Sustainability Proofing of the EU Budget
A Guidance for CEE NGOs
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Sustainability Proofing of the European Union Budget
A Guidance for Central and Eastern European Non-Governmental Organisations
ACKNOWLEDGEMENTS

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EXECUTIVE SUMMARY

This paper analyses the dangers, achievements, and opportunities of the 2021-27 Multiannual Financial Framework (MFF) package using the sustainability-proofing conceptual framework, with particular attention to the environment and biodiversity. This paper is also a guidance document for Central and Eastern European (CEE) European Union (EU) Member States and non-governmental organisations (NGOs) about the potentials of deploying the sustainability-proofing method in budget planning and spending for 2021-27.

Considering the current climate emergency, the EU, as one of the major historic emitters and high-income economies, is expected to take immediate steps to implement the Paris Agreement’s aim of limiting global warming to 1.5°C. This necessitates a significant increase in climate action and EU climate funding. In order to meet EU emission reduction targets for 2030 and 2050, a stronger climate performance is expected from the MFF 2021-2027 (Forum Ökologisch-Soziale Marktwirtschaft et al. 2019).

The MFF 2021-2027, aiming to achieve the EU’s climate goals, is a critical part of the European Union’s decision-making process. One of the most pressing issues that the MFF must address is climate change (Báló 2020). Although the EU was dealing with a variety of crises, it continues to push its efforts to combat climate change (Rietig 2021).

It is expected that the MFF, bolstered by the Next Generation EU (NGEU) fund, will be the most important European instrument, generating employment and fixing the urgent harm caused by the COVID-19 epidemic while supporting the EU’s green and digital initiatives (Reininger 2021).

Nevertheless, increasing the spending on climate issues is not enough to align the EU budget with the Paris Agreement’s goals. Further upgrading of the
climate proofing process and increasing the degree of climate spending is needed (Fischer et al. 2018).
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1. THE MULTIANNUAL FINANCIAL FRAMEWORK 2021-2027

Alongside the MFF for 2021-2027 (€1074.3 billion), there is also the Next Generation EU (NGEU) temporary recovery tool (€750 billion), created to meet the issues of the COVID-19 crisis (European Commission 2020a). In fact, raising climate funding demonstrates that climate is a key priority for the EU and that it is important to take a holistic approach to make a sustainable energy transition (Fisher et al. 2018).

The EU budget and Next Generation EU recovery tool are the largest initiatives organized with the aim to build a greener Europe (CAN 2021). Thus, the MFF 2021-2027 has the capacity to enhance climate investments and guarantee a shift to a net-zero greenhouse gas emission economy (Forum Ökologisch-Soziale Marktwirtschaft et al. 2019).

The MFF 2021–2027 incorporates a 30 % climate mainstreaming goal with the intention to reach carbon neutrality by 2050 (Rietig 2021), while the 2030 climate target is to reduce emissions by at least 55 % (European Commission 2020c).

According to Pilsner et al. (2019), there are four main areas where the EU budget can make a difference:

- improving the assessment instrument to know how EU funds help reduce climate vulnerability;
- closing the protection gap, particularly in Member States that are not ready to deal with the effects of climate change;
- increasing funds for disaster response instruments; and
- improving data collection, monitoring, and evaluation.
The MMF targets different areas throughout the EU’s policy areas. The MFF establishes expenditure sums (ceilings) that the EU may spend on certain political sectors (headings) over a seven-year period.

### 2021-2027 MFF

<table>
<thead>
<tr>
<th>Area</th>
<th>Commitments (€ billion, 2018 prices)</th>
<th>% share of total MFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Market, Innovation and Digital</td>
<td>€132.78</td>
<td>12.3%</td>
</tr>
<tr>
<td>Cohesion, Resilience and Values</td>
<td>€377.76</td>
<td>35.2%</td>
</tr>
<tr>
<td>Natural Resources and Environment</td>
<td>€356.37</td>
<td>33.2%</td>
</tr>
<tr>
<td>Migration and Border Management</td>
<td>€22.67</td>
<td>2.1%</td>
</tr>
<tr>
<td>Security and Defence</td>
<td>€13.18</td>
<td>1.2%</td>
</tr>
<tr>
<td>Neighbourhood and the World</td>
<td>€98.42</td>
<td>9.2%</td>
</tr>
<tr>
<td>European Public Administration</td>
<td>€73.10</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

**Total payments**

€1,061.06

Figure 1. 2021-2027 MFF Commitments. Source: ERPS, 2020.

