A Vision for the Next EU Budget

Thoughts and key demands for the post-2020 Multi-Annual Financial Framework

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INTRODUCTION

At this juncture, the post 2020 Multiannual Financial Framework (MFF) proposal will come as an important test of the European Commission's response to multiple challenges. In order to demonstrate greatest added value, the next EU budget must live up to its potential to spur strategic and systemic change, and demonstrate renewed focus on the sustainable well-being of citizens. We are concerned that the White Paper on the Future of Europe paid scant attention to environmental protection and sustainability, inseparable from the social dimension of Europe and the well-being of citizens, and inseparable from economic prosperity. Moreover, it failed to really address any of the root causes of problems facing the Union.

The next MFF can be an enabler of a 6th scenario for the Future of Europe, with a new economic strategy at its heart. An MFF that not only demands performance and puts an end to wasteful or bad spending on things like fossil fuel infrastructure, or harmful agricultural subsidies that contradict EU policy goals and confuse signals for investors and capital markets; but an MFF that also steers a new definition of economic progress, based on sustainable well-being of citizens and their environment. Empowering citizens, communities and local governments to help build and own this transition towards a brighter future. This is one part of the way out of the political deadlock facing the Union.

Climate change, natural resource depletion and biodiversity loss, all have a global dimension. Halting and reversing the underlying socioeconomic trends poses significant challenges for the post 2020 EU strategy and budget. A new direction, clear political priorities and firm, well-resourced action are needed, so that the EU only pursues economic prosperity and employment where they are compatible with maintaining and improving social well-being and environmental quality. Luckily, EU institutions can count on the support of citizens to help tackle these challenges. Over 500,000 people answered the consultation on the 'Fitness Check of the EU Nature Directives" in 2015, and more than 250,000 responded to the consultation on the future of the Common Agricultural Policy through the 'Living Land' initiative in 2017. Massive participation in these two consultations show that EU citizens want the EU to do more for nature. This public concern for nature has strong justifications. The EU's own experts raise serious concerns about the ongoing loss of EU biodiversity and its implications for our future. 1 in 6 jobs depend to some extent on biodiversity. Nature provides us with food, water, clean air and medicines. Not only is the EU internationally and domestically committed to saving biodiversity, but protecting nature is simply vital to us all.

Yet we are concerned that key parts of the budget that benefit environmental protection and sustainable well-being may be under threat. As one example, it is vital that a smaller budget, or debates about varying degrees of federalism do not result in weakening of the role of Cohesion Policy in driving structural change wherever it is needed, and not merely for it to become an instrument of redistribution to the poorest Member States alone. While public investments are most dependent on EU Funds in cohesion countries and less developed regions, overarching policy challenges such as implementing the Paris Climate Agreement and completing the clean Energy Union face investment gaps across all compass points. Ex-ante conditions of EU Funds serve an important (and underexploited) function in raising the bar and addressing national barriers to these policy objectives. More targeted spending can also be achieved by several policy levers including: greater thematic concentration on social and environmental priorities that really matter for the sustainable well-being of citizens, greater accountability of recipients, and inclusion of stronger safeguards in MFF regulations and programming frameworks. Coherence with EU Policy goals can also be achieved through remedying an important gap in the governance of the MFF: tracking the environmentally and socially harmful impacts of spending, and introducing an exclusion list to prohibit the use of EU finance to support harmful spending such as fossil fuels. These come together under the broader concept of 'sustainability proofing' which we recommend (see chapter 4) as an important horizontal mechanism for the next MFF.

The narrative for the last 7 year MFF saw a large increase in topline allocations for spending programmes deemed to be best for competitiveness, growth and jobs. The result was a reduction in allocations for the funds comprising Cohesion Policy, and those contributing most to protection of nature, to the tune of billions. Despite many successful programmes, during the current programming period, loss of trust in public intuitions and levels of populism have risen. The strive for economic convergence between regions and Member States has not stopped levels of inequality rising within cities and within regions. The stark reality is that 'Jobs, growth and competitiveness' has left many people behind. We are concerned by indications of a more militarised Union, as well as its implications for the EU budget. Already facing a smaller budget due to Brexit, it is vital that spending allocations to programmes addressing environmental and social priorities are increased. Innovating in these programmes and creating new ones can help build a concrete foundation for the new narrative that is needed for the next MFF: ensuring it is future proofed, and signals a new path for Europe. *A Budget for sustainable well-being of all Europeans.*

The paper that follows presents key policy demands, as well as some example innovations for the next EU Budget. The scope of this paper is focussed primarily on the domestic components of the EU budget – however external action is discussed under the climate action angle in combination with poverty eradication objectives.

CHAPTER 1: CROSS CUTTING PRINCIPLES AND EXAMPLE INNOVATIONS: A Budget for People, and their Environment

While the EU Budget cannot pay for everything, the Commission can demonstrate greatest added value by proposing an innovative MFF that does more to kick start catalytic spending towards the deep transformations required to give effect to the EU's environmental targets for 2030 and 2050, as well as the Sustainable Development Goals. It is high time that all EU spending, and lending, be brought in line with the EU's environmental and social targets. We call for a Budget for the sustainable well-being for all Europeans, one that innovates in how to empower and engage citizens, communities and progressive local authorities in spending towards this transformation.

Part of this means greater thematic concentration, concentrating available financing on a smaller set of overarching policy priorities essential for the sustainable prosperity of the Union, such as climate change, sustainable agriculture and nature protection, and pushing out wasteful spending on non-transformative or outdated technologies and practices. Another part of the solution means rethinking spending priorities, and where gaps exist, innovating new programmes to maximise the impact of available resources within the right constellation of stakeholders. What follows is a selection of guiding principles, followed by illustrative examples of ways the next MFF could innovate to address gaps, and do more to re-connect citizens with the European project.

