



THE EUROPEAN GREEN DEAL: Reclaiming Public Investments for a real Socio-ecological Transformation

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ABOUT COUNTER BALANCE

Counter Balance is a coalition of 9 NGOs whose mission is to make European public finance a key driver of the transition towards socially and environmentally sustainable and equitable societies. Over the last decade, we have monitored extensively the operations of the EIB and led campaigns to make it a more sustainable, democratic and transparent institution.

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EXECUTIVE SUMMARY

This report addresses a topic that has surprisingly been left aside in the public debates around the European Green Deal (EGD): its financing. The implementation of the financing pillar of the EGD – the so-called Sustainable Europe Investment Plan (SEIP) – has just begun at the date of publication, but clear features and trends are already emerging.

The SEIP aims at mobilising €1 trillion of sustainable investments over 10 years to finance the EGD and achieve its goals. In this report, we critically examine the strengths and weaknesses of this financing pillar and explore how EU public finance could be reclaimed to contribute to a truly just social and environmental transition.

>> CHAPTER one
gives an overview of the key problems with the EGD and how it remains very much embedded in the dominant neoliberal economic narrative:

A DANGEROUS FOCUS ON TECHNOCRATIC SOLUTIONS:

The EGD is mainly focused on narrow and technical solutions, rather than attempting to tackle the intersecting inequalities within our societies. It feeds into a narrative that claims that the issues we face can be solved through innovation, market-based solutions and better financing - with the private sector and corporations taking the lead - instead of tackling the root causes of the multi-faceted crises we are facing.

THE MYTH OF GREEN GROWTH:

There is no evidence that decoupling economic growth and environmental harm can be permanently achieved at a global scale and at the pace needed to meet climate targets. To meaningfully respond to the environmental and climate emergencies, we have no choice but to engage with the complex issues of growth, consumption and resource distribution.

MISLEADING 'NET ZERO' CLAIMS:

The focus on net zero targets only ends up delaying real action to stop fossil fuel emissions and it risks shifting the burden to Global South countries and communities which have done little to cause the climate crisis. The increased demand and reliance on carbon offsets cause a major threat to the control Indigenous Peoples and local communities have over their territories by enclosing land and forests to enable tree planting at a massive scale.

THE IMPACTS OF MINERAL EXTRACTION:

The planned shift to renewable energy and production of electric cars will require enormous mining operations, mostly in Global South countries but also domestically. While there is an urgent need to make the transition to low-carbon societies and economies, it should not be done through the continuous exploitation of communities and natural resources.

>> CHAPTER two

identifies major structural flaws that make it unlikely for the SEIP to contribute as much as necessary to addressing the key - and intertwined - challenges of our times, from the need for a fair and just recovery, to tackling the health, social, climate and environmental emergencies:

AN UNDERSIZED AND WOBBLY INVESTMENT PLAN:

The overall €1 trillion figure is merely a political announcement and does not reflect what the EU will actually invest. Most of the instruments under the SEIP are simply the continuation of already existing investment programmes, there is only limited new or fresh money under it.

A STRONG BIAS IN FAVOUR OF THE PRIVATE AND FINANCIAL SECTOR:

The focus on bankable projects and leveraging private resources has come at the expense of playing a stronger role in furthering transformative policy orientations. The approach of turning projects into bankable ones ignores the fact that a majority of the needs for ecological transition will simply not be bankable and offer any return on investment. The sustainable finance agenda associated with the SEIP is also likely to reinforce the financialisation of our economies, at the expense of the real economy and furthering inequalities within and between countries.

A TOP-DOWN APPROACH WITH STRONG CHALLENGES ON TRANSPARENCY AND ACCOUNTABILITY:

Looking at how the InvestEU programme and the European Investment Bank (EIB) will operate under the SEIP, it is clear that decisions about loans and various financial instruments are unlikely to be taken in a transparent, accountable and participatory manner. Corruption, fraud and misuse of funds are also a perpetual matter of concern.

>> CHAPTER **three**

sketches out a tentative proposal for another approach to EU public investments and the financing of the EGD, one working towards the decarbonisation, de-financialisation and democratisation of our economies and societies:

1. DECARBONISATION:

Climate and social justice going hand in hand with decarbonisation

STRICT SOCIAL AND ENVIRONMENTAL CONDITIONS:

A starting point for the financing of the EGD is to ensure that public funding is subject to social and environmental conditionality. This means no more funds for fossil fuel and other environmentally harmful activities, but also making sure that meaningful conditions on the respect of workers' rights are linked to all SEIP financing.

A FOCUS ON ESSENTIAL PUBLIC SERVICES AND COMMON GOODS:

The solutions to the climate crisis should not only be "green" but they should actually contribute to a real transformation of our societies and economies. The SEIP should clearly prioritize support for public goods, as well as services and infrastructure on which social and human reproduction depends. Reinforcing public services accessible to all should be at the heart of the public mission of the Green Deal.

DECOLONISING THE GREEN DEAL: While there is an urgent need to transition to low-carbon societies and economies, it should not be done through the continuous exploitation of communities and natural resources. Any serious attempt to build a Global Green Deal should be fully based on solidarity, ownership, as well as participation of local populations, and it should not export an economic model that is failing in Europe to other continents.

2. DE-FINANCIALISATION:

Using EU public finance to de-financialise the economic system

FOCUSING ON THE REAL ECONOMY INSTEAD OF THE FINANCIAL SECTOR: Reclaiming public finance and public investment is not only about finding an alternative to private finance in order to support the transition we need. Most importantly, it is about activating the most transformative tool at our disposal to shrink private capital markets and re-channel private wealth into public interest mechanisms acting progressively outside of the pure market logic. The financing of a just socio-ecological transformation cannot happen without transforming wealth accumulation mechanisms, and thus significantly reducing the role of capital markets.

TARGETING A REDUCTION IN THE CONSUMPTION OF NATURAL RESOURCES AND ENERGY Rather than green growth, and prioritise people's wellbeing and environmental protection over profit maximisation. Such sustainable finance should include investment in energy efficiency, building renovation, agroecology and localised food systems, public healthcare, green public transport, and decentralized renewable energy sources, prioritising projects centered around public ownership and control.

A NEW WAVE OF PUBLIC-PUBLIC INVESTMENTS AND PARTNERSHIPS: The limited public financial resources put on the table would be used at best if invested in reinforcing common goods and essential services. While many of the current tools under the SEIP are designed to de-risk private investments, we should instead rely on public-public and public-community partnerships to replace public-private partnerships as a stated objective for financing the Green Deal.

Instead of having the public offering guarantees for new public-private schemes aimed at reducing risks for private investors and making investments more appealing while leaving the management of the investment in the hands of the latter, the public investment banks and funding programmes under the SEIP could:

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Fund cooperatives or other actors in the social and solidarity economy sector to set up community-led banks that invest directly in their local and sustainable economies.

>>

Proactively offer a stable, moderate and capped return to institutional investors willing to diversify their portfolio, ultimately by issuing some very long-term targeted bonds just for them. Then manage the resources directly raised from investors for interventions taking place outside the pure short term profit maximisation logic of markets, and be able to produce a moderate return in the long-run.

>>

Use monetary policies so that the European Central Bank (ECB) directly supports national, regional and local public banks in order to support a just eco-social transformation (but not necessarily via the EIB as a conduit).

An open question remains about how other instruments and tools which are yet absent from the SEIP could be brought in to ensure more and better funding to steer a just ecological transformation of our economies and societies, for example fiscal and monetary policy. In this regard, the debate on increased "own resources" for the European Union represents an opportunity, especially if it is used to raise increased revenues through fairer and higher taxation of multilateral corporations and wealthy individuals. Without measures put in place to reintroduce controls over the international movement of capital and significantly tax financial wealth, profits, rents and transactions, the EGD by itself is unlikely to put an end to the disruptions that inevitably result from the state of affairs and structure of our financial and economic systems.

The current debate about a U-turn on European spending rules and fiscal discipline is equally important to the discussions about EU investment plans. The Growth and Stability Pact at EU level has been one of the key tools, alongside the European Semester, asserting austerity measures across Europe in the last decade. Together with renewed state aid regulations being discussed at EU level, the further suspension - or definitive scrapping - of this Pact could have long term impacts on the fiscal space for European governments to finance the EGD and engineer long-term structural transformation.

3. DEMOCRATISATION:

Holding public financial flows and institutions to account

FROM SUBSIDIARITY TO PEOPLE-CENTERED INITIATIVES:

Under the principle of subsidiarity, democratic decision-making should lead to decisions being taken at the most appropriate level in order to avoid top-down investment plans ignoring local realities. This includes the possibility of a more decentralized model with smaller vehicles operating at local, regional and state level. For instance, through a web of democratic and sustainable public banks and funding programmes. The idea behind the “European Climate Pact” and the creation of a European Climate Change Council could be reinforced and translated to also cover the financing of the Green Deal. Ensuring that the Partnership Principle foreseen for EU cohesion funds is expanded to other financial tools as part of the EGD could be a first step forward. Exploring the possibility of setting up more democratic peoples’ assemblies to steer the direction of the EGD and its financing would be welcome, but only if there is a strong bottom-up pressure to establish and run such assemblies.

OPENING UP SUPPORT TO COMMUNITY-LED INITIATIVES AND SMALL-SCALE PROJECTS:

Particular attention should be given to projects that are centered around public ownership and control, and managed at local and municipal levels. The Commission and the EIB should ensure sufficient human resources to be able to finance such projects and increase contacts with local and regional authorities and financial institutions like cooperatives and national public banks.

TOWARDS A TRANSPARENCY AND ACCOUNTABILITY

OVERTURN: Public finance should act transparently in favour of a democratically determined public interest, for the whole of society. All tools under the SEIP should be subject to greater control and scrutiny from EU Institutions, including from the European Court of Auditors, the European Anti-Fraud Office and the newly created European Public Prosecutor Office. Investment decisions having an impact on the lives of citizens should also have the possibility to be challenged in front of the European Court of Justice. Ultimately, there is a need to fundamentally reform the institutions implementing the SEIP (EIB and national public banks), in particular on the transparency front. Revamped institutions should be easier to control and apply outstanding ethical principles, while favouring quality over quantity of investments with proper safeguards and conditions put on the use of public money.

If democratised and re-centered around the public good, the EGD and its financing could become an important opportunity to use public money for a truly just ecological transition that meets the needs of people and their territories.

F O R E W O R D

First and foremost, Counter Balance would like to thank everyone who has given their time and expertise in contributing to this work. In addition to building on our own research and experience working on public finance, this report is also the result of interviews and consultations we conducted with a variety of NGOs, academics, grassroots movements and experts.

It departs from the observation that although there has been a large amount of attention put on the European Green Deal (EGD), much less attention has been given to its financing. We therefore want this report to contribute to the public debate by developing a set of proposals for the financing of a truly transformative Green Deal, by making an effort to integrate dimensions from ecofeminism, anti-colonialism and anti-extractivism.

We do not aim at providing an all-encompassing and one-size-fits-all proposal, but instead we try to offer a starting point for further discussion and alliances with other NGOs, social movements and progressive decision makers.

It is therefore worth noting that not all aspects of the financing of the European Green Deal could be covered. For instance, the report does not address the issue of ecological debt or reparations¹, despite these being crucial elements for a transformative Green Deal. We however tried as much as possible to refer to important resources and works of others on these matters. Another example is that, while in Chapter 3 we mention the need for revamped fiscal and monetary policies to back a truly transformative EGD, further and more in-depth work and analysis is needed to concretely link those to a people-led investment plan.

We also want to acknowledge that while public finance can and should have an important role to play in a socio-ecological transition, it is not the only lever of action. What is needed is less destruction and pollution, which also requires appropriate environmental and social regulations and not necessarily more investments.

In spite of these limitations, we hope that this report can be a useful point of departure to envisage a world in which public investments can truly serve the public interest and work towards building more socially and environmentally sustainable and equitable societies.

¹ As Max Ajl notes in his new book "A People's Green New Deal": "Technical blueprints, discussions, drawing boards, and policy debates which foreclose climate debt, ecological debt, and reparations are not part of a transformative GND." He for instance notes that in the absence of climate debt, phase-out in oil-dependent countries - with 80% percent of fossil fuels being located in the global south - would lead to massive economic and social displacement and chaos. Historical and ongoing injustices related to climate losses and damages are also never accounted for in Green Deal proposals (Perry, 2019)

INTRODUCTION

The European Green Deal has been announced with great fanfare by the new European Commission when taking office in 2019 in the run-up to the European elections. For the Commission President Ursula von der Leyen, the European Green Deal (hereafter EGD) is the “man on the moon” moment for the European Union.