The MFF 2021-2027’s headings indicate a shift away from the previous terminology — such as “smart and inclusive growth” — toward other EU objectives — such as “digital economy, control, and migration, border defence” (Parry and Sapała 2018). According to Parry and Sapała (2018), the increases are particularly obvious in the areas of research and innovation, investment support, migration and border control, and security and defence.

Environmental protection is one of the important objectives of the EU. At least 30 % of the total EU budget and Next Generation EU is planned to be dedicated to climate-related issues and, starting from 2024, 7.5 % of the budget will go to...
biodiversity protection, while this will increase to 10% from 2026 (European Parliament 2020). In 2026 and 2027, 10% of yearly investment under the long-term budget will go toward slowing and reversing biodiversity decrease (European Commission 2021c). Due to the challenges that the climate and biodiversity crisis pose for the humanity, EU’s willingness to take stronger action paves the path for sustainable recovery of Europe.

According to Monschauer et al. (2019), it is also critical to guarantee that no spending of EU money, whether direct or indirect, results in an increase in greenhouse gas (GHG) emissions and that the spending is properly climate proofed. Climate proofing the whole budget would lead to the development of more sustainable solutions, which would contribute to the achievement of the EU’s climate commitments (Monschauer et al. 2019).

1.1. MFF 2021-2027: POLICY AREAS AND FUNDS

1.1.1. Cohesion, Resilience and Values

The European Union’s Cohesion Policy (CP) is a regional development plan designed to strengthen economic and social cohesion and promote sustainable development between EU regions.

The Cohesion Policy, together with the Common Agricultural Policy, is the most important EU financial tool, comprising €377.76 billion of the overall MFF 2021-2027 EU budget (European Commission 2021a). It is part of the ‘Cohesion, Resilience and Values’ expenditure area.

The Common Provisions Regulation (CPR) aims to regulate the following management funds between 2021 and 2027: the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund Plus (ESF+), the European Maritime and Fisheries Fund (EMFF), the Just Transition Fund (JTF), the Asylum, Migration and Integration Fund (AMIF), the
Border Management and Visa Instrument, and the Internal Security Fund. Uniting investment funds under the same umbrella simplifies the regulation, as all funds result to be under a single set of regulations of the Cohesion Policy (European Commission 2021a).

The main funds within Cohesion Policy are European Regional Development Fund (ERDF) with €200.4 billion budget, Cohesion Fund (CF) with €42.5 billion, European Social Fund Plus (ESF+) with €87.9 billion budget, Erasmus+ with €26.2 billion budget and EU4Health with €5.1 billion budget (European Commission 2021a).

The regulatory structure of Cohesion Policy (2021-2027) follows the simplicity and flexibility principles, particularly in relation to the implementation and usage of the various funds — such as easier payment claims — and more empowerment of local and municipal governments in the administration of EU funds (European Commission 2021a).

Moreover, shifting resources from one area to another will not rely on the permission of the official authority anymore and Member States will be able to transfer up to 20 % (or 25 % in the case of the Czech Republic) of their Cohesion Policy funding and 5 % of their CPR funds to other areas according to their priorities (European Commission 2021a).

When compared to previous sectoral proposals, the Commission’s plan was remarkable, as it clearly excluded investments in fossil fuel transportation (as well as production, processing, distribution, storage, or combustion), while the regulation still allows for the transmission of liquified natural gas, which poses a serious risk (Fischer et al. 2018).
The Cohesion Policy’s (CP) adopted legislation to exclude fossil fuels can serve as a model for the MFF’s other sectors. An unambiguous prohibition on funding for fossil fuels should be included in all European Union policies.

