MFF 2014-2020: How to better spend taxpayers' money

April 2013

Summary: NGO priority recommendations for a more sustainable MFF

1. How to ensure better quality of spending within Headings with 4 key issues:

- At least €5 billion is redistributed to the LIFE programme within Heading 2;
- The Development Cooperation Instrument in Heading 4 (external dimension) is allocated €20.6 billion – the amount proposed by the Commission;
- In CAP, the 'reverse modulation' (transfer of funds from Pillar 2 to Pillar 1) is allowed only on condition that the current levels of environmental funding in Pillar 2 (current axis 2) won't be reduced in the next period;
- The investments under the EU Structural and Investment Funds (formerly known as the Common Strategic Framework Funds) ensure resources to invest in our natural capital, with a primary focus on the Natura 2000 network (the cornerstone of EU biodiversity policy).

2. Embed clear delivery mechanisms for achieving the 20% climate spending commitment, with annual monitoring by the Commission based on a stringent climate tracking methodology that does not inflate climate spending figures (especially for CAP Direct Payments);

3. Ensure that the priority criterion for MFF flexibility mechanisms is for the contribution of EU spending to the achievement of EU (environmental) targets by 2020. Priority areas for reallocation of EU funding should be LIFE, Development Cooperation Instrument, Horizon 2020 and Connecting Europe Facility.

4. Ensure that an established MFF review will assess the contribution of each EU fund to the EU environmental targets by 2020, including the 20% climate spending commitment, followed by corrective measures (reallocation of available funding).

Securing real added value for EU taxpayers' money

The key objective of the Commission's proposal on the MFF was to get an EU budget that is more policy-driven, fit for the challenges of the 21st century and which supports a green transition in order to assist the implementation of the Europe 2020 Strategy. Some emphasis was put on the green economy, resource efficiency, eco-innovation, job creation and related economic opportunities.

In contrast the European Council focuses on vested national interests and net contributions, failing to agree on a forward looking budget able to tackle European challenges and consistent with EU environmental targets by 2020:

- In CAP, funds for forward looking measures in Rural Development are sacrificed to safeguard Direct Payments, while the greening of Direct Payments is weakened and the so-called 'reverse modulation' mechanism can siphon Rural development even more;
- Development funds directed to outside of the EU (including EU ODA) are deeply cut compared to the Commission's proposal, while retaining added objectives ;
- The research fund and potentially climate friendly infrastructure fund are massively cut compared to the Commission's proposal, with disproportionate cuts for energy and ICT.

There are important opportunities to improve the Council agreement on the MFF and ensure better spending of EU taxpayers' money.

1. Ensure quality of spending within Budget Headings

The Commission proposed an integrative approach to mainstream financing for the environment throughout each and every EU fund. The Council agreement on the MFF implies that this approach is failing, especially when it comes to ensuring sufficient green funding from the CAP. Moreover, the lack of funding specifically dedicated to the environment has been ignored.

➔ **Environmental NGOs recommend that:**

- **At least €5 billion is redistributed to the LIFE programme within Heading 2**, in order to cover at best 10% of the financial needs of Natura 2000, to which the Commission and the Member States are committed. This has also been endorsed by the German Federal Parliament as well as the German Federal State. For that purpose, margins of Heading 2 should be reallocated more significantly. There is indeed no reason to keep high margins, as for CAP there is a new reserve for agricultural crisis.
- **The Development Cooperation Instrument in Heading 4 (external dimension) is allocated €20.6 billion – the amount proposed by the Commission**, in order to match commitments to eradicate poverty and provide climate and biodiversity finance for the poorest countries;
- **In CAP, the 'reverse modulation' (transfer of funds from Pillar 2 to Pillar 1) is allowed only under the condition that the current levels of environmental funding in the Pillar 2 (current axis 2) won't be reduced in the next period**, in order to ensure that the level of environmental delivery is maintained in the Rural Development fund;
- **The programming under the EU Structural and Investment Funds (formerly known as the Common Strategic Framework Funds) ensures resources to invest in our**

natural capital, with a primary focus on the Natura 2000 network (the cornerstone of EU biodiversity policy), including:

- at least 25% of agri-environment schemes under CAP Pillar 2;
- obligatory investments for environmental activities under Cohesion Policy;
- investments in marine Natura 2000 areas under the European Maritime and Fisheries Fund (EMFF).

