable and sustainable flood risk management.

In **Estonia**, overall allocations remain relatively small given both the overall EU climate and clean energy targets and the extent of oil shale in the country's energy mix.

In **Bulgaria** climate action is mentioned within some measures, but without assessing the impact of the measures. The SEAs are delayed, even though the process of conducting the SEA should go hand in hand with the development of the OPs. Only OP Transport has started its SEA procedure; in some other OPs the choosing of consultants has just started.

## 2. Civil society not treated as partners in the programming and implementation of the funds

The partnership principle has been embedded in the legislation for Cohesion Policy not only in the new budget period, but also in previous periods. By now, Member States should already have developed good practices in including partners such as civil society in all stages of the programming and implementation of EU funds.

This is unfortunately still not the case. Only in a few countries can real dialogue and early involvement between authorities and social partners be observed, e.g. when it comes to setting priorities for EU funds 2014–2020. In addition, Member States are reluctant to make partners eligible for receiving funding, although the legislation foresees instruments such as Community-led Local Development (CLLD) or Technical Assistance and global grants which could be managed and redistributed, e.g. by NGOs.

In **Poland**, comments submitted during summer 2013 as part of public consultations on the draft Partnership Agreement were left unanswered.

In **Slovakia**, the partnership is formally covered by official working groups meeting to comment on final draft versions. This ad hoc method is not sufficient. Partners are left in a reactive rather than constructive position. This deficiency has been typical throughout the whole process of programming. Official commenting procedures were used by NGOs most often with results depending on their ability to raise media attention or cause delay in the programming process. This is not what 'partnership' is supposed to be. Some exceptions have, however, started to emerge, showing possibilities for changing this trend. The Central Coordination authority has started cooperation on rules for implementation of the new Policy and accompanying legislation.

In **Latvia**, it has been much welcomed by partners that draft programming documents have been made available in various stages of the process and public

consultations have been conducted on the Partnership Agreement and the single OP. Providing feedback to NGO contributions has, though, been getting more problematic with programming speeding up and the increasing complexity of the technical aspects; responses to partners' inputs are still due. The effectiveness of partnership has often been dependent on the relationship between NGOs and the relevant ministry. It has worked out best when NGOs and the relevant ministry can reach agreement on problematic issues bilaterally. In other situations it has been virtually impossible to have meaningful partnership in terms of impact, and the Ministry of Finance has not attempted to mediate the process, instead leaving everything to the line ministries – the extent of NGO involvement differed according to the ministry involved.

In the **Czech Republic**, Community Led Local Development, ignoring the requests of a big number of various partners, is limited to rural areas only. According to the formally submitted Partnership Agreement, partners will only be allowed to be members of the Monitoring Committees and Permanent Conferences for Regional Dimension. No participation of partners is envisioned for higher implementing and monitoring bodies, such as the ESIF Council and its working groups. This significantly limits the ability of partners to take part in key decisions and effectively monitor the use of ESIF at the national level. Moreover, the Ministry of Regional Development continues to refuse the provision of any kind of technical assistance to partners. Without proper capacities for expert work and networking, and without compensation of costs to the partners, partners' ability to effectively monitor the use of public finance will be very limited. Without public scrutiny, transparency and the ultimate effectiveness of the EU funds may be compromised in favour of particular interests – just as in the previous programming period.

In **Hungary**, environmental partners were not able to participate in the preparation of the PA and the OPs from the beginning, as it is laid down in the European code of conduct on partnership. Environmental NGOs

were able to comment on the draft PA and OPs in the public partnership process, where the documents were disclosed to the public. Although this process was rather well organised, the fundamental decisions were made beforehand. It remains totally unclear if environmental partners will be involved in the implementation phase where it is needed: defining horizontal principles, requirements, preparation of the call for proposals, or project evaluation. A strong institutional setup is needed to ensure effective implementation of horizontal principles such as sustainable development, but it is likely that Hungary will not make use of such. Funding for the capacity building (networking, training) of partners dealing with horizontal issues is needed but not planned in the PA. Trainings, consultations and the monitoring of the progress, as currently planned in the PA, are not enough. Specific requirements are needed for the different types of projects and the managing authorities should be able to set, promote and monitor these requirements involving the relevant partners, with NGOs ensuring compliance of the horizontal principles, as well as the inclusion of environmental and climate protection considerations into every plan and project.