According to Fischer et al. (2018), for the EU to live up to its Paris Agreement promises, the principle of the exclusion of fossil fuels must be extended to all other sectoral initiatives. Unfortunately, a cross-fund fossil fuel ban does not prevent other funds from investing in unsustainable projects (Fischer et al. 2018). For instance, as InvestEU Fund seeks to balance various EU policy agendas, some of the activities may result to be unsustainable (European Commission 2021b).

1.1.2. National Resources and Environment

1.1.2.1. Common Agricultural Policy (CAP)

The Common Agricultural Policy (CAP) has usually aimed to guarantee Europe’s food security and to assist European farmers. Nonetheless, throughout the years, the CAP concentrates not just on ensuring a healthy, resilient, and competitive agricultural sector, but also socio-economic development in rural regions, with an emphasis on environmental and climatic concerns (European Commission 2021a). The main objectives of CAP are agriculture and forestry development, sustainable management of natural resources, climate action, sustainable development or rural regions, including economic, environmental and social factors (European Commission 2021a).

For the period 2021-2027, CAP comprises €348.3 billion and will focus on two key pillars: direct support for farmers and rural development. The first pillar focuses on income assistance and market policies, while the second pillar of the CAP concentrates on rural development by enhancing rural regions’ social, environmental, and economic standards.
The main financial tool of CAP, the European Agricultural Guarantee Fund (EAGF) has a €258.5 billion commitment in the first pillar, while the European Agricultural Fund for Rural Development (EAFRD) has a commitment of €85.3 billion in the second pillar.

Some funds, such as EAFRD, are also included in the Cohesion, Resilience, Values heading. The spending on EAGD and EAFRD funds decreased by more than 15% in relation to the previous MFF budget, while European Maritime and Fisheries Fund (EMFF) reduced by nearly 13%, which was conditioned by the United Kingdom’s (UK) withdrawal from the EU (Parry and Sapata 2018). Nevertheless, according to Farm Europe (2020), CAP 2021-2027 budget is rather steady when compared to the preceding period. The budget for the first pillar of CAP stays relatively unchanged, but the budget for the second pillar grows by €2.8 billion over the same time, while the recovery allocation is dropped from €15 billion to €7.5 billion (Farm Europe 2020).

Budget transfers from the first to the second pillar will be up to 42% — with 25% used to finance any activity of the second pillar, 15% used to finance exclusively environmental initiatives, and 2% used to support young farmers — while transfers from the second pillar to the first pillar are allowed to be up to 25% — with a maximum of 30% for the Member States with direct aid below 90% of the European average (Farm Europe 2020).

The EARFD is implemented through Rural Development Programmes (RDPs), which represent the plans of the Member States on their further spendings, and information about beneficiaries. At least 55% of the budget should be dedicated to economic and social development in rural regions (European Commission 2021a).
While climate action is expected to account for 30 % of the European budget (including recovery), the CAP as a whole has a target of 40 %. Nevertheless, the new CAP’s green architecture receives little guidance, while in the previous period European Council more explicitly established what greening should represent (Farm Europe 2020).

1.1.2.2. Programme for Environment and Climate Action (LIFE)

Additional money for climate mitigation and adaptation is also included in the new LIFE budget (€4.8 billion), which is the EU’s environmental and climate action financing tool. It is included in the ‘Natural Resources and Environment’ section (European Commission 2021a). The LIFE programme concentrates on preparing society and the economy for the green transition.

The LIFE programme is mainly focused on nature and biodiversity, circular economy and quality of life, mitigation and adaptation to climate change, and clean energy transition. As LIFE+ co-financing rates have been raised, local governments can participate in the program much easier (Euro Cities 2021).

The Nature and Biodiversity sub-programme aims to safeguard and restore Europe’s natural environment, as well as to prevent and reverse biodiversity loss. The LIFE Nature and Biodiversity sub-programme encompasses nature conservation initiatives, focusing on biodiversity, ecosystems, and species. It will fund projects of EU Birds Search, Habitats Search, Natura 2000 network, and IAS Regulation Search, and support the EU’s biodiversity strategy for 2030, part of EU Green Deal (European Commission 2021d).