Since then, a myriad of legislative proposals and policy initiatives at European level have been framed under the umbrella of the EGD. For instance, the latest package of proposals from the European Commission on 14 July 2021 designed to make the EU's climate, energy, land use, transport and taxation policies fit for reducing net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels (the so-called "Fit for 55" package), was framed as a key initiative to deliver on the EGD. The European institutions, and some national governments as well, have invested significant political capital in linking the EGD with ambitious climate and environmental policies.

Still, the future of the European Green Deal remains an open battlefield, on which intense political discussions have - and are still - taking place. This is for instance the case with the negotiations over the budget of the European Union for the period 2021-2027 and its main funding instruments.

The eruption of the COVID-19 pandemic in 2020 has added another layer of complexity to these heated discussions. Indeed, the EGD is now portrayed by many decision-makers as the primary tool to ensure a green and just economic recovery at European level. Going further, the EGD is even described as a growth strategy - the main engine for stimulating growth in Europe over the next decades. Therefore, the articulation between recovery packages at EU and national levels and the EGD has been at the top of political agendas in Europe.

This report will touch on some of these issues from a perspective which has been surprisingly left aside in the public debates around the European Green Deal: its financing.

Alongside the announcements on the European Green Deal, a much less visible communication was tabled by the European Commission in January 2020: the creation of the "Sustainable Europe Investment Plan" (SEIP), also called the "European Green Deal Investment Plan"².

The SEIP is to become the **financing pillar of the European Green Deal**. It aims at mobilising €1 trillion of sustainable investments over 10 years (up to 2030) to finance the EGD and achieve its goals. In the Commission's own words, "*becoming the world's first climate-neutral bloc by 2050 is a great challenge, but also a great opportunity*".

The part of this investment plan that gathered most attention, the Just Transition Mechanism, will be targeting a supposedly fair and just green transition to so-called carbon neutrality and is supposed to mobilise at least €100 billion in investments over the period 2021-2027 to support workers and citizens of the regions most impacted by the transition away from fossil fuels.

This Just Transition Mechanism (JTM) is certainly the most innovative part of the SEIP, as the other pillars and sources of financing are largely a re-cycling and re-labelling of already existing investment channels, such as the climate investments of the European Investment Bank (EIB) and the InvestEU programme which is the successor of the already existing "Juncker Plan".

This report will further examine this financing pillar, analyse its strengths and weaknesses. As a coalition of NGOs monitoring public investments at the EU level for more than a decade, Counter Balance has been closely monitoring how the institutions and financial instruments at the heart of the SEIP are functioning and performing.

Hence, even if the implementation of the financing pillar of the EGD has just started at the publication date of this report, clear features and trends are already emerging. The report assesses in particular how likely it is for the SEIP to contribute to addressing the key - and intertwined - challenges of our times, from the need for a fair and just recovery, to tackling health, social, climate and environmental emergencies.

In addition to analysing what is currently on the table, the report also aims to contribute to the debate around the goals and objectives of the Green Deal, as one can only discuss financial matters when considering what and who should be targeted by public financing.

Still, financial modalities matter, and this report describes a vision - and specific recommendations - to make public finance work for citizens and territories, in favour of a fair and sustainable transformation of our economic system.

It is clear that we are witnessing a pivotal moment in European history. One where decisions on the European Green Deal and the EU's economic response to the COVID-19 crisis are likely to have fundamental and long-lasting impacts on the future of our societies.

Going beyond a euro-centric vision of the Green Deal, it is of utmost importance to also question how the externalisation of the EGD impacts third countries. Hence, this report emphasizes how the Green Deal stimulates demand for critical raw materials abroad and rests on an extractivist development model.

With this report, Counter Balance aims at providing a critical perspective and a vision that can be debated and supported by movements, academics and decision-makers across Europe and beyond.

>> CHAPTER one

A EUROPEAN GREEN DEAL FOR WHAT?

The European Green Deal has now become the primary tool for economic recovery at European level. Politically, it is a powerful initiative and is considered by many as an important means to further advance the climate agenda. However, it is also important to be aware of the major flaws and risks associated with it.

This chapter outlines the key problems with the EGD in its current form, including its focus on economic growth, the risks behind the financialisation of nature, and the reliance on big business, technical fixes and false extractive solutions.





THE EUROPEAN GREEN DEAL VS OTHER GREEN DEALS



While the EGD is perhaps the most tangible of Green Deals, it is not the only proposal for an ecological transformation. The following table, which is adapted from the Spanish NGO ODG's report "*Green Deals in times of pandemics*"³ (which itself built further on a paper by Mastini, Kallis and Hickel entitled "A Green New Deal without growth"⁴), provides a description of various proposals for green deals. These categories are however not mutually exclusive nor are they the only way to categorise narratives around the need for socio-ecological transitions⁵.

	DESCRIPTION	EXAMPLES/RESOURCES
GD 1.0	Deals which put forward an environmental form of modernisation focused on investment in technological solutions with little regulation of emissions. They seek to take advantage of capitalist investment to fund research and development, light subsidies and market mechanisms. They can be considered technocratic programmes which leave the economic and political status quo unchallenged – and indeed seek to preserve it.	<ul style="list-style-type: none"> • European Green Deal
GD 2.0	Deals which drive environmental regulation, public investment and public ownership of energy sector assets, just transition policies, including guaranteed employment, decommodification and universal access to basic services, and policies to reduce resource use.	<ul style="list-style-type: none"> • Green New Deal (Alexandra Ocasio-Cortez, Bernie Sanders)
Degrowth	Deals which are critical of continuous economic growth or green growth, given their biophysical impossibility, and promote environmental and social justice based on decreased consumption of material goods and energy.	<ul style="list-style-type: none"> • Green New Deal for Europe⁶
Post-extractive	Deals which aim to move beyond extractivism and overcome capitalism, neo-colonialism, racism and patriarchy. They call for recognition and respect for indigenous, Afro-descendant and rural communities.	<ul style="list-style-type: none"> • Southern Ecosocial Deal • Climate Justice Alliance and the Green New Deal: Centering Frontline Communities in the Just Transition⁷ • The Red Deal: Indigenous Actions to Save Our Earth⁸
Feminist	Deals which seek to bring an end to patriarchal power structures and humanity's domination of nature. They recognise the interdependence of our societies, healthy ecosystems, social relationships and social care. These deals aim to overcome various systems which oppress women and take an intersectional approach.	<ul style="list-style-type: none"> • A Feminist Agenda for a Green New Deal⁹ • Feminist decolonial global Green New Deal¹⁰

³ ODG, Green deals in a time of pandemics, March 2021 https://odg.cat/wp-content/uploads/2021/02/GREENDEALS-ENG_ONLINE.pdf

⁴ Mastini, Kallis, & Hickel, A green new deal without growth? January 2021 <https://www.sciencedirect.com/science/article/abs/pii/S0921800919319615>

⁵ Other initiatives could also have been mentioned, such as the Global Green New Deal put forward by the United Nations Conference on Trade and Development (UNCTAD) in 2019: <https://unctad.org/webflyer/trade-and-development-report-2019>.

⁶ See: <https://report.gndforeurope.com/>

⁷ See: <https://climatejusticealliance.org/gnd/>

⁸ See: <https://roarmag.org/essays/the-red-deal-indigenous-action-to-save-our-earth/>

⁹ See: <http://feministgreennewdeal.com/wp-content/uploads/2019/09/Feminist-GND-Kickstart-note-Final-Draft-9.20.2019.pdf>

¹⁰ See: <https://wedo.org/wp-content/uploads/2020/09/Global-Feminist-Framework-Town-Hall-READER-FINAL.pdf>

1 A GREEN DEAL WITHOUT SYSTEMIC CHANGE

At its core, the EGD remains very much embedded in the dominant neoliberal economic narrative and seems unwilling to challenge the main patterns of our economies¹¹. Instead, it has a clear focus on economic growth and it awards a prominent role to the private sector, as well as market-based solutions.

It is no coincidence that the European Commission quietly dropped the “new” from the original United States plans for a “Green New Deal”. The “new” of the US proposal echoed Franklin Roosevelt’s New Deal, which put forth a package of social, economic and financial reforms in response to the economic crash of 1929 and with the aim of defusing the increasing social unrest and labour tensions linked to it.

Removing the “new” is a signal that the Commission is not looking for systemic changes, for example through strong regulations and a fundamental transformation of the corporate and financial sectors. Instead, it is taking a “third way” approach that seeks to nudge the market and the private sector towards decarbonisation.

The EGD tells a very technocratic story, focusing mainly on technological innovation rather than attempting to tackle inequalities of wealth and power within our societies¹². It feeds into a narrative that claims that the issues we face can be solved through technical solutions and better financing - with the private sector and corporations taking the lead.

The EGD has numerous priority goals. One that is welcomed by many is to mainstream and reinforce ecological and environmental considerations in everything that the European Union does and to reach carbon neutrality of the European economy by 2050. Another related goal is to leverage the finance necessary to “green” the economy. This is done on the one hand by using EU public finance to incentivise and reorient private capital, be it through subsidies, public guarantees, public private partnerships and so-called blended finance, and on the other hand by developing the [“EU Sustainable Finance agenda”](#)¹³.

Still, relying on narrow and technocratic solutions, including unlocking private investment, is unlikely to address the climate urgency at the scale and pace that is needed. A [recent article](#) written by the former head of sustainability at BlackRock - the world’s biggest asset manager - shows the inherent contradiction of green investment and the reliance on private finance to tackle climate change¹⁴. The imperative to maximise returns means that as long as there is profit to be generated in activities that contribute to climate change, no amount of rhetoric about the need for sustainable finance will change that. What is needed is binding financial and environmental regulations to curb unsustainable activities rather than endless subsidies to polluters and offering them future profits.

Instead of truly tackling the fundamental causes of environmental destruction and climate breakdown, what the EGD proposes is an incremental approach that seeks to “green” economies (or portray them as “green”) while betting on green growth.

¹¹ A recent report from the European Environmental Bureau and the Women Engage for a Common Future for instance concludes that many EDG policies remain largely dominated by an androcentric perspective, assuming that the masculine model is the neutral and objective point on which to base policies, and therefore risk reproducing existing inequalities and discrimination in our society. The report cites the example of the Just Transition Mechanism which will disburse funds for the transition of coal workers to shift to green industries, but which current structure is most likely going to be benefitting mainly men in coal mining areas instead of taking a deeper look at which social groups need specific attention during the transition. See the report here: <https://mk0eeborgicuyctuf7e.kinstacdn.com/wp-content/uploads/2021/07/Report-16.pdf>

¹² To which could also be added other type of inequalities, such as gender, inter-generational, North-South and more

¹³ See: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en

¹⁴ See: <https://www.theguardian.com/business/2021/mar/30/tariq-fancy-environmentally-friendly-green-investing>

TURNING A CLIMATE CRISIS INTO A FINANCIAL CRISIS?

Attracting private sector finance and harnessing it to the European Green Deal is a key feature of the European Commission (EC)'s 'business-pretty-much-as-usual' approach to the climate crisis. The prospect is of increased financial instability as high-risk investment vehicles – from private equity funds to hedge funds – seek to capitalise on the profit-making opportunities being opened up by the EC's various policy initiatives.

Private equity fund managers are predicting a boom in mining investments. Copper is viewed as a favoured play because it is needed for electric vehicles and battery storage. There is also considerable interest in iron ore investments – the logic being that the "\$12 trillion plus" of anticipated stimulus packages worldwide are going to be directed mainly to infrastructure. More bridges, more ports, more railways mean more demand for more iron ore. Mining companies are drooling. Jon Samuel, Group Head of Responsible Business Partnerships at Anglo American, has stated: *"The transition to green economy, particularly low-carbon energy, is going to be one of the biggest boosts for the mining sector in generations... It's a very big opportunity for us, and you're seeing the big mining companies shifting their capital allocation in light of those opportunities that are arising."*¹⁵

The derivatives industry also predicts a raft of new derivative-based index funds tracking the performance of companies that have adopted "environment, social and good governance" (ESG) standards, together with associated hedging instruments (such as options and futures) that investors will employ to mitigate their risks. The market in so-called "weather derivatives" that allow investors to bet on weather risks is also predicted to grow. Derivative instruments are also being considered as tools for allowing firms "to manage the 'funding' risk of species' recovery and restoration"¹⁶.

With governments running short of cash, in part because of the costs of the COVID pandemic, private equity and hedge funds are likely to have a considerable influence on the stimulus packages that underpin the EGD. One reason is that private equity alone is now sitting on some \$2.5 trillion in so-called 'dry powder' – funds which have been raised but have not yet been invested. With leverage, this could amount to some \$14 trillion in potential new investments – way more money than what the EC is making available through its own 'green' investment package or even the US's planned infrastructure package of \$2 trillion.

The danger is that high risk finance will increasingly determine what gets funded – and that the already lax controls brought in to regulate finance in the wake of the 2008 financial crisis will be relaxed further still. The climate crisis could well morph into a financial crisis.