Principles for an MFF serving people and nature

Principle 1: the UN Sustainable Development Goals and international agreements at the centre of the MFF

- The EU played a key and leading role in shaping the 2030 Agenda for Sustainable Development, including the 17 **Sustainable Development Goals**[1] (hereafter the "SDGs"). The EU is strongly committed to implementing the SDGs both internally and externally, including to "Conserve [...] the oceans, seas and marine resources" (SDG 14) and to "Protect, restore, and promote sustainable use of terrestrial ecosystems [...] and halt biodiversity loss" (SDG 15). The SDGs are designed as an indivisible set, reflecting the fact that sustainable development requires joint action in all spheres. **The next MFF must deliver on the EU's overarching commitment to achieving the SDGs and support its partners in realising them too**.
- As a **party to the Convention on Biological Diversity**, the EU is also bound to respect its commitment made during the 13th Conference of the Parties, held in Cancun in 2016, of **mainstreaming biodiversity conservation in sectoral policies**, in the fields of agriculture, forestry, fisheries and tourism in particular.[2] At the 11th Conference of the Parties in 2012 in Hyderabad, the EU committed to double international biodiversity-related financial flows to developing countries by 2015 and to maintain at least that level to 2020.
- As a party to the **Paris Agreement,** the EU is required to redirect financial flows and make them consistent with low emission and climate resilient development, and holding the increase in global average temperatures to well below 2°C above pre-industrial levels, and pursuing efforts to limit the temperature increase to 1.5°C.

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[1] http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E
[2] https://www.cbd.int/cop/cop-13/hls/in-session/cancun-declaration-draft-dec-03-2016-pm-en.pdf

Principle 2: public money and regulation should be used to complement each other

- **Adequate regulation** and proper enforcement provide a strong baseline to protect our natural heritage and to maintain the conditions for nature to provide important ecosystem services, such as air and water cleaning, pollination, pest and climate control, production of food and of recreational benefits. The EU gave itself a number of important and successful environmental regulations, such as the Birds and Habitats Directives, the Water Framework Directive and the Ambient Air Quality Directive.
- **Public funding** is needed where regulations are not sufficient – e.g. to restore damaged ecosystem, to reintroduce species – and where market mechanisms cannot deliver, i.e. for investment or actions that are not rewarded by the market – e.g. to help innovation and incentivise good practices until they are widely spread, and, in the case of the land use sector, to compensate land users for the loss in income or the costs of implementing specific conservation measures.

Principle 3: involve the people: develop and implement the Budget in an inclusive manner

- Discussions on the next MFF as well as programming and implementation should be done in a way that guarantees efficiency and legitimacy of EU spending. This involves:
    a. **Transparency** and easy access to simplified information: how spending priorities are being decided and what EU citizens' taxes are used for, must be made available to the public; further, citizens should be given the tools to understand the basic principles and priorities of EU spending including tools for budget-tracking.
    b. **Participatory approach**: anyone – citizen or interest group – who wants to get involved in discussions on the Budget of the EU should be given an opportunity to do so at each stage of the process at the appropriate political level. This should include the current preparations for the next MFF.
    c. **Partnership**: programming and spending must be realised in collaboration with all concerned stakeholders. There should be an obligation for public authorities to involve stakeholders with appropriate expertise. Also, the EU and national authorities must provide the financial support necessary to allow all stakeholders, especially non-for-profit organisations, to make use of their participatory rights.

Principle 4: environmental action must be co-financed by the EU and member states

- Biodiversity is not spread evenly across the EU, with poorer regions concentrating most of it. However, it is a **common heritage and a common good**. Therefore, it makes sense that a significant proportion of the resources required to safeguard biodiversity come from the EU common pot rather than from national budgets. Also, the EU has an obligation, under Art. 8 of the Habitats Directive, of co-financing the implementation of Natura 2000 in Member States. However, it is important that national budgets too contribute to financing biodiversity action, as a means to get member states concerned about nature protection.
- Any key action in the field of biodiversity protection, in particular the implementation of the Nature Directives, should be **co-financed at an average rate of 75%** by the EU. This average rate might me adjusted based on both the economic wealth of a region (e.g. NUTS 3) and how important the measure considered for funding is for reaching EU objectives.

- According to the OECD, integrating measures to tackle climate change into regular economic policy will have a positive impact on economic development, while limiting the global temperature rise to below 2 degrees would require **only 10% more climate-friendly infrastructure investment** than the carbon-intensive alternative, whereas these incremental costs would be offset by fossil fuel savings and energy efficiency. The EU budget is well placed to shoulder parts of these additional investment needs.

Principle 5: no subsidies or incentives that are harmful to the environment

- Art. 11 of the Treaty on the Functioning of the European Union states that "Environmental protection must be integrated into the definition and implementation of the Union's policies and activities"[3]. Therefore, no EU public money should be used in a way that harms the environment, even to further the Union's goals in other areas. Furthermore, the EU is a party to the global Convention on Biological Diversity (CBD) and as such committed to end subsidies that are harmful for biodiversity by 2020.[4] We ask **that the MFF and all other policies and programmes of the EU should be assessed to make sure they do not contribute in anyway, directly or indirectly, to damaging the environment and biodiversity. (See Chapter 5 – Sustainability Proofing.)**

Principle 6: polluters, not tax payers, must pay the costs of pollution

- A strong legal framework and genuine implementation of conditionality that would ensure that beneficiaries of payments would at the least lose such funding if found to be contravening any environmental protection law. This means that Member States must fully implement all EU acquis including the following pieces of environmental legislation: Birds and Habitats Directive, Water Framework Directive, Nitrates Directive, Sustainable Use of Pesticide Directive (including the obligation to use integrated pest management.) Ex-ante conditions for the next MFF must be designed to ensure increased ambitions in the EU's 2030 climate and energy framework. The EU is lacking crucial legislation on the protection of soils which must be adopted as soon as possible. Conditionality should also apply to any relevant national level legislation.

Principle 7: funding for nature must be ring-fenced

- EU funding for nature must be **legally ring-fenced**, i.e. earmarked for specific actions with no possibility for that money to be then used for any other purpose. Too little funding has been earmarked in the current MFF for the specific, targeted biodiversity actions that should have been prioritised. Furthermore, the absence of ring-fencing led to massive lack of funding for biodiversity as funds are redirected to other areas of spending. The last MFF introduced climate mainstreaming, a clear step in the right direction, yet experience has shown the need to ensure the quality of climate action spending, and not merely relaying on a numerical approach.

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[3] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12012E/TXT&from=EN

[4] CBD Aichi Target 3: "By 2020, at the latest, incentives, including subsidies, harmful to biodiversity are eliminated, phased out or reformed in order to minimize or avoid negative impacts, and positive incentives for the conservation and sustainable use of biodiversity are developed and applied." CBD COP12 Decision XII/3 asks Parties to provide policy plans how this target will be achieved by 2018.

Principle 8: Make EU Finance more accessible – to citizens, communities and cities.