The LIFE Programme, one of the primary sources of funding for environmental conservation programs, has a significant drawback. Organizations may have difficulties in applying for the projects due to the need for co-funding. In the
framework of the EUKI project “An MFF for the Climate,” one of the interviewed CSO representatives from Slovenia mentioned

"Co-funding is required, which is a challenge for NGOs. Why is it necessary for just environmental conservation to provide co-funding?” (Lukács 2019).

Many organizations lack the capacity to compete with other countries’ projects or lack in own funding to participate in the projects, while “slow and untimely payments from the funds” may result in financial issues for the organizations (Lukács 2019).

1.1.3. Single Market, Innovation and Digital

1.1.3.1. InvestEU

InvestEU offers long-term finance for investment projects in Europe, making them more effective and flexible (Euro Cities 2021).

The MFF 2021-2027 aims to facilitate budget transfers and grant allocations in conjunction with InvestEU. InvestEU has set a 35 % climate mainstreaming objective, a 60 % climate mainstreaming target for its “sustainable infrastructure window,” and tends to address important value chains (Agora-Energiewende. 2021).

The InvestEU concentrates on four policy areas — namely, sustainable infrastructure, research, innovation and digitalization; SMEs; social investment; and skills (European Commission 2021a). The amendments to the InvestEU exclude some activities from funding:

"Investments related to mining/extraction, processing, distribution, storage or combustion of solid fossil fuels and oil as well as investments related to extraction of gas.” (European Commission 2020d)
Nevertheless, as InvestEU seeks to balance various EU policy agendas, some of them result to be unsustainable (European Commission 2021b). The funding for gas processing, distribution, storage, and combustion would still be available under this approach, which contradicts the aim to be in line with Paris Agreement commitments (Monschauer et al. 2019).

1.1.3.2. **Horizon Europe**

Horizon Europe is the largest transnational research and innovation initiative and its budget for the 2021-2027 period is €84.9 billion. For the first time, within MFF 2021-2027 period, regions, on a voluntary basis, will be able to transfer a part of their regional funding to Horizon Europe for the research and innovation initiatives in their region (European Commission 2021a). Furthermore, the CAP policy is planned to be funded by €10 billion of Horizon Europe’s overall budget. This budget will be used to fund research and innovation in the areas of food, agriculture, rural development, and bioeconomy.

In 2021, Horizon Europe will execute five principal missions:

- climate-neutral and smart cities
- cancer
- healthy oceans, seas, coastal and inland waters
- soil health and food
- adaptation to climate change, including societal transformation

The main spheres within Horizon Europe encompass promoting research and innovation, improving biodiversity and air quality in urban places, achieving a climate-neutral economy, and making resilience, inclusiveness, and democracy the main elements of Europe (European Commission 2021a).
1.2. FINANCING TOOLS OF MFF 2021-2027

Eliminating EU subsidies for fossil fuels and other unsustainable projects by adopting sustainability proofing principles throughout the MFF is critical in order to reduce climate risk. MFF funds must adhere to a standardized set of requirements for sustainability proofing. This is vital to ensuring that all EU policies and investments are in line with the Paris Agreement. It is essential that all infrastructure investments, including those related to transport and energy, be justified in light of the Paris Agreement target of keeping average global warming to 1.5°C and the Commission’s aim of a net-zero emissions EU by 2050, at the latest.

Policymakers are increasingly recognizing that the future EU budget should not only boost targeted spending for climate change mitigation and adaptation measures but also efficiently integrate climate change measures across all spending areas, including phasing out spending that is considered potentially harmful to the climate (Medarova-Bergstrom et al. 2011).

EU budget and MFF operations need to better reflect existing and upcoming difficulties for a more sustainable future in the EU (Medarova-Bergstrom et al. 2011). To promote and incentivize initiatives that have beneficial environmental and social impacts while minimizing the negative results, the InvestEU Regulation requires sustainability proofing. The sustainability performance may be improved by mitigating the negative impacts and also formulating strategies to reduce those negative effects (European Commission 2021b).