¹⁵ See: <https://gowlingwlg.com/en/insights-resources/on-demand-webinars/2020/mining-investment-portfolio-strategies-covid-19/>

¹⁶ See: <https://www.isda.org/a/KOmTE/Derivatives-in-Sustainable-Finance.pdf>

2 THE MYTH OF GREEN GROWTH

From the outset, the European Green Deal has been focused on the very explicit objective of green growth. It has been framed as **“a new growth strategy” aimed at “turning an urgent challenge into a unique opportunity”**¹⁷. Green growth is based on the optimistic assumption that it is possible to decouple economic growth from pressure on natural resources. The Commission **claims** that, between 1990 and 2018, the EU has been able to reduce its GHG emissions by 23% while raising its GDP growth by 61%¹⁸.

In reality, these calculations only account for emissions generated on European soil, and therefore completely ignore the fact that this decline in emissions is largely due to the relocalisation of industrial production and polluting economic activities to countries where regulations are weak and labour is cheaper¹⁹. One can think here of the image of countries such as China acting as EU’s factories outside of European borders²⁰. As we are facing global issues and challenges, like climate change and biodiversity to name just a few, externalising production and carbon emissions only postpone decisive and necessary actions while escaping global responsibilities.

Several empirical studies have cast doubt on the ability to decouple economic growth and environmental harm²¹. Although decoupling is theoretically possible, there is no evidence it can be permanently achieved at a global scale and at the pace needed to meet climate targets.

There is a need to acknowledge the inherent tradeoffs between growth and climate change instead of simply hiding them away. To meaningfully respond to the environmental and climate emergency, there is no choice but to engage with the complex issues of growth, consumption and resource distribution.

The promise of green growth de-politicizes the issue and shifts the focus away from the need to reduce consumption in the wealthiest countries towards other topics such as technological innovation and negative emissions (the idea of pulling carbon out of the atmosphere).

¹⁷ See: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1576150542719&uri=COM%3A2019%3A640%3AFIN>

¹⁸ See: https://ec.europa.eu/clima/policies/strategies/progress_en#:~:text=EU%20greenhouse%20gas%20emissions%20were,1%2C%20in%20particular%20power%20plants.

¹⁹ It is also important to note that the EU has actually played a major role in shaping the currently existing global division of labour and trade systems. For instance, this has been the case via the influence of the EU and its Member States in international institutions like the World Bank, the International Monetary Fund and the World Trade Organization that influence policy making in the global South towards deregulation of financial markets, less labour protection, lax environmental regulations, tax breaks for corporations, etc.

²⁰ See for instance recent figures on the evolution of Chinese exports to the EU: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=China-EU_-_international_trade_in_goods_statistics#EU_and_China_in_world_trade_in_goods

²¹ See for instance: European Environmental Bureau, *Decoupling debunked: Evidence and arguments against green growth as a sole strategy for sustainability*, July 2019, <https://eeb.org/library/decoupling-debunked/>, and Hickel & Kallis, *Is Green Growth Possible?*, April 2019, <https://www.tandfonline.com/doi/full/10.1080/13563467.2019.1598964?scroll=top&needAccess=true>

3 MISLEADING “NET ZERO” CLAIMS



The promise of new technologies are at the centre of the net zero pledges that have been proposed within the EU Green Deal and by a growing number of corporate actors. “Net zero” refers to balancing between the amount of carbon emissions that are produced and the amount of emissions taken out of the atmosphere.

While the EGD’s pledge to achieve net zero emissions by 2050 is a first step forward, the word “net” needs to be treated with great caution.

A growing number of [voices in the scientific community](#) are exposing the shortcomings and misleading promises related to net zero targets and carbon offsetting, comforting older critiques of carbon trading largely documented in the 2000s in particular²². Central to net zero pledges are small and distant targets that only risk postponing urgently needed actions to reduce climate emissions, by betting on so-called “negative emissions” through carbon offsetting, nature-based solutions and geoengineering technologies. These proposed solutions are unlikely to ever work at scale and risk causing more harm than good.

Geoengineering encompasses a wide range of unproven technologies, centred around removing carbon dioxide from the atmosphere or reflecting sunlight back into space. There is huge uncertainty about whether or when any of those geoengineering technologies will actually be feasible, or if great harm can be avoided while using them. The hypothetical promise of future geoengineering is already being used by major fossil fuel companies to [justify the continued fossil fuels production](#)²³.

Net zero plans also depend on the purchase of carbon credits, also known as carbon offsets. Instead of reducing emissions, companies can offset them by buying carbon credits. Carbon offset projects include, among others, energy efficiency, building hydropower plants that claim to prevent production of energy from fossil fuels, forest conservation projects and tree plantations.

Offsetting markets are based on **flawed assumptions** and have shown a terrible track record at reducing carbon emissions²⁴. A study conducted by the Öko-Institut found that over three quarters of Clean Development Mechanism projects, the most important offsetting instrument under the Kyoto Protocol, were unlikely to have resulted in additional emissions reductions (meaning they would have probably been done anyway) and only 2% had a high likelihood of being categorised as “additional”²⁵.

Furthermore, the offset projects must permanently lock away the emissions for them to truly cancel out emissions. Carbon trading falsely presumes an equivalence between fossil carbon released from permanent storage underground, and carbon temporarily stored in trees. Offset schemes assume that forests will live for hundreds of years, ignoring the risks of fires, diseases or even clearing to make way for roads, farming and other developments.

There is also simply **not enough fertile land on the planet** and water to accommodate for the entirety of corporate and government “net zero” plans for offsets and plans for tree plantations²⁶. The area of land required to sequester 2 Gt CO₂ through ecosystem restoration is estimated at 678 million hectares, equivalent to around twice the land area of India.

Then, such projects shift the burden to Global South countries and communities which have done little to cause the climate crisis, and tend to lead to increased conflicts, habitat degradation and land grabbing. The increased demand and reliance on carbon offsets will cause a major threat to Indigenous Peoples and local communities’ control over their territories by enclosing land and forests to enable tree planting at a massive scale²⁷.

The trendy so-called “Nature-Based Solutions” (NBS), which encompass a variety of conservation and restoration projects, are almost always financed by offsetting mechanisms. As the NGO Green Finance Observatory points out, NBS without offsetting are unfortunately unlikely to happen, since their appeal resides precisely in their “cost effectiveness” compared to curbing destruction, as well as in their ability to provide business opportunities. They are in practice only the new name given to carbon and biodiversity offsetting. “Nature” is being called on to provide a “solution” to enable business as usual and continued pollution.

Finally, it is important to debunk the often used argument that fossil fuels can continue to be burned if sufficient emissions reductions have been made elsewhere at a national level. Scientific evidence from the IPCC shows that the use of fossil fuels needs to cease as soon as possible. Hence, claiming for example that a move to electric cars (and a consequent reduction in oil use in the transport sector) would allow for continued use of fossil fuels in other sectors is a dangerous approach to pursue.

²² See for example: <https://theconversation.com/climate-scientists-concept-of-net-zero-is-a-dangerous-trap-157368>

²³ See for example: CIEL, Fuel to the fire, 2019 https://www.ciel.org/wp-content/uploads/2019/02/CIEL_FUEL-TO-THE-FIRE_How-Geoengineering-Threatens-to-Entrench-Fossil-Fuels-and-Accelerate-the-Climate-Crisis_February-2019.pdf

²⁴ Green Finance Observatory, <https://greenfinanceobservatory.org/wp-content/uploads/2021/01/Scaling-up-GFO-analysis-final4.pdf>

²⁵ Öko-Institut, Emission Reduction Targets for International Aviation and Shipping, 2015 [https://www.europarl.europa.eu/RegData/etudes/STUD/2015/569964/IPOL_STU\(2015\)569964_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2015/569964/IPOL_STU(2015)569964_EN.pdf)

²⁶ Joint Briefing, Not Zero: How net zero targets disguise climate inaction, October 2020 https://demandclimatejustice.org/wp-content/uploads/2020/10/NOT_ZERO_How_net_zero_targets_disguise_climate_inaction_FINAL.pdf

²⁷ See examples of carbon offsetting projects displacing local forest-dependent people: <https://www.oaklandinstitute.org/evicted-carbon-credits-green-resources>

THE RISKS BEHIND THE FINANCIALIZATION OF NATURE



Putting a price on nature is increasingly being promoted as an approach to address pressing environmental issues. Nature is becoming conceptualized as a collection of “natural capital” assets that provide ecosystem services which can be measured and monetized²⁸.

The trend towards green finance, nature-based solutions, biodiversity offsetting are all very present in the EGD proposal, with plans to mobilize public finance to commodify the free gifts of nature. While often framed as the best or only approach for environmental protection, pricing natural systems becomes a means for promoting the privatisation and financialisation of nature and creating new ways for the financial sector to continue earning high profits while banking on nature.

²⁸ For more information see Chapter 18 “Financialization and the environmental frontier” of the Routledge International Handbook of Financialization, Philip Mader, Daniel Mertens and Natascha van der Zwan, 2020 <https://www.routledge.com/The-Routledge-International-Handbook-of-Financialization/Mader-Mertens-Zwan/p/book/9781032174631>

4 THE EXTERNAL DIMENSION OF THE EU GREEN DEAL: “GREENING” EUROPE AT THE EXPENSE OF OTHERS?

Another unavoidable question with regards to the green transition proposed by the EGD is where the minerals and natural resources needed for this transformation will come from, and at what social and environmental cost.

Given that the EU is currently a dependent territory in terms of energy and raw materials, the planned shift to renewable energy and production of electric cars will require massive mining projects, mostly in Global South countries but also domestically²⁹. The decarbonisation of our economies will increase the demand for critical raw elements such as lithium, cobalt, nickel and rare earth minerals. According to the European Commission **forecasts**, the demand for lithium is expected to increase 16-fold by the end of the decade and be 60 times larger by 2050³⁰. The demand for cobalt, in turn, is expected to grow 500% by 2030 and 15 times by 2050, with academic **forecasts** showing that there are no sufficient reserves for such levels of demand³¹.

The focus on heavy extraction of minerals means countries and communities in the Global South will suffer the costs of a green transition in the North. The adverse consequences of mining include loss of land and displacement, destruction of habitat, health impacts from air, water and soil pollution, and other gross human rights violations including murder, forced labour and slavery³². As Max Ajl writes in his book *A People’s Green New Deal “Cobalt is kept cheap by a half century of neo-colonial massacre in the Congo, and lithium extraction turns on the mangling of Latin American water tables.”*³³ Many conflicts related to mining are currently ongoing and will only intensify in the future.

A **recent report** by War on Want “*A material transition: Exploring supply and demand solutions for renewable energy minerals*”³⁴, offers some propositions in solidarity with impacted communities, such as concrete safeguards against human rights violations, enshrining the right of communities to self-determination, which includes their right to say no to mining projects, and fair pricing for the labour and damage extraction inflicts on their environments.

While there is an urgent need to transition to low-carbon societies and economies, it should not be done through the continuous exploitation of communities and natural resources. Although the EGD outlines efforts to achieve a just transition, resource efficiency, and a circular economy, these will mean little if they are built on promises of green growth and increasing pressure on people and resources to export natural resources to the European Union.

²⁹ See for instance: Bankwatch, *Raw Deal: Does the new EU development model mean more of the same destructive mining?*, January 2021 <https://counter-balance.org/publications/raw-deal>

³⁰ See: https://rmis.jrc.ec.europa.eu/uploads/CRMs_for_Strategic_Technologies_and_Sectors_in_the_EU_2020.pdf

³¹ See: https://earthworks.org/assets/uploads/2019/04/MCEC_UTS_Report_lowres-1.pdf

³² See for instance box p. 7 and section on mining on pp. 12-13 of Oakland Institute’s report: <https://www.oaklandinstitute.org/sites/oaklandinstitute.org/files/indonesia-world-bank-failed-east-asian-miracle.pdf>

³³ Ajl, *A People’s Green New Deal*, April 2021, p. 110 <https://www.plutobooks.com/9780745341750/a-peoples-green-new-deal/>

³⁴ War on Want, *A material transition: Exploring supply and demand solutions for renewable energy minerals*, March 2021 https://waronwant.org/sites/default/files/2021-03/A%20Material%20Transition_report_War%20on%20Want.pdf



FALSE SOLUTIONS TO CLIMATE CHANGE:

We use the term false solutions, also embraced by a large number of civil society organisations, to refer to solutions which end up allowing damaging business models to continue while perpetuating harm on the climate, the environment and the rights of local communities. These include – but are not limited to:

CARBON MARKETS: Carbon markets (including carbon trading and carbon offsets) do not actually cut emissions and mostly benefit banks and polluting companies responsible for the climate emergency. At the level of the European Union, the Emissions Trading Scheme (ETS) has proved inefficient and counter-productive to functional climate policies³⁵. This demonstrates the need to cut pollution at the source and not rely on the “market” to solve the issue.