- Through unaffordable co-financing requirements, or inconsistent eligibility requirements, Member States are denying citizens and communities access to EU supported programmes that should benefit them, and which could contribute more to building a genuine sense of ownership in the European project. Rebuilding a flourishing, resilient, inclusive and sustainable Europe from the bottom up. Accessibility and affordability for things like energy efficiency support schemes must be addressed in the next MFF, through strengthening ex-ante conditionalities and providing incentives to ensure removal of barriers in all countries. Sub-national actors are often more progressive on social and environmental issues than their national counter parts and should be empowered through more direct access for relevant programmes.

- In order to ensure good uptake and efficient use by Member States authorities and beneficiaries, EU funds should be easy to use. Administrative work and transaction costs should be kept to the minimum, subject to the above, to make it worthwhile for stakeholder with limited capacity, in particular, but not only, to apply for and deal with EU funds for biodiversity. At the same time fighting corruption and preventing the misuse of EU funds has to be guaranteed.

Example Innovations – A budget for people and their environment

Taking the MFF as a whole, there is a need to rebalance the focus of programmes and financial instruments. The focus on large scale infrastructure within centrally managed programmes like the Connecting Europe Facility, must be rebalanced to drive smaller scale finance more suited to the localised economies and decentralised energy system we need, and to bringing the benefits of EU funds closer to citizens. Taking the various funds comprising cohesion policy, out of the 11 common strategic priorities, missing entirely is the enshrinement of the shift towards decentralised local economies that will by necessity underpin the achievement of a nearly fully decarbonised economy by 2050, and flourishing, inclusive, communities. The research and innovation agenda of the EU Budget should evolve post 2020 – should no longer be as dominated by corporate interests, but must do more to spur social entrepreneurship, local innovation and collaboration in projects that yield the greatest environmental and social returns.

What follows is a snapshot of cross cutting themes, policy innovations, and horizontal principles, giving an impression of a vision for the sort of Budget that would allow the Commission to demonstrate an integrated response to the challenge of reconnecting Europe with its citizens, the investment gap faced for the clean energy transition and the protection of a healthy environment through reduction of environmental pressures and the repair of habitats and ecosystem services, and the challenge of addressing the root causes of some the problems that have been facing Europe, including rising levels of inequality, and disintegration of social capital.

Example idea: a Community Power Facility

As one of several strong examples, there is a strong case for the creation of innovative funding programme to make the vision in the Winter Package of putting citizens at the heart of the clean energy union a reality. In many Member states, rights for citizens to store generate and sell energy will only materialise if backed up by financing. While these investments are already eligible from within ESIF funds, an argument exists for solving this gap through the creation of new common Funding programmes, rather than ear marking within Operational Programmes alone. In addition to the overarching need for the next Budget to increase thematic concentration, both quality and quantity of spending on the energy transition, a targeted programme and common European approach is needed to support community and self-generation of sustainable renewables.

A Community Power facility, could take many forms, with each form having a bearing on subsidiarity questions. Financing solutions for energy citizens must take account of the importance of local actors, local planning frameworks, and the hundreds of progressive local authorities with energy action plans comprising the Covenant of Mayors. In recognition of importance of a decentralised approach, and of empowering local actors who are often more progressive than national governments on issues such as energy transformation, a Community Power Facility could directly administer EU funds in shared management with sub-national actors, by creating a platform and common framework to involve local authorities, investors and stakeholders to deliver grants and soft loans for tailored support to local RES projects including community power, cooperatives and prosumers.

Example idea: Citizens Investment Platforms for local sustainable transformation

As an innovative European approach to financing support to local RES, urban food production or other sustainable development projects with high social returns, the next MFF also could support citizens investment platforms[5], crowding in shareholdings of citizens in the replication of collaborative of local sustainable projects of a different kind of "common interest" for the EU. Or, potentially delivered through local banks as financial intermediaries, pooling the savings of citizens to support local transformative projects. While the scale of citizen finance would be small compared to private sector capital that must of course be unlocked as the priority, the benefits of connecting citizens to local RES, urban sustainable food production or other transformative projects not necessarily in their own neighbourhood but potentially anywhere in Europe would be considerable. Furthermore, connecting small projects together can improve investor confidence and help secure investment. EU funds could provide seed capital, or guarantees, as well as support the administration of a common framework to development best practice and technical assistance involving shared management between the Commission and local authorities.

Example idea: Target EU Funds for energy efficiency and self-generation to the vulnerable, new horizontal principles to address inequalities

As one example, the current MFF does very little to target energy poverty. A multi-pronged approach is needed, helping Member States achieve their stronger obligations to consider energy poverty within the new Energy Efficiency Directive. Strengthening ex-ante conditionalities to require assessments and identification of energy poor households and plan targeted policy responses as part of poverty reduction plans, and expanding the scale and amending the scope of the Fund for the Most Deprived to target energy poverty through deep retrofits are part of the solution, but will not fill the financing gap on their own. An increase in allocations to energy efficiency, and requirements for Member States to target a sufficient amount of this to low income residences, is required. In addition to energy savings, it is noteworthy that there are currently no measures in place within the MFF to target support schemes for self-generation of RES to the energy poor.

Beyond the neglected issue of energy poverty within the MFF, demonstrating a Europe that cares, requires a broader response to tackling inequality, and focussing the collaborative rebuilding of flourishing, resilient and healthy communities to the vulnerable. Existing horizontal principles could be strengthened in this regard. The legislation governing ESI Funds already includes horizontal principles around equality of treatment, non-discrimination, climate change, and several funds such as the European Social Fund have concentration

[5] For an energy related pilot example, see generally *Citizenergy*, available at https://citizenergy.eu/how_it_works

mechanisms to direct a portion of spending towards combating poverty. These must be strengthened and applied to all relevant spending lines within the MFF.

Access to finance: for citizens, communities, and cities. Empowering sub-national actors to advance a sustainable 6th Scenario for Europe.

Member States are denying citizens and communities access to EU funded programmes that not only benefit them, the environment, and contribute to building a sense of ownership in the European project. In response to a smaller Budget due to Brexit, and in response to ongoing concerns about corruption or wasteful spending in several Member States, a performance based budget should both strengthen conditionalities, improve the measurement of results, and provide incentives that encourage Member States to remove barriers that are hindering the achievement of EU policy objectives. One illustration of the need for EU action to improve access to finance in the next-MFF is as follows.

In many Central, Eastern and Southern Member States, co-financing rates for energy efficiency support schemes including EU funds are often set at a level that is simply unaffordable for low to middle income households. In the Operational Programmes for ESIF Funds in other countries, such as Poland and Slovakia,[6] entire sections of the residential sector (single family buildings) are ineligible to benefit from EU funds for deep retrofits. Part of the solution is to introduce new ex-ante conditionalities, and strengthen the interaction of existing ones, to ensure Member States have committed to a plan to identify and remove such barriers, and to ensure that financing for socially and environmentally beneficial investments are not set at levels that increase inequalities.[7] This is one way in which conditionality should raise the bar, going beyond minimum requirements of Directives and Regulations where appropriate, to ensure EU spending benefits all citizens in a fair way, and is most catalytic towards the zero carbon economy of well-being.