Figure 2 shows the procedure of screening and proofing of the direct financing and investment operations for the three sustainability dimensions: climate, environment and social dimensions (European Commission 2021b).
There are certain thresholds defining the need for further screening and proofing of the projects. Some initiatives go through environmental impact assessment (EIA), regardless of defined thresholds. Nevertheless, other projects below the threshold are also urged to go through at least the screening stage and assessment of risks of sustainability dimensions. Activities over the threshold of EUR 10 million must go through the InvestEU screening and proofing procedure based on climate resilience and climate neutrality pillars (European Commission 2021b).

1.2.1. Climate proofing

Climate expenditure objectives have been embedded in relevant sectoral legislation — a practice known as “climate mainstreaming.” In addition to this quantitative approach, the European Commission developed a concept of
“climate proofing” investments which can analyse the risk of constructed infrastructure to the environment and climate, as well as measure the climate effect of particular EU-funded projects (CAN 2018). According to the Article 2 of Resolution of the European Parliament (2019),

"Climate proofing means a process to ensure that infrastructure is resilient to the adverse impacts of the climate in accordance with internationally recognised standards or national rules and guidance, where available, that the energy efficiency first principle is respected, and that specific emission reduction and decarbonisation pathways are chosen."

According to Monschauer et al. (2019), it is critical to climate proof the whole budget, which means prioritizing energy efficiency initiatives, considering particular decarbonisation strategies, and ensuring that infrastructure is resilient to the effects of climate change. Climate proofing the whole budget would effectively allow for the development of sustainable solutions contributing to the achievement of the EU’s climate ambitions (Monschauer et al. 2019).

According to the Article 4 paragraph 3 of the Resolution of the European Parliament (2019),

"Member States shall ensure climate proofing for relevant operations through the entire planning and implementation process and shall provide information on the support for environment and climate objectives using a methodology based on types of intervention for each of the Funds."

Climate proofing the EU budget means ensuring that every investment is climate-resilient and does not contradict EU climate and energy commitments. This includes rejecting fossil fuels from financing, prioritizing energy efficiency measures, and aligning all EU investments with the Paris Climate Agreement objectives (Pilsner et al. 2019).
A lack of cross-MFF climate proofing is capable to lead to a mismatch between the investments and the Paris Agreement principles. Some funds in the budget contain climate proofing provisions, while others may contradict the EU climate and energy objectives. Connecting Europe Facility, Cohesion policy and InvestEU legislations contain elements to guarantee that infrastructure investments are climate proof. It is possible to achieve the Paris Agreement goal only through climate proofing of all EU subsidies and not only infrastructure (Pilsner et al. 2019).

There are two pillars of climate proofing: climate neutrality and mitigation, and climate resilience and adaptation. They help institutional and individual investors in Europe to make valid judgments on projects according to the Paris Agreement’s criteria. After being verified according to the legal compliance requirements, and based on the overall cost of the investment, the projects proceed with the screening process (European Commission 2021b). The procedure is categorised into two pillars (i.e. mitigation and adaptation) and two phases (i.e. screening and detailed analysis). The conclusion of the screening phase determines the comprehensive analysis, which minimizes the administrative load.

The climate proof concept is guided by the idea of “energy efficiency first,” as outlined in Article 2(18) of Regulation (EU) 2018/1999 of the European Parliament and Council (European Council 2018). It is also guided by the concept of “do no significant harm,” which stems from the EU’s approach to sustainable finance and is codified in Regulation (EU) 2020/852 of the European Parliament and of the Council (European Commission 2020b).

Climate change mitigation and adaptation are two of the sustainability goals listed in Article 9 of the Taxonomy Regulation (European Commission 2020b). Another principle is the importance of the exclusion of fossil fuels, including gas.
Moreover, it is necessary to conduct extra climate impact and project lifecycle assessments of programs and planned infrastructure to be consistent with sector-specific emission reduction and decarbonization strategies (CAN 2018).

It is critical to record climate proofing methods and processes in a specified and credible manner, especially because documentation and verification of climate proofing is a key component of the justification for making investment decisions.

1.2.2. Environment proofing

As specified by Article 8(6) of the InvestEU Regulation, environmental proofing for InvestEU is a technique for accounting for the aggregated effect of the project based on the key components of natural capital—namely, air, water, land, and biodiversity (European Commission 2021b). Ecosystem services can provide economic, social, environmental, cultural, and welfare benefits. The value of these services might be evaluated in qualitative or quantitative terms.