These investments are fundamental to deliver green jobs, economic opportunities and contribute to the achievement of EU 2020 environmental targets. They should ensure synergies with the LIFE programme and be based on the needs identified in 'Prioritized Action Frameworks' as required by Art.8 of the Habitats Directive, which are now drafted at national or regional level to help Member States to organise and prioritise their efforts to implement Natura 2000.

2. Embed clear delivery mechanisms for achieving the 20% climate spending commitment

With Council's MFF figures and Commission's assumptions, **we estimate that only around 9% of the next MFF will support climate action: there is a huge €103 billion gap between current proposals and 20% climate spending in the next MFF**. The funds that would have delivered the most climate action for the EU have been slashed by the Council (Horizon 2020: 35%, Connecting Europe Facility: 33% and Development Cooperation Instrument: 14%).

- Cohesion Policy stands at only 11.4% currently.
- With only 3.5% for climate action, CAP is by far the most worrying EU fund in terms of climate mainstreaming.

➔ **Environmental NGOs recommend that clear delivery mechanisms are embedded in the finalisation of specific EU funds regulations and the achievement of the 20% commitment monitored annually by the Commission.**

In addition, a common methodology for climate tracking is being drafted by the Commission, in order to assess how much MFF money will actually be spent for climate action. The methodology must be as accurate as possible: for example, for major infrastructure projects accurate lifecycle climate impact assessment is feasible - and already employed routinely by multilateral development banks including EIB, EBRD and World Bank. It is a necessary tool to improve the performance of EU spending in line with the Europe 2020 Strategy and to increase MFF spending efficiency in the mid-term.

➔ **Environmental NGOs recommend that the Commission releases a stringent climate tracking methodology that does not inflate climate spending figures, especially for CAP Direct Payments which are an area of high concern[1].**

3. Ensure that flexibility will benefit the most forward looking funds of the MFF

[1] The initial greening of Direct Payments proposed by the Commission is at high risk of being green washed so deeply in the CAP trialogue that it would not qualify for the climate spending anymore

In the current MFF, unspent money goes back to national coffers. In addition its structure is very rigid and flexibility between headings and years is very hard to ensure.
More flexibility will contribute to a smarter MFF, but only if it is targeted towards more forward looking spending. This means delivering on the targets of the Europe 2020 Strategy and more specifically on the energy efficiency, renewable energy, climate, biodiversity and water targets that the EU has agreed for 2020. Their achievement is indeed vital to put Europe on a sustainable path of decarbonisation and high energy and resource efficiency. But they will also bring multiple benefits of enhancing innovation, exiting the crisis through green job creation and boosting economic opportunities for SMEs.

Conversely, flexibility that would benefit obsolete CAP Direct Payments would hamper the achievement of EU priorities.

➔ **Environmental NGOs recommend that the priority criteria for flexibility mechanisms is the alignment of EU spending with EU priorities, and more precisely how EU spending contributes to the achievement of EU environmental targets by 2020.** Priority areas for reallocation of EU funding should include:

- **LIFE** Nature and Biodiversity, to deliver on the EU biodiversity target by 2020;
- **Development Cooperation Instrument**, to deliver on international commitments of poverty eradication, climate and biodiversity finance;
- **Horizon 2020**, to support eco-innovation, low carbon, energy and resource efficiency innovation and deliver on EU climate and energy targets;
- **Connecting Europe Facility**, to support renewable power infrastructures and super-smart grids.

4. Ensure that a MFF review focusses on the achievement of EU environmental targets by 2020

With support of the Commission, the Parliament is asking for an MFF mid-term review to be conducted. The MFF review should assess how much each EU fund is contributing to the achievement of EU targets by 2020, and notably the environmental targets. Targets at risk of being missed (notably energy efficiency and biodiversity) need to receive a stronger emphasis and corrective measures are required to reallocate available EU funding towards the achievement of these targets.

➔ **Environmental NGOs recommend that an established MFF review will assess the contribution of each EU fund to the EU environmental targets by 2020, including the 20% climate spending commitment, followed by corrective measures (reallocation of available funding) within a renegotiated EU Budget.**

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