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BRIEFING PAPER NOVEMBER 2020

DRAFTING RECOVERY PLANS FOR A RESILIENT AND GREEN ECONOMY

AN OVERVIEW FOR POLICYMAKERS

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In this briefing, we map the knowns and unknowns of Europe's economic recovery from the COVID-19 crisis and efforts to align it with the European Green Deal. We emphasize that national governments in the EU must already plan their national efforts in the context of the EU Recovery and Resilience Facility to include a contribution of at least 37% of funding to climate objectives, while ensuring that the remainder of the funding does not harm the European Green Deal's objectives and does not support new fossil fuel activities. For these purposes, we present a checklist for national governments that are currently drafting recovery plans to ensure that funding effectively contributes to a resilient and green recovery. We are also tracking and reviewing ongoing drafting processes for national recovery plans, finding that governments are already falling short of this in various instances.

Key take-aways

The EU's Recovery and Resilience Facility (RRF) will provide member states with up to €672.5bn in funding intended to support the economic recovery from the COVID-19 crisis. National leaders in the European Council have agreed that this funding shall effectively contribute to the "green and digital transition" and the European Green Deal. Since the agreement in July 2020, EU institutions have been busy fleshing out the details of how to put this into practice, and national governments have already begun drafting the national recovery and resilience plans that are needed to access funding from the RRF.

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Crucially, every member state must ensure that at least 37% of spending in its national recovery plan is aligned with the green transition, with the remainder of the funding not doing significant harm to the transition. As the European Commission will assess all national plans based on these principles, not taking them into account today will only make future revisions of the plans necessary. In addition, EU governments should strongly consider the economic and social advantages of a green recovery, and the relevance of transformative investments for a just transition for affected communities. Green recovery measures are more likely to enable a resilient and stable economic recovery, create jobs, boost growth, and mitigate financial risks. Lastly, national governments should be aware of the significant financial risks associated with investments into fossil fuels which can create a long-term burden on public budgets and hamper recovery effects.

Our preliminary analysis shows that national planning efforts are not yet fully aligned with the requirements for a successful European economic recovery in line with the European Green Deal. As the final rules of the game for the EU's recovery fund are being finalized it will be important to closely align national efforts that are already underway with the likely final shape and content of these rules. To avoid the risks, delays and uncertainty that would come with national recovery plans being found incompatible with EU requirements, national decision-makers must take the likely requirements (detailed in table 1 below) into account already today.

For the development and assessment of plans, a rigorous and comparable analysis of what is considered "green" will be essential. The Rio markers that have been used for similar goals in the past are a questionable measure for this endeavour. These markers were introduced more than 20 years ago and are not suited to track compatibility with the Paris Agreement and climate neutrality; for instance, they still consider the use of fossil fuels in transport or cogeneration a climate measure. Rather, national actors should test recovery plans against the EU taxonomy and "do no significant harm" principle[1] early in the planning process to limit risks of later revisions, but also to realize opportunities from growth markets in clean technologies.

[1] The EU taxonomy provides a comprehensive assessment of the compatibility of different economic activities with the transition to climate neutrality, see the **TEG final report on the EU taxonomy** for more details. The "do no significant harm" principle that will be part of the taxonomy's governance states that no activities should receive access to financing that are harmful to the environmental objectives and social requirements defined in the taxonomy.

Getting the governance and quality of spending right is of critical importance. Both EU institutions and member states currently act under high time pressure. While it should be in everyone's interest to disburse recovery funds as soon as possible to reach a strong recovery effect, it is equally important to ensure enough time for political participation (for example through public consultations and the involvement of national parliaments), transparency in processes and the compliance with rule of law principles. The European Commission will have to be particularly careful of ensuring both speed and quality.

While these processes continue, a second wave of COVID-19 is hitting most EU countries in a moment of weakness. Although the economic and social implications cannot yet be fully assessed, it is apparent that this second wave may shift the political dynamics around EU recovery funds. This has at least two implications: First, current plans should already consider a potentially "bumpy road" towards recovery and be flexible and adaptable. Second, while the first wave hit Southern Europe the hardest, the second wave is now strongly affecting Central and Eastern Europe. If lockdowns continue, another discussion about additional recovery funds, including a different allocation towards countries, may be necessary.

Checklist for national governments in drafting recovery plans

- ✓ Ensure compliance with the at least 37% quota for climate spending, oriented towards alignment with the EU taxonomy.
- ✓ Ensure the implementation of the "do no significant harm" principle for the rest of the recovery fund and do not invest in any infrastructure that will lock-in carbon-intensive activities.
- ✓ Identify key areas for modernization, build an investment plan based on an overarching transformation strategy to reap the benefits from the recovery funds.
- ✓ Avoid creating lists of existing projects, especially if they are already covered by other funds, to create a real recovery effect.
- ✓ Ensure involvement of civil society, scientists and others through a transparent drafting process, including an effective public consultation.
- ✓ Build in elements for long-term resilience, including links to structural reforms, quality of spending and the rule of law.