Key environment proofing elements are the natural capital (e.g., plants, animals, air, water, soils, minerals), ecosystem services (e.g., food, wood, clean air, clean water) and impacts—as a result of changes of natural capital—which need to be evaluated in order to be prioritized in decision-making (European Commission 2021).

According to the European Commission (2021b):

- For projects requiring an EIA, the implementing partner should assess the effects and risks, as well as review mitigation or compensation measures to avoid, decrease or offset severe negative environmental consequences.
- The implementing partner for projects going through the screening stage by mitigation measures should assess the risks and effects and suggest measures to ensure the effectiveness of the applied measures. In the case
of medium and high-risk impacts, the major impacts should be proofed by implementing partners, while in the case of low-risk impacts, no additional proofing is requested.

- For projects going through screening stage without appliance of mitigation measures, implementing partners in collaboration with the project promoters, should find out whether additional studies or reports are required, assess the risks and effects indicated in additional studies and reports, and assess the possible mitigation in order to tackle negative effects or quantify the effects if possible.

- The implementing partners should refer to the positive checklist in order to solve arisen problems and report to the InvestEU when necessary.

1.2.3. **Energy efficiency first principle**

According to the Art. 2(18) of Regulation (EU) 2018/1999 of the European Parliament and of the Council (European Council 2018), Member States should ensure that energy-saving options will be evaluated before any investments are made by incorporating the energy efficiency first concept into the EU budget. According to the Article 2 of the Resolution of the European Parliament (2019),

“*the* energy efficiency first principle means the prioritisation, in energy planning, policy and investment decisions, of measures that make the demand and supply of energy more efficient.”

As part of the “energy efficiency first” principle, member states should consider whether more cost-effective, technically, economically, and environmentally sound alternative energy efficiency measures can replace or supplement the planned policies and investments in energy planning and investment while still meeting the goals of those decisions (European Council 2018). Nevertheless, no budgetary tools have made energy efficiency as the main priority, except
Cohesion Policy financing. Energy efficiency investment might benefit from other programs like the EU’s InvestEU, which remedies market flaws but does not explicitly prioritise energy efficiency investment (Pilsner et al. 2019).

On the other hand, as part of regional development and cohesion, managing the climate has become a must. The low-carbon transition and energy efficiency have been given priority, while fossil fuel projects have been nearly completely excluded from the government’s assistance (Báló 2020).

1.2.4. Taxonomy Regulation

The EU Taxonomy is a categorization system put up to define activities that considerably contribute to environmental goals in the first instance (European Commission 2021b).

By complying with the Minimum Social Safeguards and Technical Screening Criteria (TSC), significantly contributing to at least one of the six environmental objectives established in the Taxonomy Regulation, and by following the “do no significant harm” principle, some economic activities can be recognized as environmentally sustainable (European Commission 2021b).

As with the EU Taxonomy, compliance with applicable EU environmental regulations is the starting point. Compliance with national environmental laws and permissions necessary for project building and operation is also required, including those mentioned in the EU Taxonomy “do no significant harm” (DNSH) criteria (European Commission 2021b).

The Recovery and Resilience Facility was the first major EU fund applying this regulation. Legal compliance is a precondition for every finance or investment activity qualifying for InvestEU funding (European Commission 2021b).
In practice, DNSH was not powerful enough to cease unsustainable investments, especially on recovery plans. Nevertheless, it is difficult to ensure that Member states sustainably plan their activities and follow the “do no significant harm” principle.

Moreover, the EU Taxonomy is inconsistent with reducing global warming to 1.5 degrees Celsius and reaching the EU’s 2030 climate ambitions (CAN 2022). According to the Technical Expert Group (TEG), carbon emission thresholds should not incentivize any unsustainable activities (Johnson 2020). Nevertheless, fossil gas and nuclear are part of the EU Taxonomy and, by such, the EU would not fully cease to finance unsustainable activities (CAN 2022).