NATURE BASED SOLUTIONS: While it is crucial to protect biodiversity, NBS are often used as a cover for pushing forestry offsets, monoculture tree plantations and other false solutions³⁶.

CARBON CAPTURE AND STORAGE (CCS): CCS remains an uncertain, risky, and still-costly technology. It enables the continued use of fossil fuels based on promises that we will be able to store emissions underground.

FOSSIL GAS: Despite scientists calling for putting an end to fossil fuels extraction, fossil gas is still described by too many decision-makers as a “transition” fuel able to facilitate the transition of coal-dependent countries towards “greener” economies. Against scientific evidence, the future of gas - and infrastructure related to it - remains an open battlefield across the world, including in Europe.

HYDROGEN: The hype around hydrogen is a dangerous distraction that risks increasing our reliance on fossil gas. While small quantities of truly renewable hydrogen may be suitable for local heat and electricity generation or for a few industrial activities that are difficult to decarbonize, they will represent only a fraction of the current fossil gas consumption.

BIOENERGY: Biofuels continue to be promoted despite well documented negative environmental and social impacts, including land grabbing, deforestation and competition with food crops. The new trend around biomass, which includes the burning of trees, also risks replicating the serious harmful consequences that have been documented in the production of biofuels.

RENEWABLE ENERGY and the risk of “green energy colonialism”: Renewable does not necessarily mean socially just, with hydroelectric and large-scale wind and solar installations too often leading to environmental destruction and displacement of Indigenous and other communities. Local ownership and control over renewable energy is crucial to help prevent some of the negative impacts arising from it.

³⁵ For more information see: <https://corporateeurope.org/en/environment/2015/10/eu-emissions-trading-5-reasons-scrap-ets>

³⁶ See this critical review of NBSs by the Third World Network: https://twm.my/title2/briefing_papers/twn/NBS%20TWNBP%20Sep%202020%20Stabinsky.pdf

THE GRAND INGA HYDROELECTRIC PROJECT AND EUROPEAN GREEN HYDROGEN FANTASIES

The Inga Dams are hydroelectric dams connected to one of the largest waterfalls in the world, the Inga Falls, located in the western Democratic Republic of the Congo (DRC). Two dams, Inga I and Inga II, have been built so far and a third one, Inga III, is currently in the design phase. The three dams would become part of the Grand Inga complex, which, if completed, could become the largest hydro-electric power generating facility in the world.

Inga I and II, which were financed in part by the European Development Fund, and the European Investment Bank in the case of Inga II, **have displaced thousands of people and destroyed livelihoods while plunging the country into great debt**³⁷. Today, the hydropower plants are reported to be operating at only 40% of their capacity and the energy has mainly been used to fuel cobalt and copper mines or exported to richer markets, instead of serving the rural areas in DRC where **more than 90% of the population still does not have access to electricity**³⁸.

Despite Inga I and II ending up being huge failures, the dream of a Grand Inga is still attracting international attention, including from European development banks. The interest of European investors to finance Inga III is in part related to the **rising demand for green hydrogen as part of Europe's Green Transition**³⁹. As a way to make the project profitable, the electricity would be sent to factories nearby to produce hydrogen and then be shipped to Europe and other places around the world.

Many local and international NGOs have called for a stop to the Inga III in its current form⁴⁰, raising concerns about the lack of transparency in the management of the project and warning against its environmental and social impacts. The construction of the dam risks displacing around 10,000 people whose livelihoods depend on the river, land and forest, would result in significant environmental damage. The development model of the project appears to make no considerations of the needs of local populations. It will only add to the national debt burden, with very strong risks of further promoting corruption, while allowing powerful companies to exploit and export the country's natural resources.

A coalition of 32 Congolese civil society organisations has urged financial institutions not to support Inga III until the existing Inga I and II dams are fully operational and a legal agreement detailing compensation for the displaced communities has been reached⁴¹. They also demand a full analysis of the social and environmental impacts of the Inga III dam and a plan on how the project will address DRC's energy poverty. **A growing civil society movement is advocating instead for the equitable development of other types of energy**, including solar and wind power, to finally deliver much-needed energy access to the Congolese people⁴².

³⁷ Counter Balance, Conrad's Nightmare, November 2009 <https://counter-balance.org/uploads/files/Reports/Flagship-Reports-Files/2009-Conrads-Nightmare.pdf>

³⁸ See: https://energypedia.info/wiki/Democratic_Republic_of_the_Congo_Energy_Situation

³⁹ See for example: <https://www.rechargenews.com/transition/worlds-largest-hydro-dam-could-send-cheap-green-hydrogen-from-congo-to-germany/2-1-871059>

⁴⁰ See for example: https://www.banktrack.org/project/grand_inga_dam#impacts, <https://www.internationalrivers.org/where-we-work/africa/congo/>, and <https://womin.africa/press-release-south-africa-and-the-drc/>

⁴¹ See: <https://www.afrik21.africa/en/drc-afdb-provides-73-million-for-grand-inga-dam-feasibility-studies/>

⁴² See: <https://www.internationalrivers.org/where-we-work/africa/congo/>

>> CHAPTER TWO

THE LIMITS OF THE FINANCING PILLAR OF THE EUROPEAN GREEN DEAL

A fair and just transformation of our societies and economic systems should be a priority at a time when the ecological and social urgencies call for fundamental choices to be made soon, in particular as part of the recovery from the COVID-19 pandemic.

In times of crisis, the importance and impact of public investments is skyrocketing, alongside its visibility in the eyes of citizens as part of “rescue” programmes. The pandemic has actually largely put under the spotlight the crucial role that public finance and public investments should play. Firstly, the pandemic has demonstrated that a shortage of investments in essential public services, especially the health sector, can have dramatic impacts for people, in particular the most fragile and vulnerable segments of the population. Secondly, public resources have been called to the rescue

as soon as the pandemic hit, both in order to counter the pandemic via emergency packages and in order to keep the economy afloat and to protect workers.

Soon after the pandemic hit the European Union, a set of new economic tools were put in place, all relying on public money. The EU recovery package goes from monetary initiatives at the level of the European Central Bank to the creation of the €750 billion Next Generation EU, expanded credit lines to governments under the European Stability Mechanism or enhanced operations of the European Investment Bank under a new guarantee fund.

It is important to flag that these instruments set up at EU level need to be considered in tandem with investments via national budgets and national recovery plans, as they fortunately do not represent the majority of public investments injected in economies across Europe. Still, coupled with the future EU budget for the period 2021-2027 and the Sustainable Europe Investment Plan (SEIP) - the financing pillar of the European Green Deal - public finance is gaining momentum, firepower and support at European level.

Two telling examples: firstly, even before its effective roll-out, there are already talks among governments to adopt a second recovery package at European level and to make some elements of the Next Generation EU permanent. Secondly, the Stability and Growth Pact - which governs the fiscal rules in the EU in particular around public debt reduction and has faced heavy criticisms for favouring austerity measures across Europe - has been suspended until the end of 2022.

In this regard, it is clear that the massive investment plans put forward by the new Biden administration in the US are changing the game at international level and could impact the way public finance is perceived by decision makers in the EU, after years of a narrative centered around austerity and structural reforms dominating the political agenda. Even some former neoliberal hardliners who have in the past been opposed to any form of public intervention in the economy, are now becoming vocal supporters of expansionary fiscal and monetary policies, as long as the public set conditions that are benefiting the private sector under a public-private agenda.

In the wake of the COVID-19 crisis, many governments have implemented some form of fiscal stimulus and Keynesian-type intervention. Monetary policy levers have also been pulled, as in the case of the heterodox ‘quantitative easing’ implemented by the European Central Bank (ECB). Some of these interventions have been justified as merely temporary, while others are seen more as a key counter-cyclical lever to address market failures, boost public investment and bring economies back to growth under the “Build Back Better” narrative⁴³.

In this context, and in light of the need for a truly transformative Green Deal, the following Chapter will analyse the financing pillar of the European Green Deal - the Sustainable Europe Investment Plan - and critically confront it to the reality of financing needs and challenges to transform our economies.

⁴³ In June 2021, the US President Biden launched with the other leaders of the G7 the Build Back Better World (B3W) Partnership. The US administration presents it as an “Initiative for Meeting the Tremendous Infrastructure Needs of Low- and Middle-Income Countries”, “a values-driven, high-standard, and transparent infrastructure partnership led by major democracies to help narrow the \$40+ trillion infrastructure need in the developing world, which has been exacerbated by the COVID-19 pandemic”. See here: <https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/12/fact-sheet-president-biden-and-g7-leaders-launch-build-back-better-world-b3w-partnership/>

1 WHAT'S ON THE TABLE: AN UNDERSIZED AND WOBBLY INVESTMENT PLAN, FAR FROM A GAME CHANGER

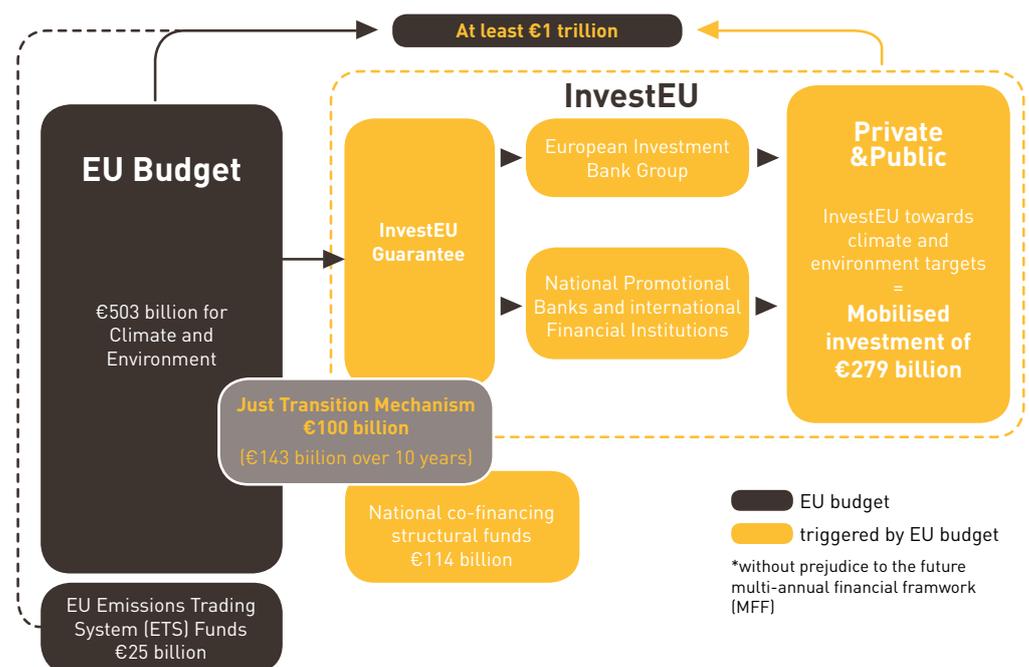
As announced in January 2020, the “Sustainable Europe Investment Plan” (SEIP), also called the “European Green Deal Investment Plan”, aims at mobilising €1 trillion of sustainable investments over 10 years (up to 2030) to finance the EGD.

THE COMMISSION HAS SET THREE MAIN OBJECTIVES WITH THE SEIP:

- / Increase funding for the transition, and mobilise at least €1 trillion to support sustainable investments over the next decade through the EU budget and associated instruments, in particular InvestEU;
- / Create an enabling framework for private investors and the public sector to facilitate sustainable investments;
- / Provide support to public administrations and project promoters in identifying, structuring and executing sustainable projects.

THE STRUCTURE OF THE SEIP IS EXPLAINED AS FOLLOWING BY THE COMMISSION:

WHERE WILLE THE MONEY COME FROM?



*The numbers shown here are net of any overlaps between climate, environmental and Just Transition Mechanism objectives

[Source: European Commission https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_24]

The starting point for the European Commission is the identification of a massive investment gap that needs to be filled. According to the Commission, reaching the 2030 EU climate and energy targets will require additional investments of €260 billion a year by 2030.

“This figure mainly includes energy-related investments, buildings and part of the transport sector (vehicles). The average investment needs per sector are most significant in the renovation of buildings. Significant investments will be also necessary in other sectors, notably in

agriculture, to tackle broader environmental challenges, including biodiversity loss and pollution, the protection of natural capital and the support to the circular and blue economy, as well as for human capital and social investments related to the transition”.