Context: Europe's (green) recovery

In a year with few moments of unconditional optimism, European Council President Michel sought to provide exactly this when he spoke to the press in the early morning hours of the 21st of July: *"We did it: Europe is strong, Europe is robust, and above all, Europe is united."*

He was talking, of course, about the agreement that European leaders had reached on the 2021-2027 EU budget, including a dedicated €750bn recovery package. The instrument, known as "Next Generation EU," expands the traditional budget in response to the economic crisis caused by the COVID-19 pandemic (see figure 1).[2] A key element of the budget is the €672.5bn RRF that makes up the largest part of Next Generation EU, the EU's economic response to the COVID-19 crisis.

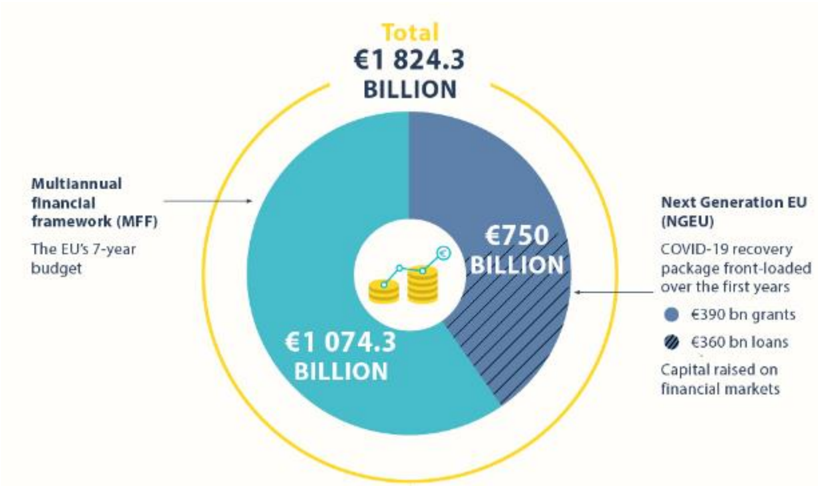

Figure 1: EU expenditure 2021-2017

This historical agreement, however, only marked the first step on a long and complicated journey towards a new EU budget and, importantly, recovery package. As shown in Figure 2 (below), it is not only the national governments that have a say in this process, but also the European Commission and, importantly, the European Parliament. This November, the European Parliament and Council found a political agreement on the overall 2021-2027 budget, and the European Parliament has finalized the details of its own position on the RRF, which allowed the "trilogue" negotiations between the three major EU institutions to start on November 13th. The RRF will only become operational once a full agreement, including a ratification in national parliaments of the "own resources" that contribute towards its budget, has been reached.

[2] European Council (2020). **EU budget 2021-2027 and recovery plan**

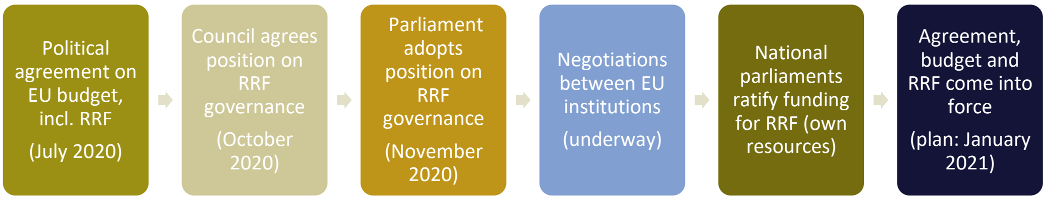

Figure 2: Process for agreeing the Recovery and Resiliency Facility (RRF)

To receive funding through the Facility, member states must submit national recovery plans outlining their priorities and concrete measures which they seek to support. Preparations for these plans are already well underway in many member states.[3] Once released, the plans will be assessed by the European Commission and approved by the Council. The European Parliament is currently trying to secure a role in assessing the plans as well.[4] The EU also requires national consultations to be conducted in each member state. To meet approval, plans must comply with several criteria, including demonstrating an "effective contribution" to the green and digital transition.