One Stop shops should also be introduced as a low-cost measure to improve access to EU Funds for citizens and communities on key themes such as clean energy, or urban sustainable development. Best practice examples[8] have proven the success and need for single contact points, avoiding the confusion of, for example, having to deal with 10 different contractors to deep retrofit a house.

Direct access for cities and local authorities

Hundreds of local governments across Europe are more progressive in implementing sustainable well-being, as well as tackling the existential threat of climate change, than their national Governments.[9] A large portion of investment necessary to complete the clean energy Union will have to involve local actors.[10] On average, citizens across Europe trust their local governments 50% more than national governments.[11] There is a strong case for the next MFF doing more to scale up innovative sustainable solutions, piloted in cities and local communities as laboratories, to EU level. Many of these projects would be highly visible or have potential to build in strong participatory elements and help reconnect Europe to its people. Yet, local authorities often report

[6] CEE Bankwatch Network, *Enfants Terribles*, (2016) page 95, available at https://bankwatch.org/enfants-terribles
[7] For example, ex-ante conditionalities for the ERDF and Cohesion Fund concerning investment priority of energy efficiency requires the minimum requirements of certain articles of the EE Directive and EPBD to be fulfilled but does not influence affordability or eligibility of support schemes. Similarly, conditionalities relating to the ESF and ERDF's investment priorities for active inclusion and promoting equal opportunities requires the existence of national strategic policy framework for poverty inclusion, but no specific enshrinement of energy poverty, or accessibility of EU funded programmes.
[8] See generally, http://www.localenergyscotland.org/
[9] As evidenced by energy action plans of local governments within the Covenant of Mayors for example.
[10] See E3G, *Building the Energy Union at sub-national level*, (2017) available at https://www.e3g.org/library
[11] Eurobarometer, cited in E3G, above n.9

difficulty accessing EU funds or agreeing with National Governments on spending them in the most catalytic ways.

At the same time, in some countries, such as Poland, Cohesion Funds are implemented via 6 different Operational Programmes and 16 Regional Operational Programmes. The result is that while larger private companies can pick and choose which regions to invest in, smaller beneficiaries face unequal conditions of accessing public money ear marked for the same purpose. Together, all these truths may support the case for the introduction of new EU level platforms with shared management based on stronger and more autonomous role for local authorities working with the European Commission on priority thematics, such as integrated sustainable urban development.

From partnership to participation: meaningful innovations to improve democratic participation in spending EU finance

The Partnership Principle is an important foundation within Cohesion Policy funds, helping push out corruption, assisting the European Commission with ensuring compliance with horizontal environmental legislation and safeguards, and providing civil society and local stakeholders with rights to engage in the planning and implementation of projects supported by ESI Funds.

The Partnerships Principle requires strengthening, and its key features should be applied to all spending lines within the next-MFF. As recommended by the European Economic and Social Committee, the next MFF should introduce a dedicated funding line to support capacity building for civil society – to enable them to engage properly in Monitoring Committees. Having measures in place to ensure the timely publication of information, the meaningful involvement of partners in the earliest stages of programming and planning, should be included as an ex-ante conditionality to strengthen the enforceability of the Code of Conduct and Partnerships Principle.

Participatory Budgeting

The next MFF can also make a powerful contribution to renewing participatory democracy in the spending of EU funds by innovating beyond the Partnerships Principle. Inspiration can also be drawn from emerging best practice around Participatory Budgeting,[12] which more and more cities have introduced across Europe and the world. The City of Paris recently committed to spending 5% of its overall budget via participatory budgeting,[13] citizens submission and ranking of spending ideas to improve urban environments. The breadth of demographical engagement here makes participatory budgeting a clear step beyond CLLD and LEADR approaches already existing in the current MFF, which also requiring strengthening. In the present situation of a smaller budget, a more guided approach would be advisable, steering the application of democratic spending tools such as participatory budgeting clearly towards integrated sustainable development of urban or rural environments, or the replication of successful pilot projects across the EU.[14]

[12] For a generation introduction to participatory budgeting, see Nelson Dias, "*Hope for democracy-25 years of participatory budgeting,*" April 2014, pp. 29
[13] The Guardian, *Parisians have their say on city's first €20m 'participatory budget',* October 2014, available at https://www.theguardian.com/cities/2014/oct/08/parisians-have-say-city-first-20m-participatory-budget
[14] G. Sgueo, European Parliamentary Research Service *"Participatory budgeting, an innovative approach",* Briefing January 2016, PE 573.894

Innovating and experimenting for biodiversity protection and climate action through LIFE

LIFE is so far the only EU funding instrument solely dedicated to biodiversity action. Since its creation in 1992, it has proven to be a very efficient tool: it has saved many species and biotopes in the EU. It delivers innovative solutions, helps sharing and rolling out best practices across the EU and contributes to sustainable development, including through job creation, also after projects have ended. Yet this instrument only receives 0.3% of the entire EU budget and its absorption rate is close to 100%. Therefore, the benefits of LIFE are largely limited by lack of funding.

The LIFE programme must remain centrally managed by the Directorate General for the Environment of the European Commission, respectively DG Climate Action and it should be significantly strengthened. The budget of the nature and biodiversity LIFE sub-programme should be increased from approximately 150 million EUR per annum today to 1 billion EUR per annum under the next MFF.

Any key action in the field of biodiversity protection, in particular the implementation of the Nature Directives, should be co-financed at an average rate of 75% by the EU. This average rate might be adjusted based on both the economic wealth of a region (e.g. NUTS 3) and how important the measure considered for funding is for reaching EU objectives.

The LIFE sub-programme on Climate Action should continue and increase its support to the various stakeholders in developing and implementing decarbonization strategies, foster new methods and approaches to bring the EU on track to meet the long-term objectives of the Paris Climate Agreement.

CHAPTER 2. KEY POLICY ASKS – CLIMATE

The forthcoming EU budget post-2020 must serve higher climate ambition, catalyzing the zero-carbon transition of our societies, including the phasing out of fossil fuels and other carbon intensive activities, towards 100% renewable and fully energy efficient economies.