Classifying nuclear power as a “sustainable” activity violates the Taxonomy regulation’s principle, according to which only activities that “do no significant harm” can be considered, while nuclear energy, not even considering its potential catastrophic accidents, presents environmental and social risks (Johnson 2020). Nuclear power is supported by France and other pro-nuclear countries, such as the Czech Republic and Hungary, but many governments in Central, Eastern, and Southern Europe advocated for gas to be included as a “bridge” fuel (Guardian 2021).

According to TEG, only if “the same energy capacity cannot be generated using with renewable sources” and arrangements are in place to make a transition to renewables or “low carbon gases” by a particular date, investments in gas can be considered as sustainable. On the other hand, nuclear power can be considered sustainable only if a project has an effective strategy to deal with radioactive waste; nevertheless, TEG outlines that the nuclear value chain represents a significant risk and can pollute and negatively impact environmental and biodiversity objectives (Johnson 2020).
2. GUIDELINES FOR CEE MEMBER STATES AND NGOS ABOUT THE POTENTIALS OF SUSTAINABILITY PROOFING

Central and Eastern European (CEE) countries experience economic and environmental development challenges similar in nature, owing to the mutual legacy of post-Socialist-era heavy industry collapse and the need for significant investments for structural transformations (CAN 2020).

It is important to ensure that all EU budget spending is climate proof and supports the transition to climate neutrality in the interests of Central European societies and economies. Due to already existing climate change effects, CEE is considered as most vulnerable in Europe (CAN 2020). Effective reforms and policies are required to properly address the various economic, health, and environmental issues in these countries.

In most CEE countries, civic associations are not very active, as not so many people become part of such associations or movements, which hinders the functioning of democracies and leads to the government’s lack of transparency (Bernhagen 2007).

In fact, in the Central European area, there is rising consensus for comprehensive climate action in Bulgaria, the Czech Republic, Hungary, Poland, Romania, and Slovakia (CAN 2020). Green recovery plans and specific solutions have already been developed and supported by a variety of stakeholders and civil society organizations, including the Central European region (CAN 2020).

In CEE countries there are several civil society organizations working in accordance with EU policies and laws, strengthening their position and assessing governments’ activities lacking in green ambitions (Kutter and Trappman 2010). In general, environmental groups believe that EU funding and
implemented environmental policies contributed to the increased capacity-building (Hicks 2004).

Nevertheless, civil society organizations also highlight the challenges due to the mismatches between EU goals and their own main operations, as well as the risk of ignoring main activities and administrative burden. The research shows that in spite of the overall benefits of EU funding for the environmental and climate issues, it is arguable whether EU overall objectives are achieved (Lukács 2019).

The research shows that some Member States consider the EU funding not efficient. Curiously, 61% of people surveyed in the Czech Republic and 35% in Slovakia do not support the idea of rich EU countries allocating funding to the poorer countries — although both countries are net recipients of the EU budget, and Slovakia being one of the less developed countries in EU (Friedrich-Ebert-Stiftung 2017).

Another problem is that policies implemented at the national level may oppose the objectives of the EU; it can be policies funded by the EU or some unsustainable activities funded by the national government implemented in parallel with EU funded sustainable activities (Lukács 2019). According to Lukács (2019), there is also a problem of communication between EU institutions and citizens about the benefits of the EU for climate issues, as national governments are heard the most.

2.1. PARTNERSHIP AGREEMENTS

Each Member State prepares the Partnership Agreement (PA) and national and regional operational programmes (OPs) with investment goals. PAs set the terms and conditions for utilizing EU funds over a seven-year period of MFF.
Moreover, there are National Reform Programs (NRP) that countries submit to the European Commission and Country Specific Recommendations (CSRs) prepared by the Commission for the Member States. The advantage of NRPs and CSRs is that by now they are binding commitments for the governments (Lukács 2019).

The so-called Common Provisions Regulation (CPR) sets the main principles for preparing the PAs. The CPR establishes the policy framework required to guarantee that shared management funds continue to achieve the goal of advancing convergence and assisting the EU’s least developed regions (Gyulai, Farkas and Hajdu 2014). According to Gyulai, Farkas and Hajdu (2014), the CPR, as the main legislative framework for Cohesion Policy, guarantees the tools to handle rising economic and social difficulties by providing greater flexibility in resource transfers and increased ability to deal with future crises.