Concerning the **Estonian** Ministry of Agriculture (responsible for the country's Rural Development Plan), on several occasions it has ignored proposals put forward by Estonian environmental organisations. Half of the negotiated measures were deleted from the document last June which resulted in the Estonian Council of Environmental Organisations stepping out of the process as a lot of effort was put into writing the proposals and taking part in working groups related to the issue. The **Estonian** Network of Non-governmental Organisations has sent several letters (08.10.2013, 31.01.2014 and 17.02.2014) to the Ministry of Finance regarding the deficiencies in the partnership principle and also in the content of the PA and OPs; so far their proposals have not been taken into account, especially with regard to appropriations from technical assistance to the partners.

In **Bulgaria**, with the change of the government in

May 2013 the working groups on PA and the OP experienced a slowdown – previously, the meetings followed a predetermined schedule, but subsequently they were announced ad hoc and often not well in advance. The last version of the PA was submitted to the European Commission early in April 2014 without being released to the public prior to the submission. Thus contributing stakeholders were not able to see if their recommendations had been taken into account. Community Led Local Development is seen only as a pilot scheme instead of creating a flexible instrument attracting as many initiatives as possible. Only one municipality will be chosen to test it, and should other communities prepare themselves in the next seven years to form their own CLLD scheme, the door will be closed to them until 2021.

### 3. Funding for energy efficiency and renewable energy kept far from citizens

While Cohesion Policy 2014–2020 does foresee increased funding for catalysing the transition towards the low-carbon economy (including priorities such as energy efficiency, renewable energy and sustainable public transport), the funds are mostly being planned to benefit local governments or big companies. In terms of energy efficiency in buildings, the refurbishment of public buildings is a priority in most programs, while the need to renovate residential buildings is only modestly addressed, ignoring – for example – opportunities opened by innovative financial instruments as proposed by the European Commission. Thus the opportunity to reduce significantly CO2 emissions, as well as to create new jobs and reduce the threat of energy poverty, highly relevant in all countries of the CEE, is set to be missed. In terms of renewable energy, the tendency appears to be to plan support for large installations, while the focus should rather be on small, community-owned or citizen-owned installations, improving regional and local energy security and providing an opportunity for communities and citizens to actively engage in the

clean energy transition.

In **Poland**, the allocations for energy efficiency in housing in the draft OPs are either very low or unknown. Priority is clearly being given to public buildings, which were already supported in the 2007–2013 period. It seems that the relevant authorities are avoiding new areas to support with EU funds; there is also very little clarity as to what kind of financial instrument will be used to support energy efficient renovations of residential buildings.

In **Slovakia**, support for households remains scarce with the majority of funding going through financial instruments. The forthcoming establishment of financial instruments will still have to prove if these are appropriate for more vulnerable social groups and in cases where deep retrofitting is necessary. Renewables will remain largely in the hands of enterprises, although some eligibility for municipalities and households has been achieved.

Energy efficiency is a priority in **Latvia** and is described as such in the Latvian Programming documents, though the priority of the financial allocation for energy efficiency in buildings is mostly for public buildings, which were already supported in the previous period. There are plans to support the modernisation of district heating systems but this does not include possible RES solutions within the energy efficiency measures. The aims of strengthening the electricity grids and developing smart metering and distribution systems still have very little clarity about financial resources; the same applies for activities that should upgrade distribution networks to enable an uptake of electricity from RES.