Introduction

The current EU budget (2014-2020) has some important climate-relevant features such as "climate mainstreaming," the strategic link to the EU 2020 climate and energy framework or the political target to spend 20% of the EU budget on climate action.

While these features indicate important efforts to integrate climate action across EU spending, sectors that are substantially supported by EU funds such as agriculture, transport and residential continue to be major greenhouse gas emitters in Europe. Fossil fuels still receive subsidies from the EU budget while competing priorities and incoherent implementation of climate action are derailing the climate credits of the EU budget. Overall the EU budget's full potential to catalyze the zero-carbon transformation in Europe remains largely untapped.

It is crucial that the next EU budget delivers on and even strengthens the EU's climate objectives and policies, including the 2030 climate and energy targets. The EU budget can help build a strong domestic market in renewable energies, put energy efficiency first, help roll out low-emission mobility, foster technological leadership in the development of clean energy solutions, support innovative sustainable solutions in all sectors and enable its development partners to profit from progress achieved. It can also help to put citizens at the heart of the clean energy transition.

A reform of the EU budget is needed to bring it in compliance with the Paris Agreement on Climate Change, including its long-term goals[15] and to make EU-'finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development' (Paris Agreement, Art.2).

The EU budget's role in empowering higher climate ambitions

Faced with the evidence of global climate crises, it is high time for the EU to accelerate its climate action. With the growing urgency and intensity of climate change and its impacts, it is clear that the current EU 2030 climate and energy framework is not a sufficient contribution towards international climate action. The next EU budget will be crucial to helping the EU deliver on higher climate ambition. Particularly in the sectors under the Effort Sharing Regulation[16] where the EU budget's spending is significant (i.e. agriculture, energy infrastructure, regional development investments in housing, public infrastructure, transport, waste management and SMEs) EU funding must catalyze the transition away from fossil fuel dependency, and greenhouse gas and resource intensive activities towards 100% renewables and fully energy efficient economies. To this end, climate mainstreaming must be fully applied to the entire EU budget.

The current EU budget is channelling substantial financial sources into these sectors, 84% (€120 billion) of the EU budget in 2014 was spent on European farmers and fishers, energy infrastructure, transport, housing and waste management, small and medium sized enterprises, research and innovation and the economic and social

[15] In the Paris Agreement, governments committed to "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels"; http://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf

[16] http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/589799/EPRS_BRI(2016)589799_EN.pdf

development of Europe's regions. However, the current EU budget is underperforming in adequately addressing climate change:

- Although the Cohesion Policy funds (Cohesion Fund, European Regional Development Fund and European Social Fund) are contributing to advancing the 'shift towards a low-carbon economy', these EU funds are serving multiple and partially contradictory objectives; for example through supporting gas pipelines, "clean" coal and emissions intensive transport infrastructure.
- At the same time, EU funds' potential to accelerate the clean energy transformation remains largely untapped. Member States plan to spend on average a mere 7% of all their EU 2014-2020 Cohesion Policy funding[17] on energy efficiency, renewables, electricity distribution, storage and smart grids.
- The Connecting Europe Facility (CEF) still heavily supports fossil fuels. In its five calls for projects in the period 2014-2017 is allocating €1.1 billion of CEF funding to gas projects. This is more than twice as much as electricity interconnection projects have received so far. Furthermore, on top of the CEF, Member States are planning to spend €930 million of their 2014-2020 Structural Funds on gas infrastructure while, in some regions in Poland and Czech Republic households receive EU funds to replace their old domestic coal boilers with newer coal combustion systems which is locking households into fossil fuel demand for decades.
- Transport has seen its greenhouse gas emissions steadily increase over the past two decades while benefitting from wide-scale EU funding. Transport (including aviation and shipping) now emits around 31% of all the greenhouse gases in Europe.[18] The EU Cohesion Policy funding in the transport sector is heavily biased towards high-carbon transport infrastructure: twice as much is planned to be invested into road infrastructure than in low-emission mobility solutions.[19]
- The EU budget is bankrolling an intensive, industrialised farming system that is mainly based on high carbon and resource intensive technology. The current Common Agricultural Policy maintains an unfair system for farmers, a constant crisis on agricultural markets as well as inequitable exploitation of natural resources. It is also failing to deliver on animal welfare while posing longer term negative public health impacts. The sector contributes over 11% of total EU28 greenhouse gas emissions and 17.3% of the emissions in the non-ETS (Emission Trading Scheme) sector, and its emissions are projected to increase up to 2030 without further action.[20]
- The Instrument for Pre-Accession (IPA), supporting reforms in countries wishing to accede to the EU (Western Balkans and Turkey) is mainly used for technical assistance and capacity building. However, a portion of money goes into infrastructure and can end up supporting fossil fuel or other unsustainable projects, thus reinforcing carbon lock-in in these countries. The current financial framework for accession – IPA II – foresees investment of €11.7 billion for the period 2014-2020. So far, only 14% of that has been allocated towards climate action.[21]
- The European Neighbourhood Instrument (ENI) provides support for the countries in the EU's immediate neighbourhood. It works in conjunction with the Neighbourhood Investment Facility (NIF), a mechanism aimed at mobilising additional funding to finance infrastructure projects in sectors such as transport, energy, environment and social development. In the period 2014-2020, €15.4 billion was set aside for the ENI. The

[17] http://ec.europa.eu/regional_policy/cs/policy/evaluations/data-for-research/, own calculations based on Categories of Intervention no. 5, 6, 9, 10, 11, 12, 13, 14, 15, 68, 70: €24 billion
[18] https://www.transportenvironment.org/what-we-do/eu-transport-spending/background
[19] http://ec.europa.eu/regional_policy/cs/policy/evaluations/data-for-research/, own calculations based on Categories of Intervention: €29.5 billion for roads against €14.4 billion for clean urban transport infrastructure and intelligent transport systems.
[20] EEA, 2016 Trends and Projections report, http://www.eea.europa.eu/publications/trends-and-projections-in-europe
[21] European Commission (2016): Mid-term review/revision of the multiannual financial framework 2014-2020

ENI is not meeting the 20% target of climate funding: so far only 12,2% of this instrument has been allocated towards climate action[22].

- The EU's research programme Horizon 2020 has supported four shale gas research projects[23] with the aim to further encourage the exploitation of this type of 'unconventional' fossil fuels.

Making the EU budget compatible with the Paris Agreement

The EU has set the political target to spend 20% of the current EU budget on climate action. But more than half of the suggested climate action is accounted for as "climate change adaptation" within the direct payments to farmers and the rural development funding of the Common Agricultural Policy. Another 25% of the EU's climate action is attributed to investments into rail infrastructure. This leaves a relatively small share of finance for the needed transformative investments into structural changes of the countries' economies.

