Summary of the discussions of workshop

The impact of EU level financial instruments on climate policy in EU member states: case study of European Structural and Investment Funds

which took place on Friday 27 March 2020 online

Objectives of the workshop

On 27 March 2020, the Institute of Climate Protection, Energy and Mobility (IKEM) and THE German Institute of Economic Research (DIW), organized an online workshop entitled “The impact of EU level financial instruments on climate policy in EU member states: case study of the European Structural and Investment Funds”. The workshop was a part of the IKI funded project “Strengthen national climate policy implementation: Comparative empirical learning & creating linkage to climate finance” (SNAPFI). The main objectives of the workshop were:

- To understand how the European Structural and Investment Funds (ESIF) impacted climate policy development in EU countries,
- To identify success and limitation factors of the ESIF programming and implementation which enabled their impacts and transformative effects achieved so far, and
- Discuss lessons learned from the ESIF use for international climate policy.

Summary of presentations

Karsten Neuhoff, of DIW, opened the workshop and introduced agenda of the day. Aleksandra Novikova, of IKEM, explained the project rationale and the methodology applied by the project to address the questions as stated also by the workshop above. Samantha Keen, of the University of Cape Town, raised the questions to EU experience from a developing country perspective.

Rimantas Žylius, of the European Public Policy Institute; Boriss Knigins, of the Ministry of Finance of Latvia; and Richard Filčák, of Foresight Institute of the Slovak Academy of Sciences, explained programming of the ESIF use in their countries. Valius Serbenta, of the Housing Energy Efficiency Agency, provided details of the ESIF implementation using a case study of Multi-Apartment Renovation Programme of Lithuania.

Marina Olshanskaya, of AvantGarde Innovation, presented the summary of conclusions and lessons learned from the ESIF use, making a special focus on their implications for international climate policy. Marina’s presentation was followed by a moderated discussion.

The presentations of these speakers, including the discussion questions, are provided at the project webpage, next to this summary.

Summary of discussions

Altogether, twenty-one participant from different countries joined the workshop and contributed to the discussion. We summarize the key questions raised and responses to them following the Chatham house rule.

Did the ESIF play a crucial role for the development of climate policy in Lithuania in the programming period 2007-2013?

- The role of the EU Funds was indeed significant, because the upfront investment requirements for climate change programmes are very high and so are the perceived risks of such investment by the domestic financial sector, while the returns are distributed over a longer period of time, than the market can support. Thus, the EU Funds played a crucial role addressing the long payback and access to affordable capital. Thereby, it does not make a difference if a programme is nationally co-funded or entirely financed by the EU funds. In the absence of EU funding, many ongoing climate programmes probably would not be in place.

Did the timing of ESIF negotiating and programming play any role in climate policy development of Lithuania?

- Climate change was not the core of the political agenda of Lithuania during the 2007-2013 programming period. The Lithuanian government was looking for any source of funding to stimulate the demand in the aftermath of the financial crisis. At that time, many programmes have already been in place, however being tight with public budget, the government was searching for programmes which did not compromise these already tight resources. Therefore, it tried to redesign those programmes, which did not require significant national public budget inflow and which have not been implemented yet. It further tried to speed up their implementation process, in order to soften the economic downturn by an increased consumption rate.

In order to enhance the disbursement of the EU funds, did Lithuania search for specific programmes or did it also take a broader perspective, e.g. regarding the regulation procedure?

- Due the 2008-2009 crisis, the Lithuanian government took more a short-term perspective whereas broader/long-term approaches did not play a significant role that time. The government was more in the mode of saving the economy rather than thinking about the country in 15-20 years.

Why was energy efficiency identified as more important than renewable energy in the climate policy of Latvia?