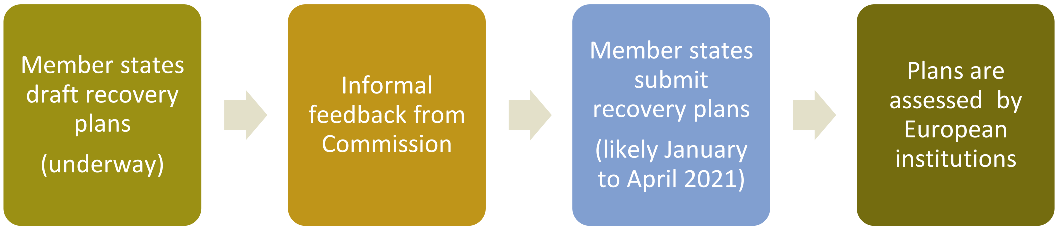

Figure 3: Process for national recovery plans (details are still being negotiated)

While negotiations on detailed criteria are still ongoing, some key elements are already known. Most importantly, every member state will have to ensure that at least 37% of spending in its national recovery plan is aligned with the green transition, with the remainder of the funding not doing significant harm to the transition. The below table provides a more detailed overview of the requirements, distinguishing between which criteria will definitely apply and where there are open questions:

[3] Euractiv (2020). **EU countries warm up recovery fund engine**

[4] For a discussion of the potential role of the European Parliament in this, see Jacques Delors Centre (2020). **How to spend it right: A more democratic governance for the EU Recovery and Resilience Facility**

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Certain	> **A fixed amount of the recovery spending must support the green transition** (at least 30% across the entire budget as per the political agreement between EU institutions in November[5]). **It is highly likely that recovery plans must support the green transition with at least 37% of their spending** (supported by member states in the Council, the Commission, and the European Parliament's economic and budgetary affairs committees)[6]. > **Certain activities will be excluded from access to funding**, in line with the "do no harm" principle of the European Green Deal (as per the Commission proposals and July European Council conclusions)
Open questions	> **How will the share of green recovery spending be assessed?** This will most likely happen using the so-called OECD "Rio markers," though the use of the stricter EU taxonomy is also being considered and has been called for by the European Parliament.[7] In the past, "Rio markers" have repeatedly been criticized for overestimating the green contribution of spending, including by the European Court of Auditors.[8] > **What criteria will be used to determine projects that should not receive access to funding?** There are diverse ways of implementing the demand to "do no harm". This could be done using the "do no significant harm" (DNSH) principle enshrined in the taxonomy, key details of which must still be defined by the Commission in a delegated act. A more wide-ranging option would be a separate "exclusion list" which contains projects that can under no circumstances be funded. The European Parliament's Environment Committee called for a general exclusion of funding for fossil fuels through such a list, while the economic affairs and budgetary committees called for applying the DNSH principle. Notably, even the DNSH principle would likely exclude most fossil fuel electricity generation projects.

Table 1: Climate conditions for national recovery plans

[5] European Parliament (2020). **Compromise on long-term EU budget**

[6] European Parliament (2020). **COVID-19: first go-ahead given to the new Recovery and Resilience Facility**; European Council (2020). **Recovery and Resilience Facility: the Council's position**; European Commission (2020). **Commission presents next steps for €672.5 billion Recovery and Resilience Facility**

[7] Climate Strategy and Climate & Company (2020). **Applying the EU Taxonomy – lessons from the front line**

[8] ECA (2020). **EU climate action: risk of overstating climate action without a reliable tracking method**

While there are still a lot of moving pieces as negotiations at the European level continue, national decision-makers preparing recovery plans should already keep two key aspects in mind:

1. **A strong evidence base suggests that plans aligned with climate targets enable a more resilient and stable economic recovery.**

The funds that have already been mobilized in response to the current economic crisis are substantial.[9] Around the world, major economies such as China, Japan, South Korea, and South Africa are joining the EU in declaring targets to achieve climate or carbon neutrality around mid-century, showing that the global transition to a climate neutral economy is well underway and will only accelerate further. Moreover, there is a broad consensus that recovery measures should be aligned with long-term targets including on climate action[10], and considerable evidence showing that recovery packages that emphasize investments into clean technologies will provide a better longer term growth outlook than simpler recovery packages that just seek to stimulate demand.[11]

National recovery plans should therefore be designed in a way that enables countries to reap the benefits of the green transition, such as significant job creation, resilient economic growth and cleaner air, while avoiding the risks of failing to align national economic development with the European Green Deal. EU member states in particular should ensure that they align their recovery spending with the green transition to avoid a further worsening of existing economic and technological imbalances within the EU. Various analyses show that there are many green projects in every EU member state that would benefit from funding through the Recovery and Resilience Facility. For example, a detailed analysis by EY has identified over 1,000 possible green recovery projects in all EU member states, especially in the areas of renewable energy generation, transmission and storage, e-mobility and public transport, building renovation and efficiency improvements, and industrial innovations.[12]

[9] Andrijevic et al. (2020). **COVID-19 recovery funds dwarf clean energy investment needs**

[10] Federal Environment Agency (2020). **The Green New Consensus: Study Shows Broad Consensus on Green Recovery Programmes and Structural Reforms**