According to the European Commission[24], to reach the European Union's 2030 climate and energy targets, about EUR 379 billion investments are needed each year over the 2020-2030 period, whereas currently EU member states allocate on average only 7% of their Regional Development Funds (around €24 billion for the entire 7-years period) on renewables, energy efficiency and electricity interconnection and storage, the keystones of the clean energy transition. The EU budget must contribute significantly to meeting these investment needs, especially in Europe's less developed regions whose public infrastructure investments largely depend on EU funds. The European Commission's centrally managed funds (e.g. the Connecting Europe Facility) should focus on electricity interconnection between countries and renewable energy deployment, while Regional Development Funding should massively increase resources for energy efficiency measures, renewable energy roll-out and SMART demand management. More emphasis on Technical Assistance and Project Development support will help to build a pipeline of clean energy projects: capacity-building, technical and project development assistance should guide beneficiaries and communities in implementing EU supported clean energy projects. The overall climate action target for the EU budget post-2020 should therefore be raised to 40%.

Whereas the current quantitative 20% climate action target is a step in the right direction, the Paris Agreement requires all financial flows to be made consistent with zero carbon and clean energy development. This requires the EU to not only meet its climate specific spending target, but also that the whole EU budget has to be 100% climate proof. A transparent and robust climate proofing assessment of project proposals submitted to the European Commission and on national and regional level should be implemented, including whether the projects will adequately contribute to achieving the 2030 and 2050 EU climate and energy objectives and to the efforts to reduce overall consumption of fossil fuels, including gas.

External Action needs to address climate change, poverty and inequality

The principle of effective and transparent climate mainstreaming also applies to the external financing instruments of the EU budget. The EU budget's external financing instruments (EFIs) must be purposeful to help deliver the EU's objectives as an international partner to third countries, in particular developing countries. EU funding through international development and support via its Global Climate Change Alliance should support partner countries in achieving their Nationally Determined Contributions, national adaptation plans and their commitments under the Paris Agreement.

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[22] European Commission (2016): Mid-term review/revision of the multiannual financial framework 2014-2020

[23] https://ec.europa.eu/inea/en/horizon-2020/h2020-energy/projects-by-field/shale-gas

[24] Second Report on the State of the Energy Union, COM(2017) 53 final, 1.2.2017

Meaningful long-term sustainable development requires consistent, transparent and predictable public support that will address the most pressing needs of people and communities that face multifaceted challenges posed by climate change, poverty and inequality. The post-2020 EU budget must ring-fence public support for actions and projects that reach the most vulnerable countries and communities; for example, capacity-building, climate change adaptation and small-scale renewable energy projects towards the achievement of the Sustainable Development Goals. EU support should aim to achieve a balance between actions for mitigation and for adaptation. EU budgetary support to partner countries should also be driven by local and national ownership in recipient countries, and involve local stakeholders in the instance of development projects and actions.

Transparency of EU support to climate action in partner countries is essential to gain trust and accountability regarding its own commitments towards the USD 100 billion a year by 2020 promised at COP 21 and the ongoing support. Thus the EU should work collaboratively within the UNFCCC process to agree on a consistent and effective reporting methodology and use this in all EU and MS reporting. The importance of a healthy environment and ecosystems for climate resilience should be an integral part of EU development cooperation implemented through the EU budget in order to ensure long term sustainability.

Noting the growing role of private sector activity in development cooperation and climate action, it is paramount that such activity in particular - and not only where leveraged through EU funding - remains supplementary to public support. The existing standards and development criteria of the EU budget should apply to the role of private sector engagement in sustainable development, particularly transparency and accountability.

For example, the Development Cooperation Instrument (DCI) and the European Development Fund (EDF) have made substantial impact on addressing longer term sustainable development needs in the EU's partner countries. However, bearing in mind the scale of challenges and respective support needed to address climate change and environmental crises in partner countries, the current level of support and action will need to be scaled up in terms of effectiveness and impact. The next budget has the opportunity to guarantee better coherence, complementarity and synergies in regard to objectives on the environment and climate action in the EFIs. A key lesson learned in regard to integrating climate and environment is that more effort is needed to ensure better integration (including the complementing co-benefits) of climate change and environmental concerns in projects, at both planning and implementation level.

On climate change specifically, there is definitely a need for stronger policy coherence across the EU and its external policies – the principle of policy coherence for development should incorporate climate change and sustainability. Doing so will limit the consequence of domestic policies and international agreements in other sectors (e.g. trade, finance, energy) undermining global and regional efforts to reduce greenhouse gas emissions and build resilient infrastructure. Stronger political leadership and technical understanding across EU decision-making bodies will be necessary to properly incorporate climate change and sustainable development into respective policy areas.

The development of the post-2020 EU budget framework should be guided by the following climate action principles:

- Combine long-term greenhouse gas emission reductions and clean energy strategies as laid down in National Energy and Climate Plans (NECP) with EU funds investment plans and ensure mechanisms to financially incentives higher national climate ambitions;
- Put energy efficiency first, remove electricity interconnection bottlenecks and fully exploit the potential of renewable energy;
- Do not support fossil fuels;
- Create a Common Agricultural Policy that meets environmental objectives;

- Finance low-carbon transport solutions;
- Foster industrial low-carbon innovation;
- Chose nature based solutions for adaptation to climate change;
- Accelerate the people centered and just transition;
- Support vulnerable households;
- Facilitate community based energy projects and increase the central role of cities and regions
- Pre-accession and neighbourhood funding instruments should aim at structural reforms and a fair energy transition
- External Action needs to address climate change, poverty and inequality in a more coherent and transparent way.

CHAPTER 3: KEY POLICY AKS – COMMON AGRICULTURAL POLICY

Spending for biodiversity protection must be need-based and result-oriented

Whilst the EU presents the environment as a major priority, and accordingly developed an ambitious Biodiversity Strategy to 2020[25], environmental action is insufficiently funded and the EU budget still encourages harmful policies. A number of studies suggest that the current integrated approach to financing Natura 2000 and other biodiversity protection in general has failed on many accounts.[26] The mid-term review of the Biodiversity Strategy[27] concluded that no significant progress has been made towards the headline target of halting biodiversity loss by 2020, and the EU risks repeating its previous failure to halt biodiversity loss by 2010.