- In Latvia, renewable energy projects were less concentrated than energy efficiency projects. A big potential for energy efficiency concentrates in the buildings sector that makes energy efficiency policies more homogenous. Renewable energy required a more complex approach because renewable energy potential is more disbursed. Therefore, for this practical reason, less diverse energy efficiency programmes were more preferred over more heterogenous and complex renewable energy programmes.
- From the political perspective, an important factor to choose a programme is its visibility. Energy efficiency activities were more visible than renewable energy activities in Latvia and therefore, policy makers were more likely to choose energy efficiency programmes.

What are the implications of Latvian experience for international climate policy?

- In Latvia private actors favoured energy efficiency measures, because they were economically more beneficial than renewable energy measures. This was due to much lower costs of fossil energy than those of renewable energy in Latvia. To correct energy prices, regulatory policies such as feed-in-tariffs, environmental taxes, and similar were going to be implemented.
- High volatility of fossil energy prices creates an uncertainty for investments in renewable energy and hinders a large scale, global energy transition. There is a need for international regulations, which

would allow fossil energy prices to support rather than prevent the transition towards renewable energy.

What has been the impact of the ESIF on the design of climate policy in Latvia? Where did it create obstacles, where did it make climate policy more effective?

- The EU Funds did not affect the decisions regarding the design and ambitions of climate policy of Latvia, because the country already supported international climate policy, even before the EU Funds included climate targets in their regulations. However, the ESIF played a crucial role in the implementation of this policy: at present, the implementation of Latvia's climate policy is almost fully financed by the ESIF. In absence of EU Funds, Latvia would only be able to provide a small share of funds to support the delivery of climate projects as compared to the current volume. There have been however complex bureaucratic processes associated with the ESIF implementation, which resulted in delays of programmes' implementation.

Which obstacles did Slovakia face implementing the ESIF?

- The ESIF did not provide incentives for higher penetration of renewable energy in Slovakia, because the most important policy in this field was the nationally implemented feed-in-tariff. The ESIF was however helpful to finance the economic transition in former coal mining areas, as well as to stimulate investment in energy efficiency across a range of sectors. A particular issue to address was the employment effects of the low-carbon energy transition, as the transition from fossil energy sources leads to employment losses.
- The other obstacle was that some ESIF financial instruments implemented Slovakia competed with grant- based schemes. This phenomenon shall be corrected in the up-coming programming period.
- Overall, the approach planned in the future is to support more affluent income groups via financial instruments, while low income groups shall have access to grant-financed schemes. From the macrosocial point of view, the design of such financial instruments is a challenge due to the uncertainty how to define poverty in Slovakia and draw the line between these two groups.

What are the institutional arrangements regarding the monitoring and reporting of GHG emission reduction achieved from the ESIF implementation?

- At EU level, Member States commit to CO2 reduction with a breakdown of these commitment into two parts. CO2 emissions of energy-intensive industries are covered by the cap-and-trade regime, i.e. the EU Emission Trading Scheme. Other emissions are covered by the Effort Sharing legislation, with the national emission reduction targets proportional to EU Member State welfare; meeting these targets is supported by the ESIF. However, the results of this support are foremost reported and monitored through the disbursement of these funds, rather than through their actual carbon reduction impact. No Member State measures the real impact of ESIF-financed emission reduction projects and their contribution towards the target; no one therefore carries the responsibility if these projects do not deliver GHG emission reduction impacts. This is the result of the broad EU climate programming which leads to a difficulty to examine the precise carbon reducing impact of climate related projects. This challenge leads to a high uncertainty about the real climate-friendly impact of the ESIF.
- In contract to the ESIF practices, the estimates of GHG emission reductions of climate-related projects are very important to access international climate finance and their estimate is an important award criterion, to deliver which the implementing country will be held responsible. Receiving parties have to take part in highly competitive tender procedures in order to get international

climate finance and its impact is then extensively monitored by donors and could be penalized in case of non-compliance with agreed targets. Therefore, the regulation framework at international level is more focused on specific projects rather than broad climate programmes like in the EU.

What are the enabling conditions for the EU funds and who decides on those pre-conditions?