In the **Czech Republic**, support for renewable energy is very limited in terms of finance available as well as supported sources. Support for wind, photovoltaic and geothermal energy is completely absent across all the OPs. No municipalities, universities, local action groups or other public bodies will be able to finance renewable sources of electricity from ESIF at all. Despite the definition of OP Enterprise that support is aimed at SMEs, large corporations are

named among the beneficiaries of RES support with a clear intention, therefore, to give competitive advantage to the big market operators.

Funding for biomass, biofuels and the energetic use of waste is problematic in **Hungary's** programming documents. Biomass is prioritised ahead of solar and wind, while possible problems related to the energetic use of biomass are higher. The document claims the EU 10 percent goal related to biofuels, while this goal is currently under revision.

According to the **Estonian** Council for Environmental Organisations and the Estonian Renewable Energy Association, the appropriations for the use of ESF funds in 2014–2020 do not earmark funds for the promotion of electricity production from renewable sources. This is very disappointing as Estonia has one of the highest energy usages per capita in the EU because of the production of energy from shale oil, which is very energy intensive with regard to the use of natural resources of Estonia.

**Bulgaria** promises to become more ambitious in renovation in the next programming period by continuing the programme for renovation of public buildings and expanding the currently very modest efforts in multi-family renovations. Therefore the national legislation frameworks should enable the take-off of massive renovation works by tackling the issue of fragmented ownership and the poverty of the population through suitable financial instruments. The need for financial instruments started to be considered only recently. The finance ministry has announced a tender for a consultant to do the assessment that was due already in November 2013. Progressive financial instruments are desperately needed for all measures intended for the achievement of sustainability and contributing directly to improved lives for people, e.g. housing renovation, small civil green projects, green entrepreneurship, renewable energy and energy efficiency in SMEs.

#### 4. Wrong balance between support for transport modes

Transport has traditionally been a sector heavily supported by Cohesion Policy – with all the related environmental and climate impacts. Improved road infrastructure generates increased car traffic with all its externalities, including CO<sub>2</sub> emissions, air pollution, congestion, noise, accidents and ecosystem fragmentation. If the railway system is not developed at the same time – as has been the case in Poland – it quickly loses its share in freight and passenger transport to roads. Emissions of greenhouse gases from transport are still growing across Europe. In order to reverse this trend, Cohesion Policy needs to concentrate investment in environmentally-friendly modes such as rail and clean urban transport.

In the case of **Poland**, the proportion of investment in road and rail will be a key issue negotiated between the government and the European Commission. While officially the numbers are not presented yet in the framework documents, the government would like to see more than half of the money available for transport to be used for developing the expressway road network in Poland.

In **Slovakia**, modal shift toward public and mass transport is positive, although highways and expressways are still close to being 50 percent of the overall allocation to transport. If local and regional roads are counted in the balance, then road transport receives more than half of the allocation. In spite of this public transport and integrated regional transport receive significant support. Water transport, although low-carbon, will receive funding, but can lead to significant environmental damage and should be monitored stringently.

Under the **Estonian** thematic objective 7 the main focus and the only large infrastructure project designed for this programming period is the reconstruction of the Aruvalla–Ardu road to four lanes. This project is being counted as a contribution to climate change adaptation and mitigation even

though the impact of the reconstruction of this road on the environment is controversial – instead of decreasing car traffic and CO<sub>2</sub> emissions, it increases them.

It is expected that 50 percent of the planned EU investments in the transport sector in **Latvia** are geared towards favouring low carbon and environmentally sustainable modes of transport. Investments in the electrification of railway (reconstruction and modernisation of TEN-T railway electrification, connection network in Baltics), and the promotion of the use of electric cars (the system of charging and for buying electric cars will be financed by a green investment scheme, not by EU Funds). However, sustainable mobility in cities should not only be related to the electrification of road transport by creating electric vehicle charging infrastructure, but be based on a comprehensive sustainable mobility concept, including also appropriate incentives with regard to public transport. Compliance with the Transport White Paper target (30 percent of road freight over 300 kilometres should shift to other modes such as rail or waterborne transport by 2030, and more than 50 percent by 2050, facilitated by efficient and green freight corridors) can only be met with the development of appropriate infrastructure, which is currently not the case.