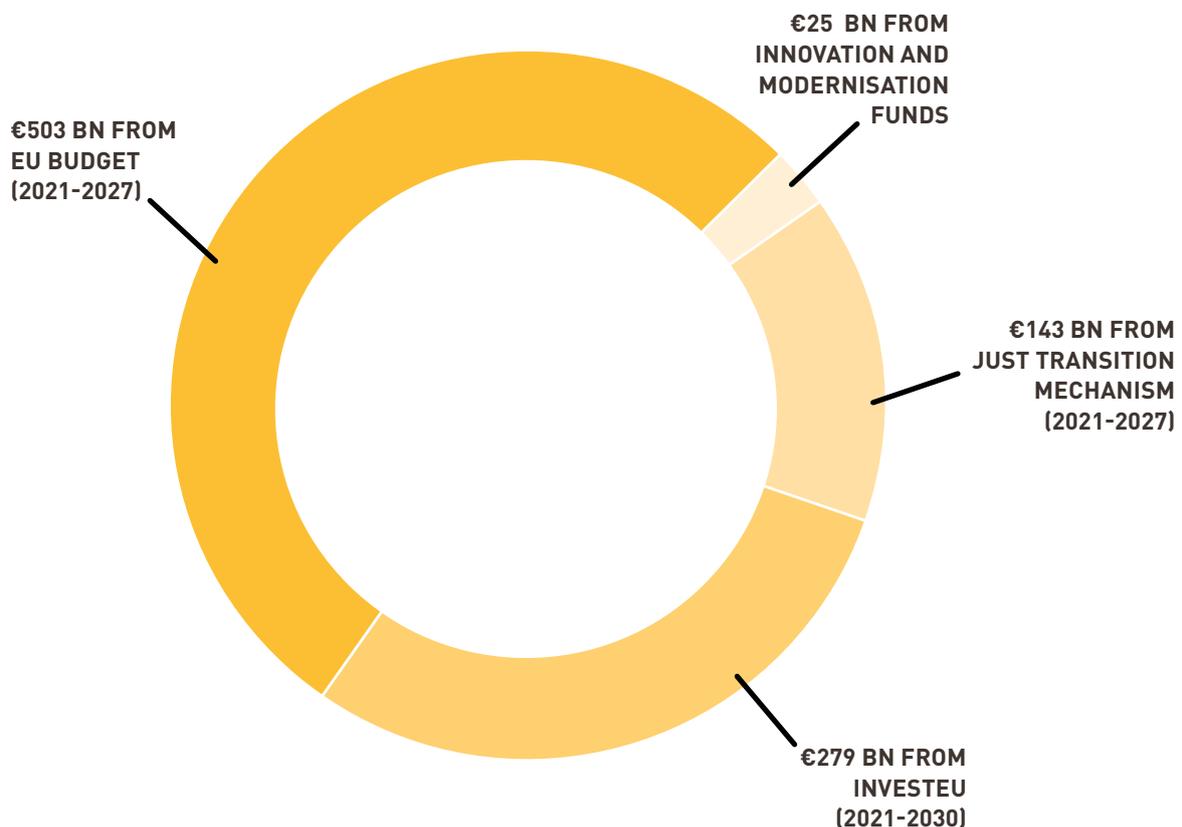
IN PRACTICE, THE SEIP IS MADE OF:

€503 billion from the EU Budget for the period 2021-2027: this amounts to the proportion of the EU budget that will be targeted to climate and environmental investments (25%). These are subsidies under the form of grants, for instance under cohesion and regional development funds. The European Commission aims for this quarter of the EU budget to “trigger additional national co-financing of around €114 billion over this timeframe on climate and environment projects”.

InvestEU - a new guarantee fund providing guarantees from the EU budget to the European Investment Bank (EIB) and other national public banks - is to leverage around €279 billion of private and public climate and environment related investments over the period 2021-2030. The objective is for the EIB and other implementing partners to “invest in more and higher-risk projects, crowding in private investors”.

The newly created Just Transition Mechanism (JTM) which seeks to mobilise at least €100 billion of investments over 2021-2027 with financing coming from the EU budget, co-financing from Member States as well as contributions from InvestEU and the EIB. Extrapolated over ten years, the JTM will mobilise around €143 billion.

The Innovation and Modernisation funds are also counted under the SEIP. Both mechanisms are financed by a part of the revenues from the auctioning of carbon allowances under the EU Emissions Trading System (the EU carbon market). Overall, these funds should provide some €25 billion for the EU transition to climate neutrality, with a special focus on lower-income Member States in the case of the Modernisation Fund.



IN ADDITION TO THESE FUNDING INSTRUMENTS, THE COMMISSION IS SEEKING TO USE THE SEIP TO:

/ Create an enabling framework for private investors and the public sector to facilitate sustainable investments. This means that the SEIP should support and steer direction for the Sustainable Finance agenda put forward at European level.

/ Provide support to public administrations and project promoters in identifying, structuring and executing sustainable projects. In practice, a tool that will be used is the Advisory Hub under Invest EU (the successor of the European Investment Advisory Hub under the “Juncker Plan”) which regroups several already existing technical assistance tools to advise and help develop projects and operations that could then be financed under the toolbox in the SEIP.

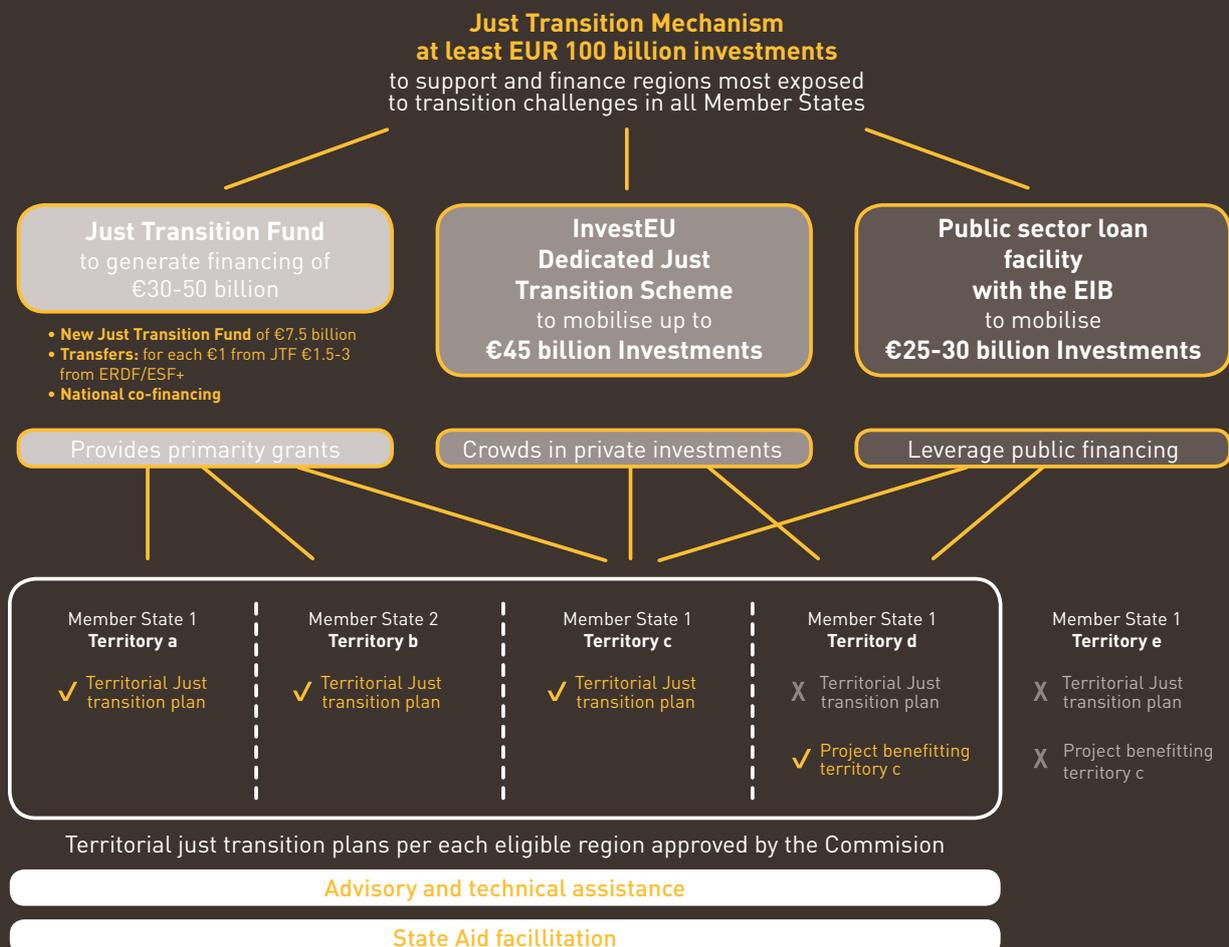
SNAPSHOT ON THE JUST TRANSITION MECHANISM

The JTM targets a fair and just green transition and will mobilise at least €100 billion in investments over the period 2021-2027 to support workers and citizens of the regions most impacted by the transition away from fossil fuels. It is certainly the most innovative part of the SEIP, as it is mostly made of new financial instruments. There are 3 pillars in this Just Transition Mechanism:

- The real new thing is the “Just Transition Fund” based on €17.5 billion of new money from the future EU budget and the post-pandemic recovery fund. Overall, this Fund should reach a financing capacity of €30-50 billion in total thanks to co-financing from Member states, the EIB, etc. From a climate perspective, it is important to flag that support to fossil fuels under the fund is not eligible. In order to access the money, countries will need to propose ‘territorial just transition plans’ that will be accepted or not by the Commission.
- A specific investment scheme under InvestEU: a portion of InvestEU will be labelled as being part of the JTM. This looks mostly like a labelling exercise in order to mobilise €45 billion of sustainable investments in the regions most affected by the transition challenges.

- The EIB will manage a new Public Sector Loan Facility backed by the EU budget to mobilise between €25 and €30 billion of investments. It will be used for concessional loans to the public sector, for example for investments in energy and transport infrastructure, district heating networks, and renovation or insulation of buildings. The facility will rely on a contribution of €1.5 billion from the EU budget and an EIB lending of €10 billion at its own risk. This tool can be seen as a pilot initiative under which the EIB would reinforce its focus on providing loans, coupled with support from the EU budget, to public authorities in support of their ‘territorial just transition plans’.

The JTM will focus on the social and economic costs of the transition in the most impacted regions and finance projects ranging from creation of new workplaces through support to companies, job search and re-skilling assistance for jobseekers who lost employment due to the transition, but also renovation of buildings and investments in renewable energy, district heating networks and sustainable transport.



[Source: European Commission https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_24]

CONFRONTING THIS INVESTMENT PLAN TO THE MASSIVE CHALLENGES THAT THE EGD IS SUPPOSED TO ADDRESS, IT IS IMPORTANT TO PROVIDE A CRITICAL READING OF THE SEIP AND THE COMMUNICATION AROUND IT:

- The overall €1 trillion figure is merely a political announcement and does not reflect what the EU will actually invest under the SEIP.

It is rather the total amount that should be leveraged via the planned investments - meaning that the €1 trillion figure is an addition of investments planned under the SEIP and what other investors (in particular from the private sector) will co-finance. This accounting trick is nothing new at EU level, as it was used repeatedly in the communication around the Juncker Plan, so that an amount of €500 billion could be reached.

The accounting is also quite creative, as it makes projections of investments until 2030, while the EU budget only covers the period 2021-2027. Therefore, the calculation is based on the assumption that the programmes under the SEIP (like the InvestEU) will be continued in the post-2027 period.

As the think tank Bruegel puts it in its article “A trillion reasons to scrutinise the Green Deal Investment Plan”, *“the plan will not even deliver these additional €100 billion per year in reality, as it will mainly consist of reshuffled funds from different existing programmes”*⁴⁵.

- Most of the instruments under the SEIP are simply the continuation of already existing investment programmes, there is only limited new or fresh money under it.

At the end of the day, there are only two really new instruments: the Just Transition Fund and the Public Sector Loan Facility under the JTM. Despite their novelty, and the potential added-value that they could bring to the toolbox of EU funding schemes for the Just Transition, they are undeniably of very limited sizes. Then, it still remains unclear how these instruments will concretely advance climate redistribution (repairs, compensation, conversion). Therefore, it looks realistic to consider them as pilot initiatives rather than as significant investment schemes.

As far as the InvestEU programme is concerned, it is simply the successor of the European Fund for Strategic Investments (EFSI) which was the cornerstone of the “Juncker Plan”. The most important change compared to EFSI relates to the fact that the EIB will only implement around 75% of the investments, with a maximum of 25% to be channeled by other financial institutions. This opens the door for national public banks, such as the KfW in Germany or the BPI in France, to benefit from EU guarantees to back their operations. Apart from that, there are no fundamental differences compared to the “Juncker Plan”. The implementation of the new fund will tell if relevant lessons have been learnt from the shortcomings of EFSI, which Counter Balance and CEE Bankwatch Network documented in a [report](#) at the end of 2019⁴⁶. As part of the operations of InvestEU, what will be reported as contributing to the Green Deal is the minimum 30% of mobilised investments going to climate and environment-related projects (compared to the minimum 25% that was the previous target under EFSI).