- The enabling conditions of the European Commission were to formulate a national climate plan and to set up a national implementation strategy. Only if these two conditions are fulfilled, the European Commission disburses money to the Member State.

Did the commitments of Member States outlined in their National Determined Contributions have impact on the design of climate programmes funded by the ESIF? Is there a link between the EU climate policy and the international climate policy?

- In the 2007-2013 programming period, there was no requirement yet to prepare and submit National Determined Contributions and therefore they did not impact the political agenda.
- In the current period of 2014-2020 and in the forthcoming period of 2021-2027, the European Commission does not require to link the ESIF-funded programmes to international climate commitments. To program the ESIF implementation, Member States rely on the EU climate legislation and respective national climate targets. However, these provisions often go in the same direction as the international climate targets of EU Member States.

How can emerging economies profit from advanced green technologies and/or complex green policies, in order to accomplish more ambitious social and ecological goals in the future?

- The earmarking of the ESIF finance for climate activities was a good first move by the European Commission, to help less developed EU Member States to reach their climate targets. However, the important question which arises is about the actual use of this finance. Today, most of the ESIF finance is not really used to build green economy capacities in each beneficiary Member States, but rather to support green technologies produced in more advanced Member States, leading to a dependency in knowledge and technology of less developed Member States from more developed Member States. In order to overcome this dependency in the future, smart specialization strategies must also support the development and production of green technologies in less developed countries.
- Similar, first mover countries with respect to effective climate regulations and advanced green technology, will be the future economic winners, as they are going to export technology to countries, which today do not feature a strong focus on climate change preventing policies. Only if we develop policy schemes, which will enable less developed countries to link climate change policies, with economic, social and environmental benefits at local level, they will realize this potential for green innovation and international climate actions will be successful.

What are additional success factors than those reflected in the workshop presentations?

- In the EU, climate ambitions of Member States are very different: some countries are highly committed to climate protection, others do not have a strong national commitment. Therefore, clear EU climate targets were crucial in order to push the Member States with less ambitious commitments towards more climate protecting policies.
- Further, the involvement of various national stakeholders (policy makers, non-governmental organizations, industry, etc) into the consultation process during the design of climate policy in each Member State, as requested by the European Commission, led to more ambitious national climate

targets, even though their industry concerns often outweighed social and ecological concerns raised by NGOs. These stakeholder consultations are a part even of the very early programming stage of the ESIF (at the state of negotiating Partnership Agreements and Operational Programmes) and not only of the programme implementation.

- Technical assistance, which gives detailed advice to local governments on the implementation process of complex climate policy schemes was crucial for installing effective policy instruments and programme realization.

What are further differences between programming and implementation of the EU Funds and international climate finance?

- Given that the success of the ESIF implementation is measured through its disbursement rates whereas the success of international climate finance is measured through GHG emission reduction delivered, the incentive structure of policy makers in EU Member States and recipients of international climate finance is very different.
- The levels of decision-making involved in climate finance programming and implementation differ between the ESIF processes and international climate finance practices. Political negotiations procedures as they exist in the EU like the negotiations of Partnership Agreements and/or the Operational Programmes are absent in international climate finance practices. For example, institutions like the Green Climate Fund (GCF) are only beginning to realize the importance of such strategic cooperation agreements, but do not have them embedded in their programming framework. Potential beneficiaries apply to the GCF with a certain project proposal detailing the investment need and GHG reductions which will be delivered. Some of the GCF readiness programme elements have similarities to some elements of Partnership Agreements and Operational Programmes, outlining how emerging economies plan, manage, disburse and monitor climate finance, focused on the GCF. For instance, the programme nominates one national coordinator who is based in the national ministry which is the focal point of the. The programme supports countries-beneficiaries with the development of policies, which will help mainstream climate actions. It further stresses the importance of strong institutions, and engaged and powerful national stakeholders, to make sure the implementation will be effective.