[11] Cambridge Econometrics (2020). **Assessment of Green Recovery Plans after COVID-19**

[12] EY (2020). **A Green Covid-19 Recovery and Resilience Plan for Europe**

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2. **Climate criteria will apply to the national recovery plans, and plans must be developed accordingly.**

Regardless of the technical details that are yet to be finalized, climate criteria will certainly apply to the national recovery plans. The European Commission is doubling down on making the European Green Deal the EU's new growth strategy, and national leaders have confirmed the importance of the "green and digital transition" in the European Council, agreeing that at least 30% of the overall budget (including Next Generation EU) must support the green transition. Furthermore, it is highly likely that a higher EU-wide target for emissions reductions by 2030 will be agreed before the end of the year. Consequently, all member states must increase their domestic climate ambition and legislation to reach these new targets.

National recovery plans should, therefore, be firmly focused on contributing to the transition to climate neutrality. Not factoring this into recovery plans risks making further revisions necessary if plans are found to be unsuitable during the review process and could delay the release of funds. Delays increase the risk of further disruptions in economies and could weaken the overall recovery.

Are member states on track for a recovery that is in line with the European Green Deal?

Several member states have already publicized information about their recovery plans, often strongly referring to the green transition in their external communications. For example, France published a €100bn recovery plan in September, with around €40bn in funding expected to come from the EU's Recovery Facility. According to the French government, €30bn will be spent on projects supporting the green transition. In October, Spain published ten priorities for its €72bn recovery plan, including a "fair and inclusive" energy transition as a priority. According to the Spanish government, €27bn will be spent on projects supporting the green transition.

While this bodes well, more detailed analysis is needed on whether the claims by governments on the shares of green spending actually hold up. At the same time, some member states are reportedly considering including investments in fossil fuel infrastructure, especially for fossil gas, in their recovery plans – which may be at odds with legal requirements for access to EU funding.

Furthermore, a recovery package that contains some green measures does not make a green recovery. Many member states are attempting to use money from the RRF to finance previously agreed measures, especially in Central and Eastern Europe. Bulgaria's draft recovery plan, for instance, relies strongly on investments into energy efficiency improvements, which do not significantly go beyond measures already decided in the national long-term strategy for building renovation.[13] While energy efficiency investments make crucial contributions to a green recovery, it is important to also ensure that recovery funding is used to expand and add new programmes, rather than to only cover existing programmes. There are also indications that similar approaches will be taken in the plans drafted by the Czech Republic, Hungary and other countries. Shovel-ready projects will realistically play a significant role during the first phase of recovery funding but developing a pipeline of new projects and initiatives should be of equal priority for national governments to ensure a strong recovery effect.

Many of the draft plans also lack a clear strategic direction. Various country experts report that governments are essentially allocating recovery funds to certain ministries which, based on a bottom-up approach, develop long lists of projects. This approach favours investments in short-term and shovel-ready projects but risks lacking an overall strategic direction and a transformational agenda for structural reform. Examples from, for example, Spain and France show that individual measures can and should be linked to a broader narrative of economic recovery, climate neutrality and digitalization.

Moreover, the ability to deliver green measures is going to be as, if not more, important than the number of green measures listed in national recovery plans. While additional EU funds will make a difference in themselves, good governance and administrative capacity will also need dedicated attention if we are to see this spending truly deliver. In theory, as the name suggests, the RRF is targeted at both recovery and resilience – the latter, in particular, is about incentivising member states to undertake genuine structural reforms to improve public institutions and quality of governance (for example, bolstering their education systems or enhancing public administration efficiency).[14] Critically, these types of measures could also help member states better deliver green spending.

Within the EU, it would be problematic if especially countries in Central and Eastern Europe (CEE) put a significantly weaker emphasis on the green transition

[13] Council of Ministers of the Republic of Bulgaria (2020). **National Recovery and Sustainability Plan**

[14] Wolff, Guntram (2020). **Without good governance, the EU borrowing mechanism to boost the recovery could fail**

in their draft recovery plans. Especially when considering the different national starting points for the transition to climate neutrality, it becomes evident that a stronger emphasis on clean technology investments and deployment as well as the just and fast transition of carbon-intensive industries in the recovery of Western European states relative to CEE states would further widen existing imbalances within the European Union. The funds mobilized through Next Generation EU provide a unique opportunity for governments that have been struggling to mobilize the necessary resources to catch up in the clean energy transition and the development of crucial low carbon technologies.

Acknowledgements

We would like to thank all the experts who have contributed input and ideas, especially Lucie Mattera and Tsvetelina Kuzmanova.

About E3G

E3G is an independent climate change think tank accelerating the transition to a climate safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere. In 2018, E3G was ranked the fifth most globally influential environmental think tank for the third year running.

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