⁴⁵ See <https://www.bruegel.org/2020/01/a-trillion-reasons-to-scrutinise-the-green-deal-investment-plan/>

⁴⁶ Counter Balance & CEE Bankwatch, Not Worth Celebrating - Yet?, October 2019 <https://counter-balance.org/publications/not-worth-celebrating-yet>



THE MIXED TRACK RECORD OF THE “JUNCKER PLAN”

In November 2019, Counter Balance and CEE Bankwatch Network published an analysis of the performance of the European Fund for Strategic Investments (EFSI) during its pilot phase - its first 3 years of operations. The report identified a number of serious shortcomings that need to be addressed if its successor InvestEU is to have the intended impact.

SUSTAINABILITY: EFSI support for projects labeled ‘climate action’ has only moderately exceeded EIB’s standard climate action while handing out €2.6 billion in guarantees to fossil fuel projects and additional guarantees worth €5 billion to carbon intensive transport projects.

GEOGRAPHIC DISTRIBUTION: Most signed guarantees have been to projects in France, Italy and Spain.

ADDITIONALITY: the European Court of Auditors concluded in its latest report that the amount of investment mobilised by the EFSI may have been overestimated. The report showed that EFSI’s support has replaced pre-existing financing or alternative funding sources, mainly in the fields of energy and transport.

GOVERNANCE, INTEGRITY AND TRANSPARENCY: despite some progress compared to the early stages of implementation of the plan, key information about the approved projects still remains undisclosed and the EFSI Investment Committee has failed to fulfil the criteria of independence, with several cases of conflict of interest⁴⁷. Furthermore, support for projects under fraud investigation should be avoided.

⁴⁷ Of the eight members of the Investment Committee, we found that at least two of them work (and two had worked) for companies that have benefited in the past from EIB loans. This casts doubt on how independently these experts can act in their new endeavor.

Looking at the announced volumes, the contribution of the EU budget should be the most significant one under the SEIP. The 25% of the EU budget – raised to 30% following the adoption of the EU economic recovery package as indicated previously – which is to be devoted to climate and environmental projects will be reported under the Green Deal. This threshold only represents a minor increase compared to the previous budgetary period 2014-2020. Without diminishing the importance of these foreseen climate grants and subsidies, they also have to be considered in contrast with the remaining 70-75% of the EU budget, out of which significant support is planned to projects running counter to the objectives of the EGD despite the existence of a “do no significant harm” principle that should guide these investments. Cases in point here relate to high-carbon energy and transport projects that will still be eligible for financing under various schemes, as well as the infamous Common Agricultural Policy (CAP) which under its revised form is heavily criticised for providing a blank cheque to highly polluting and intensive agricultural methods.

Grants under the EU budget hold the potential to transform our economies and reduce social and territorial inequalities, but it is worth recalling that there are massive challenges around them. One of them relates to the absorption capacity of European countries, their capacity to actually make use of the European funds put at their disposal⁴⁸. **Figures** from the Bruegel think tank are quite telling: *“For the 2014-2020 period, Spain had absorbed only 39% of the money it was due from European Structural Investment Funds by 23 September 2020 – the EU’s worst rate – while Italy at 40% is also among the slowest. Croatia was similarly a poor performer with a 2014-2020 ESIF absorption rate of just 39% (by 23 September 2020)”*⁴⁹.

A last point on the funding channels part of the SEIP: overall, the EIB’s contribution to the investment plan is expected to amount to around €250 billion in terms of mobilised investments. Again, what is accounted for is “mobilised” investments, so the total costs of operations in which the EIB will be involved rather than its actual level of investments. In addition, the amounts presented under the SEIP are nothing really new, as the EIB in the last decade has already provided a similar amount of investments classified under “climate action” according to its own accounting methods. Independently from its role in the SEIP, the EIB is planning in any case to raise the volume of its climate and environmental sustainability investments, so that they represent at least 50% of its operations by 2025.

⁴⁸ There are many determinants for the absorption capacity of EU funds in Member States, among which feature the availability of internal resources for projects co-financing, administrative capacity and resources at central and local levels, or skills and experience of staff working in managing authorities.

⁴⁹ See: <https://www.bruegel.org/2020/09/will-european-union-countries-be-able-to-absorb-and-spend-well-the-blocs-recovery-funding/>

2 A STRONG BIAS IN FAVOUR OF THE PRIVATE AND FINANCIAL SECTOR: IS PUBLIC FINANCE ONLY THERE TO LEVERAGE PRIVATE INVESTMENTS?

To reach additional investments of €260 billion a year by 2030, which is the Commission's stated objective, the SEIP puts forward a mix of public finance instruments, mostly a combination of grants and loans. This public funding should then trigger additional contributions to a sustainable transition by the public sector in EU Member States, and by the private sector as well.

While a significant part of the SEIP will target public investments, it is important to take a closer look at what is in the financing pillar of the Green Deal for the private and financial sector. A few conclusions can be drawn:

/ THE FINANCING MODALITIES PROPOSED FOCUS ON BANKABLE PROJECTS /

A stated goal of the SEIP is to create a robust pipeline of sustainable projects, so that private investors can tap in and finance operations in line with the objectives of the EGD.

There is a severe shortcoming with this approach though. In practice, it means that the focus should be on providing advisory support to project promoters in order to make their projects bankable. In the Commission's words, *"technical assistance and advisory support will help identify and prepare sustainable projects and provide capacity building to project promoters to facilitate access to finance"*.

It is frequent to hear from financial institutions, even public ones like the European Investment Bank, that a key problem with the ecological transition relates to the lack of projects in which they can invest. Translated in the Commission's words, *"the availability of investment projects that are compatible with the expectations and requirements from investors does not yet match the demand"*. There are several reasons for that, one being that many projects needed to steer a transformation are of too little size for investors - think of an individual household willing to change its electricity devices or insulate its habitation.

Notwithstanding the need to stimulate the offer of initiatives leading to a just transition (for instance the need to develop solid local, regional or national building renovation programmes), **the approach of turning projects into bankable ones denies the fact that a majority of the needs for ecological transition will simply not be bankable and offer any return on investment.** This is precisely the reason why public investments are indispensable to support an ecological and social transformation of our economies and societies: public investments have the potential to support not bankable projects in the short term which however in the long run will deliver wider public interest outcomes contributing to the overall development of society and the economy. The creation of 'bankable projects' to catalyse growth, and hence deliver sustainable infrastructure projects, is largely based on the failed model of 'trickle down' economics: the assumption that, by enabling financial returns to the private and financial sectors, the society and economy as a whole will benefit from further investments.

Instead of trying to create artificial rates of returns on projects that are by nature to be financed mostly via grants and subsidies, public authorities should rather focus their efforts on increasing the volume and quality of their investments. Fundamentally, the only ways for projects to become fully bankable are for citizens to pay user fees for access to basic infrastructure, or to financialise them by creating asset classes, particularly in the infrastructure field. Either way, the public takes all the risk, while the private sector banks the profits. As described below, this is a highly problematic and dangerous approach to pursue.

Fortunately, there is also a focus on enabling more public investments in the SEIP. This is the case when the review of the State Aid framework at European level (still taking place at the date of finalisation of this report) is clearly linked to the EGD. The idea on the Commission's side is to enable more public investments by national governments to support sustainable investments, for instance in the energy efficiency and building renovation field. After years of limiting public investments under European spending rules, one could identify the beginning of a U-turn.

/ ATTRACTING PRIVATE CAPITAL AND INVESTORS IS BECOMING AN END IN ITSELF /

According to the SEIP communication, “a framework is needed to bridge the gap between policy objectives and the significant private financial resources available”. The narrative and underlying assumption is that public investments will not be sufficient to achieve a just ecological transition, hence “more is needed to master the challenges ahead. Private actors will need to provide the scale”.

While such assumptions may currently be countered when analysing the scale of public investments foreseen in numerous countries to recover from the COVID-19 pandemic, including under the Biden administration in the USA, the mantra of using public finance mostly to leverage private finance is omnipresent in the European Green Deal.

This is particularly the case at the level of the EIB and under InvestEU, where an objective is to crowd in private funding through guarantees by mobilising capital sleeping in the deep pockets of the financial system, as it was already done under the “Juncker Plan”. The rationale behind this objective is that “some investments needed for the transition entail more risk than the private sector can bear alone. This is where public funds can be used in a targeted manner to de-risk projects and leverage private financing”. In June 2021, the EIB President Werner Hoyer made it clear, during a G20 meeting, that a sustainable recovery should be based on an acceleration of public-private infrastructure investments, placing public-private finance at the top of his agenda⁵⁰.

This approach has been criticized by economists and public finance specialists Stephany Griffiths-Jones (Columbia University) and Natalya Naqvi (London School of Economics) in the context of the “Juncker Plan” and the European Fund for Strategic Investments (EFSI). In particular, they point out that the focus on leveraging private resources has come at the expense of playing a stronger role in furthering transformative policy orientations. The authors point out that “**member states’ budgetary constraints have created incentives for EFSI to focus excessively on increasing leverage at the expense of policy steer**”⁵¹. EFSI operations, like too many operations led by the EIB and public banks, are often so indirect and based on complex financial structures and intermediations that the European institutions are only able to exert limited strategic direction over projects and companies being financed. And the EFSI ended up leveraging for the sake of it: “Now that the private financial sector has become more willing to lend, and even does so at very low margins, there is not so much benefit in most countries and sectors, to de-risking them further. The financial sector must serve the real economy, and financial objectives, for example the development of capital markets, must never be an end in themselves”.

⁵⁰ See: <https://www.eib.org/en/press/all/2021-186-eib-president-highlights-importance-of-public-private-infrastructure-investment-to-accelerate-sustainable-recovery-at-g20-meeting>

⁵¹ Griffiths Jones, Promoting Investment in the European Union, Evaluating the Juncker Plan, December 2020 https://link.springer.com/chapter/10.1007/978-3-030-54895-7_21

Their other conclusion is that, in order to maximise leverage, the EIB and EIF (European Investment Fund, part of the EIB Group) have developed and used *“complex financial products and opaque pricing methods with terms too generous for private investors”*. Given that similar mechanisms will be at the core of the SEIP, it is concerning that what seems to matter is the risky nature of the financial engineering around projects (the “financial risk”) rather than the risky nature of the project itself (the “economic risk” of a project) which can be the price to pay for achieving higher social or environmental positive impacts. In practice, this means that a supposedly “innovative” project designed under a public private partnership (PPP) scheme would prevail over a traditionally publicly-financed project bringing enhanced social or environmental benefits. Ultimately, the focus on de-risking and financial engineering are new avatars of techniques aiming at increasing profitability for private financial actors, whilst minimising their risk of losses.

Looking at a broader historical perspective, it is also clear that relying on private finance is not a silver bullet, with the historical track record showing that private finance has often been ineffective in financing public goods and infrastructure, and has caused financial vulnerabilities. At international level, a growing emphasis is put by multilateral development banks like the World Bank or the EIB on the role of private finance in bridging the financing gap to reach the Sustainable Development Goals. The rationale is to use public development finance to trigger private investments and leverage private funds, by using public subsidies to reduce the risks for the private investor, enhance the investment’s return, or a mix of both.

The idea of leveraging trillions of private money may look attractive on paper, but it carries significant risks. There is, for instance, a risk that public investment will be diverted away from where it is most needed, such as investments in public health, education and the social protection necessary to eradicate extreme poverty and reduce inequalities. Mobilising private capital is much easier for countries that are richer and sectors that are more commercial, therefore defeating the overall objective of maximising development in the sectors and regions most in need. The promotion of such agendas is also a threat to democratic control over development and public investment policy, as it increasingly shifts the decisions of what gets financed to a handful of investors. Policymakers, taxpayers, and those affected by a project should be able to know how much was invested, what it costs (the subsidy), what additional private finance was mobilised and what its impact was.

THE CASTOR CASE IN SPAIN: WHEN EARTHQUAKES TURN INTO A FINANCIAL FIASCO



In 2015, a group of 20 Spanish NGOs called for a non-reimbursement of the debt provoked by the **Castor project**, the construction of a gas storage plant which was halted after gas injections caused hundreds of earthquakes⁵². This case illustrates some of the concrete impacts that the public-private agenda can have for local populations and their territories.

Back in 2013, construction works started at the €1.7 billion Castor underground gas storage plant off the coast of País Valencià commenced in summer 2013. But soon after the Spanish government was forced to halt work at the plant after 220 earthquakes in the area had been detected in less than a month. Local residents reported the tremors following injections of natural gas to prepare Castor for use. Work at the site has not since restarted.

According to a clause in the project's contract, the Spanish government took responsibility away from the project's developer for the repayment of the €1.4 billion EIB bonds that were used to finance the Castor project.

The Spanish government appointed gas grid operator Enagas to reach an agreement with a group of banks to repay the concession-holder. This was an attempt to avoid that the €1.4 billion would count against the already high public deficit at a time of austerity measures in Spain. The banks refinancing the debt would be compensated through future revenues from Enagas. In the end the cost of this financial fiasco will be borne by the Spanish citizens through their gas bills.