Where money is needed to protect the environment, and how much is required to achieve protection objectives can, to a large extent, be identified and estimated through regional and national assessments (e.g. biodiversity strategies, Priority Action Frameworks). Accordingly, as much as possible, decisions on how much money is earmarked at the EU level for the environment should be **based on such need estimates**.

It is an overarching principle of the MFF that public spending must be **result-oriented**. Accordingly, whenever there is certainty that implementing protection/restoration measures will deliver the expected outcome, receiving public funding to implement these measures should come with an obligation of result. Money should only be paid by managing authorities after checking that action has been taken and has produced the desired result.

The approach to spending should be **contractual and**, not based on any sort of entitlement. Spending should be clearly targeted, and whenever possible, receiving public money should be conditioned to achieving tangible results.

Regardless of which sectoral policy they are attached too, EU programmes for the environment must be developed and approved and their implementation overseen by **environmental authorities** at all levels, in close cooperation with all relevant authorities and other relevant stakeholders. Collaboration with farming, fisheries and forestry authorities could prove particularly useful where these already have experience and capacity to handle big funding streams and programmes. Accordingly, **eligibility** for funding should be conditioned to contributing significantly and in a demonstrable manner to protecting the environment.

There must be fair balance between the need to **control how public money is used** and the need to have public money delivering efficiently for the environment. In the current funding period the European Commission has rejected many effective funding schemes proposed by Member States to protect biodiversity on the ground that their implementation would be too difficult to control. As a result public money is now used for schemes that are easier to control, but less effective. In many cases, result oriented controls could be a way to address this challenge.

Managing authorities must ensure good implementation. **Effective tracking of spending and monitoring of results** should be a priority in order to ensure that money is effectively and efficiently spent, and to allow adjustments and improvements where necessary. In a recent report on Natura 2000, the European Court of

[25] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011DC0244&from=EN
[26] http://www.eca.europa.eu/Lists/ECADocuments/SR17_1/SR_NATURA_2000_EN.pdf
http://www.ieep.eu/assets/2240/Kettunen_et_al_2017_-_Financing_biodiversity_-_FINAL_layout.pdf
[27] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015DC0478&from=EN

Auditors points to the fact that poor reporting and monitoring render impossible a comprehensive assessment of the effectiveness of the network.[28]

The next MFF must support a common food & land management policy that delivers for the environment and people

We call for a new Common Food & Land policy for Europe. The MFF should create the conditions for this new policy to meet today's challenges as set out in the Sustainable Development Goals (SDGs). Special attention should be given to tackling climate change, improving public health and restoring Europe's biodiversity and sustaining rural populations. The EU's new policy must be:

- Fair – for farmers and society. Those who deliver the public good that markets do not pay for can receive public money whilst those who pollute our environment should be penalised.
- Environmentally Sustainable for clean air and water, healthy soil, and thriving biodiversity.
- Healthy – for the wellbeing of all people and the prevention of social costs.
- Globally Responsible – for sustainable development around the world.

Transitioning to sustainable farming

The only way to ensure that Europe benefits from generational renewal in rural areas, sustainable management of resources and improved market resilience in the farming sector is to transition to sustainable farming. The current CAP does not sufficiently help those innovative farmers who wish to transition to sustainable farming methods. We recommend a set of principles that deliver a transition in economic, social and environmental terms.

Making payments fit for purpose

The current CAP includes contradictory aims within both pillars and is both highly inefficient and complicated. In particular, the 'Basic Payments Scheme' is not meeting its objectives and jeopardizes the long term viability of the sector.[29] Therefore, we do not see a justification for any unconditional basic payment or single area scheme and proposes to replace the current one with an entirely new system. We proposes moving away from the two pillar systems and establishing the principle of 'paying public money for public goods' which entails that those producers that are not managing land sustainability should not receive any public support. While transition periods may be required it must be ensured that from the next EU financial period no public support should be paid any more for environmentally damaging farming practices.

Ensuring Sustainable rural development

Whilst managing to deliver some crucial environmental outcomes, the current Rural Development 'pillar' still retains many environmentally harmful measures and must be reformed to facilitate the transition to sustainability. Many Member States are using pillar II funds to finance measures that further mechanize the agriculture sector and further intensify production beyond ecological boundaries. A future policy without the 'two-pillar' structure must ensure that rural communities benefit from initiatives that meet sustainable criteria to ensure long term prosperity. We recommend replacing the positive aspects of the Rural Development with other tools, such as a transition instrument and a nature financing instrument. Afterwards, regional development in rural areas could be addressed by the EU's regional policy.

Managing risk in sensible ways

We oppose the introduction of publicly financed risk management instruments that insure against price volatility. The use of risk management tools for price volatility is counterproductive in many ways. It provides a further incentive to unsustainable intensification and specialisation. It also does not contribute to addressing

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[28] http://www.eca.europa.eu/Lists/ECADocuments/SR17_1/SR_NATURA_2000_EN.pdf

[29] BPS capitalization is a large factor increasing Land value, preventing new entrants and generational renewal. The scheme is also named the 'Single Area Payment Scheme' in some member states.

any environmental challenges, and may likely make them worse, potentially creating the 'moral hazard' of unsustainable practices. Further, it will divert CAP funds away from land managers instead of being used to support these land managers in the transition to sustainable land management and incentivising important biodiversity measures. The principle of risk management should be promoted through farm diversification and knowledge transfer, rather than complex and costly financial instruments.

Establishing a new model for funding nature conservation

In order to reverse the trends of biodiversity decline in Europe, there must be a renewed focus and emphasis on protecting and re-establishing nature across Europe. This requires a major new funding stream in the next policy. This also means that this part of the policy should be developed by decision makers with expertise in nature conservation, and should be co-managed by those at member state level with responsibility for protecting the natural environment.

Creating a food policy for Europe

The next policy should be dedicating due attention to sustainable and healthy consumption. With many diet related problems in Europe, we cannot be creating a new policy that is turning a blind eye to food and health issues. This will need to include attention to educational and other tools to focus on health and diet, in particular meat and dairy consumption. We need to improve transparency and consumer awareness related to environmental, social and health issues. We also must urgently invest in the reduction of food waste.

Ensuring coherence with other policies

The next policy should ensure policy outcomes cohere with the other objectives of the European Union that in turn have to be fully in line with SDGs. The new policy must be fully coherent with all environmental, health, animal welfare, climate objectives and commitments of the EU at European and global level. Coherence with EU renewable energy objectives needs to be ensured by limiting support to only sustainable forms of bio-energy. SDG coherence also includes the economic, social and environmental impact of the EU agriculture policy on developing countries translated in the principle of policy coherence for development.