Environmental NGOs, civil societies assessed by their legitimacy and representativeness, should be involved with national and regional authorities. Several organizations grouping within one umbrella can be represented by one organization in the partnership which will ensure the inclusion of all relevant NGOs (Gyulai, Farkas and Hajdu 2014).

According to Gyulai, Farkas and Hajdu (2014), during the NGO consultation phase, Member States should ensure free and open access to information, time for partners to work on documents, question-and-answer channels, and distribution of discussion results. Monitoring committees for programs and the Partnership Agreement should include partners who were participating in the programming phase.

The governing authority must employ technical assistance to help partners in enhancing their institutional capabilities and include partners in the formulation
of the Partnership Agreement implementation progress report (Gyulai, Farkas and Hajdu 2014).

2.1.1. Enabling conditions

According to the EU European Structural and Investment Funds (2021), another significant simplification measure implemented is the substitution of ex-ante conditionalities, which were the most burdensome for recipients over the 2014-2020 period, by “enabling conditions,” resulting in faster distribution of money.

According to the Common Provisions Regulation (CPR), enabling conditions

“are fewer, more focussed on the goals of the fund concerned and — in contrast to the 2014-2020 period — monitored and applied throughout the period. The principle will be strengthened: Member States will not be able to declare expenditure related to specific objectives until the enabling condition is fulfilled. This will ensure that all co-financed operations are in line with the EU policy framework.” (European Commission 2018)

Enabling conditions are designed to improve the efficacy of spending, becoming the requirements that must be met in order to access the EU’s support and being more specific with compliance requirements (EU European Structural and Investment Funds 2021). In the event of non-compliance, states will be unable to submit payment claims to the Commission for EU-funded projects (EU European Structural and Investment Funds 2021).

2.1.2. NGOs as beneficiaries

In order to achieve climate proofing, the best scenario is if all stakeholders take part in different stages of the EU budget management process (CEE Bankwatch 2020). According to the partnership principle, national governments are committed to involving different stakeholders at distinct stages of the EU budget
management (European Commission 2014). At all phases of EU financing implementation, the partnership principle, which implies tight coordination across European, national, regional, and local levels, is a crucial factor.

The European Code of Conduct on Partnership regulates the norms under which all partners can be involved in the EU funds’ programming, implementation, monitoring and evaluation. Article 6 of the Common Provisions Regulation 2018/0196 also guarantees the need to consult partners (European Commission 2018). According to the partnership principle, public authorities are expected to closely collaborate with private and other sectors at national, regional and local levels in the Member States (Gyulai, Farkas and Hajdu 2014).

Within the programming stage, the active participation of people, working together with NGOs, civil societies and other organizations, also plays a significant role, as this way citizen engagement would be able to contribute to the revelation of the cases of corruption happening at the national level and understanding the challenges in the budget management process (CEE Bankwatch Network 2020).

Corruption and other such cases can be reported to the local NGOs or watchdog organizations that can keep track of the cases and reveal the problems and report them (CEE Bankwatch Network 2020). By becoming part of a monitoring committee, it is possible to take part on behalf of your community by accessing the updated information and being able to vote for the decisions (CEE Bankwatch Network 2020).

Moreover, according to CEE Bankwatch Network (2020), in order to become a beneficiary, it is important to find out what applicable funding options exist and develop the project idea. The ways to insist on becoming beneficiaries can be
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through contacting NGOs or relevant governmental institutions (CEE Bankwatch Network 2020).

EU legislation described above provides robust details on sustainability proofing methods. However, for NGOs with limited resources, sustainability proofing can be summarised briefly with the following question: Will the planned investment or measure contribute to improving or worsening the state of the environment?

It is also important to assess whether the given investment or measure is the most efficient use of public money for the environment.
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This paper analyses the dangers, achievements, and opportunities of the 2021-27 Multiannual Financial Framework (MFF) package using the sustainability-proofing conceptual framework, with particular attention to the environment and biodiversity.

This paper is also a guidance document for Central and Eastern European (CEE) EU Member States and NGOs about the potential of deploying the sustainability-proofing method in budget planning and spending for 2021-27.