Despite a significant increase in funding for the railway network in **Bulgaria**, heavy EU funds support for road infrastructure looks set to continue despite numerous indications from the European Commission that roads are not a priority and only the TEN-T network is to be supported. The most worrying development in recent months is the reopening of the topic of the most expensive road project – the Kresna Gorge tunnel. Having been previously dismissed, this 15 kilometre highly controversial tunnel project is now being discussed again at the eleventh hour of the programming process.

## 5. Biodiversity protection forgotten among funding priorities and threatened by unsustainable investments

Even though investments for the protection of natural areas are highly relevant to Cohesion Policy as they help create jobs and build sustainable local economies, this opportunity is only being marginally taken up by Member States. Even worse, many investments in sectors such as transport, water management or even renewable energy may seriously threaten the still abundant nature in central and eastern European countries. Natural solutions should be preferred over technical ones whenever possible. Sustainability criteria in areas such as energy from biomass or flood protection should be a key instrument to prevent investments which damage nature.

So-called “flood protection” measures in **Poland** in the period 2007–2013 were planned in a way which contradicted EU legislation, including the Water Framework Directive and the Habitats Directive. Nature-based measures, such as restoring natural floodplains, should be a priority for 2014–2020.

In **Slovakia**, the support to environment is mainly connected to adaptation to climate change, specifically to flood protection. Although these measures are taking on a more ecosystem-based orientation, the spending is still largely focusing on infrastructure while neglecting investments into ecosystems especially in areas not connected to the adaptation agenda. Biodiversity spending aimed at the preparation and implementation of management plans for protected areas remains in public hands, with the government promising possibilities for NGOs to carry out these activities following the fulfilment of legal requirements regarding the right to use land where the project is being implemented. The real feasibility of this setup can only be evaluated during implementation of the OP Quality of Environment.

In the **Hungarian** EEOP the allocation for nature conservation and biodiversity protection is extremely low – just 2.74 percent of the total funding. Another problem is that almost all the funding would go to protected or NATURA 2000 areas, and the connection of NATURA 2000 areas. Beside these, other measures such as ecological networks, ecosystem services, green infrastructure are also important, but look set to be neglected.

Among flood protection measures in the **Czech Republic**, technical measures in the rural landscape such as the construction of polders, dykes or deepening of river channels are planned. Often more costly, not only do these measures pose several risks – with possible negative impacts on downstream flood protection in the case of deepening of channels – but they also fail to bring additional effects for biodiversity protection and ecosystem restoration. Ecosystem based measures should be a priority for flood protection outside of inhabited areas.

In **Bulgaria**, green infrastructure and ecosystem based measures such as the restoration of wetlands were not considered at all in the process of programming.

## 6. Air protection forgotten among investment priorities

Polluted air remains a key environmental problem across central and eastern Europe. The top ten places in the ranking of cities with the dirtiest air are occupied mostly by cities in Bulgaria and Poland (including Krakow, Poland's second largest city and historic capital). This has severe impacts on human health. The European Commission has been insisting on using Cohesion Policy to help solve the problem of air pollution, which includes replacing old-fashioned heating based on coal and reducing car traffic in city centres. Unfortunately, in most countries, the Operational Programmes do not clearly address air pollution as such, although some planned investments, including for energy efficiency of

housing and public transport, can contribute to solving the problem). A coherent, results-oriented approach to air pollution is needed in order to make a difference in the coming period up to 2020.

In the investment priority related to air protection and improving the urban environment, **Poland's** OP Infrastructure and Environment envisages support for large industrial plants in order to comply with EU norms regarding emissions. This can hardly be regarded as a priority measure for helping to improve air quality in cities.

**Slovak** air protection measures aim at big polluters as well as at small sources of pollution. Big industry support remains problematic in respect to the polluter pays principle, and any support needs to be severely conditioned.