This debt accumulated for the failed project has been transferred to Spanish citizens as of January 2016 via their gas bills. The legal instrument used by the Spanish Government to do so was furthermore found unconstitutional by the Spanish Constitutional Court. It is estimated that the total amount to be reimbursed by Spanish people would represent over €3,28 billion to be paid over 30 years.

If national responsibilities are still to be established (trials are currently taking place in Spain for violating environmental laws, and the Spanish Supreme Court has ruled against the environmental impact assessment of the Castor gas pipeline), at European level the supporters of the project have not claimed any responsibility for the fiasco of Castor.

Indeed, the European institutions played a key role in enabling the project to see the light. In July 2013, the European Investment Bank (EIB) and the European Commission (EC) hailed the Castor plant as the first project to be financed under the Europe 2020 Project Bond Initiative. The EIB provided a €200 million letter of guarantee under the Project Bond Credit Enhancement scheme and an additional €300 million provided as senior bonds.

But when the situation on the ground started to deteriorate, the European response to the disaster was particularly weak. To make it short, the EIB got a way out of the fiasco by getting its money back. In a statement on its website in 2014, it confirmed that „*Senior Bonds have been fully repaid. The €200 million letter of guarantee (PBCE) is expected to be discharged accordingly*“⁵³. Instead of questioning its support to this failed project and reflecting upon this disaster, the EIB went ahead with the pilot phase of the Initiative.

An **interim evaluation** of the Project Bond Initiative commissioned by the EC in turn concluded that the Castor project was a financial success for a number of reasons, for instance stating that: “*The successful financial close demonstrated that bond credit enhancement can support long-term investment in periods of economic turmoil and in difficult markets, such as Spain.*”⁵⁴ In parallel, the evaluation claimed that “*without the participation of the EIB and the PBCE, the bond issue would most certainly have not taken place*”; confirming the key role played by the EIB in enabling the Castor project to see the light of day.

This story shows how risk-sharing mechanisms are structured as such that the public entity absorbs most of the risk in order to attract private investments. As a consequence, losses are socialized while profits are privatised. In addition, it led to the refinancing of a risky project that had failed to attract investments in any other way, and as a result increased the risk of failure and resulting public debt. The Castor project also showed that transparency remains a huge issue: most of the details about the contractual agreement, clauses and absorbed risks have remained secret.

⁵² See: <https://counter-balance.org/news/the-castor-project>

⁵³ See: <https://www.eib.org/en/press/news/update-on-eib-involvement-in-castor-gas-storage-project-spain.htm>

⁵⁴ See: http://ec.europa.eu/dgs/economy_finance/evaluation/pdf/mid_term_eval_pbi_pilot_phase_en.pdf

A recent paper from the United Nations Conference on Trade and Development (UNCTAD) calls instead for scaling up public investments, including via public development banks, rather than seeing the role for public finance as only to translate the SDGs into “bankable projects” and create a conducive investment climate for the private sector⁵⁵. There is an urgent need to rethink the “private finance first ideology” that is being promoted through such narratives. The financialisation and privatisation of development finance are unlikely to support the emancipation of developing countries and run counter to the promotion of an alternative and community driven sustainable development model.

As shown by the NGO network Eurodad, the COVID-19 pandemic is actually deepening the current private sector-led ‘recovery and resilience’ approach to the pandemic⁵⁶. Establishing private finance as the only solution towards recovery and resilience not only undermines the public nature of finance, it also detracts attention from the unfair transfer of value from public to private sector actors.

Many of the current forms of public support to long-term investment are seen as simply happening in a free-market context and according to its logic. This involves public investment banks and governments attempting to use their intervention in order to make investment appealing for private investors, without a substantial distortion of market dynamics and competition. In fact, once again, as already witnessed at the beginning of the century with financial liberalisation and deregulation, the interventions currently being proposed and implemented can be viewed as a ‘private Keynesian’ approach, aimed at stabilising and further boosting the private sector and market development per se as the key engine of economic growth. Consideration of the structural failure of the market in generating the current multifaceted crises and, more broadly, in addressing real investment needs in the productive economy, far beyond business as usual, is not truly on the agenda.

⁵⁵ UNCTAD, Mobilization of financial resources for inclusive and sustainable development, December 2019 https://unctad.org/meetings/en/SessionalDocuments/cimem8d11_en.pdf

⁵⁶ Eurodad, “Rebuilding better”, but better for whom?, April 2021 https://www.eurodad.org/rebuilding_better

THE JUNCKER PLAN AND THE PROMOTION OF PUBLIC PRIVATE PARTNERSHIPS



It is important to note that several instruments at the core of the SEIP, in particular EIB investments and the InvestEU, are making an extensive use of Public Private Partnerships (PPPs).

PPPs are contracts where a private company pays for, builds and sometimes runs an infrastructure project or service that is traditionally delivered by the public sector, such as schools, roads, railways and hospitals. What differentiates PPPs from public procurement is that a private company is responsible for raising the up-front costs for the investment, which is then paid back by the taxpayer over the course of the contract where the private company most commonly builds, maintains and operates the service. In return, private companies expect a guarantee that they will make a profit on the investment.

The use of private financing for public services has rapidly grown over the past 25 years, in and outside of Europe, with governments increasingly choosing private investment in infrastructure as a means of keeping down debt. Case studies from around the world continue to demonstrate that when governments opt for private investment for the construction and service delivery of health, transport, education and energy, access to essential services by the poorest in a society is restricted and inequalities tend to increase.

The NGO network Eurodad has compiled various [case studies](#), including the telling case of a hospital financed by the EIB in Sweden via a PPP⁵⁷. In 2010, the Swedish authorities gave a single bidder, the Swedish Hospital Partners (SHP), a PPP contract to build and manage the Nya Karolinska Solna Hospital. It was intended to be ‘one of the world’s most advanced hospitals’ but is now known as the ‘world’s most expensive hospital’. It is still not fully operational due to technical failures. Furthermore, the cost of the project has skyrocketed – a fact that was only fully exposed in 2015 by journalists at the Svenska Dagbladet newspaper. Meanwhile the private consortium has made a significant profit.

In the EU, since the 1990s, 1749 PPPs worth a total of €336 billion have reached financial close, according to the [European Court of Auditors](#)⁵⁸. And by the 2000s, the EIB had become the single largest lender for PPP projects in Europe⁵⁹.

But the claims around the benefits of private financing instruments such as PPPs have broken apart. PPPs are increasingly facing a public backlash as their effects become clearer over time, and some European countries have moved away from the model. The COVID-19 crisis in particular illustrates the failures of PPPs, with the support for PPPs having played a role in dismantling public health structures and undermining the universal right to health⁶⁰.

In March 2018, the European Court of Auditors published a special report exposing the failure of PPPs and slamming EU’s support for this model via the EIB and the EU funds. The court stated that PPPs are ‘*not always effectively managed and did not provide adequate value-for-money*’.

The report, entitled “[Public Private Partnerships in the EU: Widespread shortcomings and limited benefits](#)”, looked at 12 EU co-financed PPPs in France, Greece, Ireland and Spain in the fields of road transport and Information and Communication Technology (ICT)⁶¹. Inefficient spending was identified in contracts worth €1.5 billion, out of which €0.4 billion were EU funds. The report recommends that ‘*the Commission and the Member States should not promote a more intensive and widespread use of PPPs until the issues identified in this report are addressed (...) in particular, increasing assurance that the choice of the PPP option is the one that provides most-value-for-money.*’

In the face of the growing skepticism and evidence against PPPs, it would have been logical for the EIB and the Commission to adopt a cautious approach in the use of such mechanisms under the “Juncker Plan”. But our analysis shows that the European Fund for Strategic Investments (EFSI, the financing pillar of the Juncker Plan) is actually promoting the PPP model around Europe: Until the end of 2018, the EFSI had approved and/or signed at least 28 PPP projects through guarantees of at least €3.995 billion. And the regulation setting up the new InvestEU programme allows and even encourages the use of PPPs under the SEIP.

⁵⁷ Eurodad, History RePPeated, October 2018 <https://www.eurodad.org/historyrepppeated>

⁵⁸ European Court of Auditors, Public Private Partnerships in the EU: Widespread shortcomings and limited benefits, 2018 https://www.eca.europa.eu/Lists/ECADocuments/SR18_09/SR_PPP_EN.pdf

⁵⁹ See this recent academic paper on the promotion of PPPs by the EIB: <https://www.tandfonline.com/doi/full/10.1080/13563467.2019.1586862>

⁶⁰ See for instance: https://www.epsu.org/sites/default/files/article/files/PPPs_EN.pdf

⁶¹ See: <https://www.eca.europa.eu/en/Pages/NewsItem.aspx?nid=9700>

/ THE SUSTAINABLE FINANCE AGENDA ASSOCIATED WITH THE SEIP IS LIKELY TO REINFORCE THE FINANCIALISATION OF OUR ECONOMIES /

The term “financialisation” is used to describe the increasing power of financial actors over the economy (or the “real economy”). The concept became very visible after the 2008 global financial crisis hit. Although it is widely recognised that the 2008 financial crash was spurred by unregulated financial speculation⁶², national governments worldwide have since then re-regulated some products but have not fully put an end to financial markets’ deregulation⁶³.

Given the risks associated with financialisation, it is profoundly disturbing that the sustainable finance agenda associated with the Green Deal actually reinforces the financialisation of our economies.

Indeed, the above-mentioned focus on leveraging private finance is at the heart of the EU sustainable finance agenda, with the ambition that investors and their asset managers could redirect their investment efforts towards assets with potentially positive social or environmental aspects, thereby facilitating the implementation of the SDGs and the objectives of the European Green Deal. When launching the SEIP, the Commission explained that its aim is “*putting sustainable finance at the heart of the financial system. Since private companies and households will have to provide the bulk of the sustainable investments in the next decade, it is crucial to put in place clear long-term signals to guide investors to sustainable investment*”.

Despite the stated positive intentions of this agenda, it is important to highlight the harmful impacts that financialisation processes bring about⁶⁴:

- Instead of generating wealth and societal well-being through investing in the productive economy, investments made based on future profit speculations are the main money-making activity of our times. However, this shift in the way wealth is privately accumulated thanks to the growing scale and profitability of the finance sector, comes at the high expense of the rest of the economy and acts as a key driver of inequalities within and between countries. Whereas in the past profits came mainly from commodity production and the trade of goods, now wealth is often being extracted through speculative financial channels instead of being re-invested in the productive economy. Or, when targeting the productive economy, the problem is that investments are driven by a demand for short-term and massive financial returns.
- The decreasing profitability of the non-financial sectors is also linked to unemployment, stagnation or reduction of wages and the weakening of institutions and policies aimed at containing income disparity, such as labour unions’ collective bargaining and minimum wage laws. Ironically, at the same time that the finance sector extracts economic resources which could be invested in wage labour, it also increases workers’ dependency on financial actors’ credit to fulfil their most basic everyday needs. While incomes become stagnant, privatization and rising costs of services such as education and health care have been increasingly pushing citizens into debt.
- The expansion of finance not only implies macro-level and far-reaching changes on how the economy works but actually has very concrete impacts on people’s everyday lives and the environment. The current finance-led global economic system has led governments to become accountable to investors rather than to their citizens, failing in their human rights obligations and turning to the privatization of previously publicly provided services, including health, education and water provision amongst others.

⁶² Financial de-regulation is one factor, alongside another underlying structural cause: a crisis of overaccumulation with too much money slopping around without anywhere where it could be profitably invested.

⁶³ This is for instance the case of securitisation at EU level. While being one of the factors explaining the financial crisis in 2008, since 2015 there have been efforts to revive the securitisation market at European level. See for example this speech from the former Secretary General of Finance Watch at the European Parliament on the matter: <https://www.finance-watch.org/publication/speech-at-the-ep-public-hearing-on-securitisation/>

⁶⁴ For more information: Citizens for Financial Justice, Spotlight on financial justice, September 2019 <https://counter-balance.org/publications/spotlight-financial-justice>

3 A TOP-DOWN APPROACH WITH STRONG CHALLENGES ON TRANSPARENCY, ACCOUNTABILITY AND INTEGRITY

Many of the investments foreseen under the SEIP will be following a **top-down approach**.

Most financial instruments and tools to finance the European Green Deal - apart from the "climate" components of the EU budget - are likely to fail building upon a more bottom-up approach trying to involve citizens and authorities at local or regional level in the decisions taken about investments of the future.