The Common Food & Land Policy's funding structure

The future policy must replace the current two pillar system of the CAP with a new set of funds/instruments that serve the principle of an EU "budget for results":

- A **"Space for Nature payment."** An area based entry level payment scheme for dedicating a varying percentage of each farm to non-productive use only. Fostering biodiversity and ecosystem services.
- A **"Nature & Biodiversity Instrument."** Establishing the central mechanism for financing from the EU budget 75% of costs for implementing the EU nature legislation and key other biodiversity measures on land. This fund must have the size of at least 15 billion EUR per annum and provide attractive income generating payments for public services ensured by farmers and land managers.
- A **"Transition Instrument for sustainable farming."** With the long term goal to make farming sustainable and independent from public subsidies this investment fund should help farms switch to a high-quality, nature and animal friendly and profitable economic model and invest in healthy, economically diverse rural areas.
- A "**Sustainable Food Instrument.**" Given the importance of food and health aspects in the European population, specific investments are needed to build up sustainable value chains, reduce food waste and promote healthy and environmentally sound consumption of food.

Raising Revenue from polluters

The next policy should establish a system of revenue raising measures to further dis-incentivise irresponsible or unsustainable land management practices. In particular, we call for the progressive taxation of pesticides and synthetic fertilisers. The proceeds from this taxation system can be fed back into the agricultural sector by funding other parts of the policy, such as the transition and the nature fund. This should also be complimented by a robust regime of sanctions for infringements to regulations and contractual requirements, the proceeds of which would go to supporting the work of farmers who managing the land in sustainable way.

CHAPTER 4: GOVERNANCE – ENSURING A FUTURE PROOFED BUDGET

Sustainability Proofing – cross cutting methodology to support policy coherence and the implementation of Sustainable Development Goals

The challenge of a smaller budget due to Brexit must be seen as a driver of both more targeted spending, and a step change in governance and accountability across all spending lines. As one case in point, the last MFF saw the introduction of horizontal policy of climate mainstreaming. While this was an important step towards a more coherent MFF and placing the Union on track for its decarbonisation goals, the 20% amount not only requires significantly increasing but is not always being spent in the most catalytic ways.[30] The current MFF includes specific tracking of the financial support for climate change **but does not track the negative impacts of harmful spending,** which too often reduce the net benefits of spending, and risk confused investment signals for both investors and the capital markets. Despite many positive programmes and beneficial projects, the fact remains that the current MFF still supports Member States investments in harmful, outdated technologies, including fossil fuels and harmful farming practices, that are damaging for citizens and communities, contradict the EU's long term social and environmental policy objectives, and, when co-financing implications are considered, fails to exploit the potential of the MFF to send clear signals to investors and capital markets. Across all components of the MFF, including related financial instruments such as EFSI, straight talk about policy coherence and targeted spending necessitates a deeper rethink to ensure that all EU spending is in the first instance, policy driven, not market driven.

Implementation of the Sustainable Development Goals requires specific attention and can only be realised in the next MFF through the introduction of a holistic set of principles and sustainability proofing mechanisms applying to the planning and assessment phases of *all* Budget lines. Based on the enshrinement of sustainability principles reflecting the 4 dimension of sustainable development, a sustainability proofed Budget requires consistent inclusion of these into existing planning, ex-ante and ex-post assessment mechanisms during both the development of the next MFF and its Programming phase.

To take climate change as an illustrative example, with climate proofing as one part of broader sustainability proofing. Every budget line, investment plan and programme should undergo a mandatory *ex-ante* climate compatibility check. A transparent and robust climate proofing assessment of investment plans and project proposals submitted to the European Commission and on national and regional level should be implemented, including whether the projects will adequately contribute to achieving the 2030 and 2050 EU climate and energy objectives and to the efforts to reduce GHG emissions and the overall consumption of fossil fuels, including gas. Any EU funding which is not compatible with the greenhouse gas emissions reduction targets or clean energy policies of the EU should be discontinued.

Exclusion list

In addition to the introduction of sustainability principles as a guiding compass for the added value of all EU spending, and as the foundation for integrated assessment and screening of investment priorities and projects, a very simply way to improve the policy coherence of the next Budget and ensure it works for citizens and their environment is the introduction of an exclusion list. An exclusion list of ineligible spending categories should be introduced, common to all spending lines. Any support for fossil fuels, farming practices or other projects harmful to citizens and biodiversity, that clearly fail sustainability tests and conflict with the achievement of EU environmental policy goals must be included within this list.

[30] See generally for evidence, CEE Bankwatch Network, *Enfants Terribles*, above n.5

A Performance Based budget: using incentive structures better

A smaller budget drives an even stronger need to ensure more targeted spending, clamp down on corruption and hold Member States accountable to achieve performance. Within this dynamic, making better use of the MFF to incentivise higher ambition in environmental and social policies, is likely to be part of a political route through.

As one approach, existing mechanisms such as the performance reserve within Cohesion Policy, could be exploited to drive upwards ambition. The broader theme of moving the MFF towards a system of payment on results, (only where appropriate, as recommended by the European Court of Auditors), is one we support – *provided* that the measurement of performance is also strengthened. Creating set asides or modulating EU financing to encourage upwards ambition in the investment plans of Member States may prove critical to achieving objectives for nature protection, and completion of the clean energy union.

In order to incentivize Member States to meet and go beyond their decarbonization and clean energy pledges made in their National Energy and Climate Plans (NECPs), the integration of EU funding into national energy and climate plans need to be ensured as the new period for EU funds post-2020 goes in parallel with the current Energy Union framework 2021-2030: the decarbonization objective that is enshrined in the Paris Agreement will require Member States to make investment decisions to ensure that they meet their long-term climate protection obligations and that they don't create stranded assets. These investment decisions should be guided by the National Energy and Climate Plans (NECPs) and longer-term strategies. The new EU budget should create a link with the Governance Act, and introduce an ex-ante conditionality which links allocations of EU funding to the respective level of climate ambitions laid down by Member States in their NECPs.

Measuring Results and Impact

At the macro level, GDP remains the dominant indicator by which the European Commission judges the impact of the EU Budget. GDP is well known to be an inadequate and distorting measure of progress. This paper opened with the need for a new narrative for the MFF, with a new economy strategy at its heart. The Commission should seize the moment propose alternative indicators that speak about real progress – such as the impact of EU spending on reducing environmental pressures, sectoral emissions, its impact on reducing inequalities and fostering well-being for citizens across Europe.

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