Air pollution is actually one of the priority areas in OP Environment in the **Czech Republic**. However the focus of the planned measures is highly problematic as some of them have questionable effects on air pollution, such as street cleaning vehicles.

**Bulgaria** envisages investments in cleaner public transport and bike infrastructure. All the same, a closer look at city development planning reveals that all plans are assuming the growth of car traffic. Instead of opting for small scale RES solutions for the heating of households and small district heating networks in the cities, colossal harmful projects such as burning waste in the district heating of Sofia are being prepared and some phases of such projects will be fueled with EU money. In the capital city, 180,000 tons of municipal waste will be burned annually, increasing the release of pollution containing fine and ultra-fine particles into the air.

## 7. Good examples for environmental mainstreaming which should be replicated in other countries

In **Hungary**, funding for irrigation decreases and its conditions could be stricter. The promotion of sustainable lifestyle is included in the EEOP, though it could be stronger, and it is still not clear how it will be implemented. The promotion of local economy is quite good in the Territorial and Spatial Development OP.

In **Bulgaria**, the OP Human Resources envisages support for green entrepreneurship, green jobs and green start-ups, and the OP Environment has a special axis to support small demonstration projects for environmentally beneficial initiatives that are not funded under any other programme.

Under thematic objective 6 in **Estonia** ("Protecting the environment and promoting resource efficiency") there are some resources planned to be devoted to changing existing district heat systems with local RES solutions. Also, under the same thematic objective there is a planned measure for supporting and promoting the use of alternative fuels in transportation and investments in biomethane. This last aspect demonstrates the commitment of the Estonian government to contribute to a more sustainable transport sector. In nature protection, positive aspects involve measures related to allocations for preserving swamplands (Cohesion Policy OP) and for the protection and maintenance of semi-natural habitats.

In **Latvia**, awareness raising on environmental issues aims to provide the society and the competent institutions with timely and high quality information concerning the conservation of high environmental quality and biological diversity, as well as to promote green thinking for the facilitation of sustainable lifestyle. The introduction of an environmental monitoring network comprehends the purchase of environmental monitoring and control equipment: the purchase/development of software for the implementation of monitoring and the improvement

of environmental databases, including the provision of access to necessary current, high quality basic data of geospatial information in electronic format; the formation of nationally significant environmental information and education centres, and; measures for informing and educating society in the following fields: the elimination of climate change and adaptation to climate change, the preservation of biological diversity and the functions and services of ecosystems, the development of environmentally friendly renewable energy resources, the efficiency of resources, green purchasing and green consumption, the low carbon economy, and waste as an unused resource.

In the **Czech Republic** the biodiversity priority axis in OP Environment is satisfactory.

The Partnership Agreement in **Poland** underlines that investments under "low-carbon strategies for urban areas" in TO4 will need to be based on low-carbon plans or other documents that contain the necessary elements. The Managing Authority has decided to allocate some of the remaining money from OP Infrastructure & Environment 2007–2013 for local authorities to prepare plans that will determine investments for the 2014–2020 period. Investments in public transport in 2014–2020 will need to be part of a holistic package of policies supporting sustainable mobility. The PA lists such measures – including designating bus lanes, promoting cycling and walking, introducing parking fees etc. – to make the private car less attractive than public transport.

The sustainable development chapter in the **Slovak** Partnership Agreement can be viewed as one of the best examples of prompt and flexible cooperation between managing authorities and civil society experts.

It has led to the introduction of more specific measures and instruments that should mainstream environmental issues and the environmental sustainability of EU funded investments that go beyond the bottom line of legally defined polluter pays principle application. Most importantly,

sustainability criteria for energy utilisation of biomass, green public procurement and the polluter pays more principle – which should motivate investments into cleaner technologies – made it through into the text. Furthermore, the explicit requirement to include climate impacts in the SEA procedures of all OPs was also made part of the chapter. The relevant ministries have already started to follow the requirements as set out, and OP Quality of Environment has introduced the sustainability criteria, with the Ministry of Economy initiating cooperation with NGOs.