Over the last decades, the cohesion policy - one of the key tools in the EU Budget - has developed the "partnership principle", under which its programmes are developed through a collective process involving authorities at European, regional and local level, social partners and organisations from civil society. This mechanism is supposed to ensure that the partnership is applied to all stages of the programming process linked to the disbursement of cohesion funds, from design, through management and implementation to monitoring and evaluation. While the implementation of the "partnership principle" has faced difficulties (see for instance this [briefing](#) from Bankwatch about its implementation in several Central and Eastern European member states), a similar approach trying to ensure that the financing of the EGD is adapted to local and regional needs and priorities is missing at this stage⁶⁵.

In particular looking at how the InvestEU and the EIB will operate under the SEIP, it is clear that the decisions about loans and various financial instruments are unlikely to be taken in consultation with citizens and in a fully transparent, accountable and participatory manner.

The reality of these investments is that they are demand-driven. In practice, this means that the EIB is contacted by a project promoter (which can be a private company, or a public institution), and assesses the relevance, soundness and financial solidity of the proposed operation, based on its investment policies and criteria. Ultimately, the approach is driven by the market: the EIB will pick the best projects/operations that are available on the market.

A similar approach will be there for InvestEU: the EIB, and in some cases other national public banks, will simply submit to the InvestEU Investment Committee the operations for which they wish to receive a guarantee from the EU Budget.

As far as the operations under the Just Transition Mechanism are concerned, they should largely build upon the future "Territorial just transition plans" which should define the territories in which the Just Transition Fund will be used. These plans set out the challenges in each territory, as well as the development needs

and objectives to be met by 2030. But, as for the National Energy and Climate Plans (NECPs) that EU countries have recently established for the next 10 years in order to meet the EU's energy and climate targets for 2030, it remains to be seen how transformative these investment plans will be⁶⁶. One example: in too many countries, investments in gas infrastructure are an essential part of the NECPs, while it is becoming clearer and clearer - even to the [International Energy Agency](#)⁶⁷ - that investments in gas projects should be stopped as soon as possible in light of the climate urgency.

In addition, while the EIB and other public banks operating under InvestEU will be invited to take into account these various regional and national plans, it remains possible for them to finance projects outside of these plans, providing them a large room of maneuver to pick and chose projects that could run counter to these plans.

Overall, this system will largely reflect the shortcomings of the EIB in terms of transparency. In March 2021, 53 civil society groups sent a [joint paper](#) to the EIB highlighting the serious shortcomings in the EIB's current policy and practice of transparency⁶⁸. Among key conclusions are that the EIB provides almost no information about its environmental and social due diligence before approving a loan, denying the public the

right to know on what basis it made such a financing decision. Even after a loan decision is made, many documents of public interest are kept confidential by the EIB instead of just being published. In particular, NGOs pointed at the limited transparency of the EIB governing bodies, in which decisions are largely taken behind closed doors and outside of public scrutiny. These major transparency issues at the EIB have been documented by many over the last decade, including in this remarkable [article](#) from the Financial Times "*EIB: the EU's hidden giant*"⁶⁹.

⁶⁵ See: <https://bankwatch.org/blog/more-stakeholders-participation-needed-in-new-cohesion-programmes-preparation>

⁶⁶ See: https://ec.europa.eu/energy/topics/energy-strategy/national-energy-climate-plans_en

⁶⁷ IEA, Net Zero by 2050, May 2021 <https://www.iea.org/reports/net-zero-by-2050>

⁶⁸ See: <https://counter-balance.org/news/eu-bank-failing-on-transparency-and-openness-warns-civil-society>

⁶⁹ <https://www.ft.com/content/940b71f2-a3c2-11e9-a282-2df48f366f7d>



A serious concern also relates to the fact that the EIB and public banks mainly finance big projects - in the case of the EIB, the traditional minimal threshold for a direct project financing is set at €25 million. Therefore, in order to support Small and Medium Enterprises (SMEs) and middle-sized enterprises (midcaps), public banks use so-called “financial intermediaries” as an integral part of their business model. There are two main ways for these intermediated operations to take place:

1. The public bank disburses large loans to other banks (usually private banks, but also regional or other national public banks) for these institutions to pass on (or “on-lend”) in smaller loan tranches to financial beneficiaries (SMEs or midcaps).
2. The public bank supports investment funds or private equity funds which themselves invest or take shares in companies.

A fundamental critique flagged by civil society and the European Parliament over the last decade relates to the lack of transparency of these operations, as the EIB provides next to no information on where the intermediated money ends up. This is compounded by the bank’s rigorous protection of its clients’ commercial confidentiality, as well as the clients’ interest in turn to protect the confidentiality of the ultimate beneficiaries of loans or equity. In this context of widespread business secrecy, in a large majority of cases, the EIB appears reluctant to encourage intermediaries to disclose at least some details regarding the support they provide to third parties. As it stands, the rather inflexible stance of the EIB ignores the overwhelming public interest vis-a-vis commercial confidentiality in knowing

how European public money is ultimately being deployed. Furthermore, the EIB does not shed any light on whether the investment funds it supports have any proven capacity and ability to manage – in line with EU standards – the environmental and social impacts and risks arising from their operations. Information on final projects financed through the intermediaries is unknown, even at an aggregated level. In addition, institutions like the EIB currently lack methodologies - and willingness - to measure the climate impacts of their intermediated operations. Therefore, the current situation is that at least a third of the EIB Group operations are not properly assessed and cannot be considered as climate-proof. This is a major challenge for the bank.

It is also worth noting that investments of the EIB are extremely hard to challenge for citizens affected by the bank's operations. Apart from an internal Complaints Mechanism which independence within the bank remains problematic, to date the EIB has benefited from a large legal immunity in front of the courts. Nevertheless, a landmark [judgment](#) of the Court of Justice of the European Union (CJEU) has ruled in January 2021 that the EIB has illegally avoided environmental scrutiny of one of its financing decisions⁷⁰. The case brought by lawyers at ClientEarth constitutes a major win for the NGO in the first case of this kind against the EIB. Concretely, it means that the EIB decisions should not be exempt from scrutiny provided for by EU law and must review certain funding decisions – some of which have huge environmental impacts – when a lawful request is made.

A final major challenge worth underlining centers around the corporate capture of EU funds and the never-ending stories of misuse of these funds by fraudsters and corrupt oligarchs. Just in 2019, the [European Anti-Fraud Office](#) (OLAF) opened 223 new investigations, recommending the recovery of €485 million to the EU budget⁷¹. This is certainly only the tip of the iceberg, as the misuse of EU funds has been documented in numerous countries across Europe and goes far beyond the most mediatic cases like the [alleged breach of conflict of interest rules](#) involving Czech Prime Minister Andrej Babiš⁷². The creation of a new European Public Prosecutor Office (EPPO) however represents a promising step forward in allowing prosecutions related to the corrupt and fraudulent use of the EU budget and the future EU recovery funds. Still, EPPO has since its infancy been confronted with numerous challenges regarding its funding and the opposition of certain governments to make it an effective and powerful body.

The recent hype around hydrogen being put at the core of the EGD also shows how corporate capture impacts the political priorities guiding the use of public finance. A [report](#) by Corporate Europe Observatory, Food and Water Action Europe and Re: Common analysed over 200 documents revealing an intense and concerted lobbying campaign by the gas industry in the EU to convince the EU to embrace hydrogen as the 'clean' fuel of the future⁷³. Doing so has secured political, financial and regulatory support for a hydrogen-based economy, meaning that the gas industry can look forward to a lucrative future, even if this spells grave danger for the climate as well as the communities and ecosystems impacted by fossil fuel extractivism. Indeed, the climate benefits of hydrogen are facing increased criticisms, in particular from two US scholars, Robert Howarth and Mark Jacobson, who published in August 2021 a [research paper](#) casting doubt over the environmental merits of hydrogen made from fossil gas with carbon capture technology⁷⁴. In this context, it is imperative to learn lessons from such cases to ensure that the public interest truly prevails.

⁷⁰ See: <https://www.clientearth.org/latest/press-office/press/clientearth-wins-court-case-against-eib-over-green-scrutiny/>

⁷¹ See: https://ec.europa.eu/anti-fraud/investigations/fraud-figures_en

⁷² See: https://ec.europa.eu/regional_policy/en/information/publications/reports/2021/final-report-on-the-audit-of-the-functioning-of-the-management-and-control-systems-in-place-to-avoid-conflict-of-interest-in-czechia

⁷³ Corporate Europe Observatory, Food and Water Action Europe & Re: Common, The Hydrogen Hype, December 2020 https://corporateeurope.org/sites/default/files/2020-12/hydrogen-report-web-final_3.pdf

⁷⁴ Howarth & Jacobson, How green is blue hydrogen?, August 2021 <https://onlinelibrary.wiley.com/doi/10.1002/ese3.956>

Besides the EU funds, investments made by the European Investment Bank are also wide open to abuse by fraudsters, money-launderers and corrupt politicians, as we exposed in our November 2019 [report](#) "Is the EIB up to the task in tackling fraud and corruption?". Although, on paper, the Bank has controls in place to reduce the risk of fraud and corruption, its policies are poorly policed and full of loopholes. For example, the Counter Balance investigation found, under current EU law, the EIB is not even required to have in place anti-money laundering rules. EU law also protects the EIB from legal challenges where its anti-corruption policies are broken or unenforced. No sanctions can be applied by the courts because the policies are not enshrined in law – they are merely 'internal rules' that are exercised at the EIB's discretion.

The Counter Balance report analysed four cases of EIB investments tainted by corruption (loans to Volkswagen group, Passante di Mestre and MOSE infrastructure projects in Italy, Sostanj coal power plant in Slovenia). It concludes that the EIB has a 'variable geometry approach' to fighting fraud and corruption and lacks a systematic and stringent way to deal with politically sensitive cases. These four investments alone saw €2.8 billion spent on corrupt projects. At a time when the EIB plans to become the 'EU Climate Bank' and to play a key role in a European Green Deal, these serious issues still have to be addressed in order to enhance the control over the use of public funds. Overall, it is high time to plug key loopholes and weaknesses which allow European public funding to be misused.

>> CHAPTER three

RECLAIMING PUBLIC INVESTMENTS:
making the financial pillar of the European
Green Deal work for citizens and territories

| **In light of the fundamental
| criticisms brought in
| the previous chapters to
| the EGD and its financial
| pillar, this chapter is a
| tentative proposal for
| another approach to EU
| public investments and the
| financing of the European
| Green Deal.**



We see a fundamental role for democratically-controlled and accountable public finance in steering a positive, people-led, structural transformation of our societies towards economic diversification, sustainable living, in a clean environment, respecting nature and other beings, where social equality, human rights and democratic processes and decision-making are strong and respected. The COVID-19 crisis and the

multi-faceted fragilities of our societies that it revealed only reinforce the need for a transformed public finance to lie at the heart of recovery efforts across Europe and beyond.

When challenging dominant economic models, civil society organisations - as heterodox economists and politicians - are often asked to identify what alternatives exist, and how they could be implemented in practice instead of already existing ways of

functioning. Building on the wide amount of literature and real-life experiences showing that alternative economic models do exist, our proposal will identify both principles and concepts that should guide future EU public financing under the European Green deal as well as concrete policy recommendations to kick-off a series of “non-reformist reforms”⁷⁵.

To structure our proposal, we will use the classification made by Thomas Marois from University College London in a recent book on public banks⁷⁶, where he foresees three main goals for public banks in steering a social, economic and environmental transformation: **DECARBONISATION, DE-FINANCIALISATION AND DEMOCRATISATION**. We consider that, in order to bring about real systemic change, the EGD and its financing pillar should focus on these three dimensions altogether.

⁷⁵ Whereas reformist reforms essentially maintain the status quo and do not threaten existing structures, non-reformist are reforms that “challenge existing power relations and pave way the way for more revolutionary changes in the larger society necessary for a more socially just and environmentally sustainable world” (Baer, Motor Vehicles, the Environment, and the Human Condition, 2019, p. 166)

⁷⁶ Marois, Public Banks: Decarbonisation, Definancialisation and Democratisation, May 2021 <https://www.cambridge.org/core/books/public-banks/0EC8E41F837E1F10BE53FC31DA83D012>



1 THE FINANCING OF THE EGD: CLIMATE AND SOCIAL JUSTICE GOING HAND IN HAND WITH DECARBONISATION

/ STRICT SOCIAL AND ENVIRONMENTAL CONDITIONS MUST BE LINKED TO ALL FUNDING UNDER THE EUROPEAN GREEN DEAL /

A starting point for the financing of the European Green Deal - one that seems obvious to many - is that all public financing under the EGD should be linked to strict social and environmental conditions to ensure that it causes no harm to the climate, environment and populations. Therefore, all beneficiaries of SEIP funds should commit to concrete and binding plans for reducing their environmental footprint (including GHG emissions, resource use, impacts on biodiversity, etc.).

Through its interactions and support to clients across Europe, the European Union - via its institutions and financial instruments - shall undertake concrete actions on safeguarding the environment, social equality, human rights (including workers and women's rights), and democratic processes. One way is to introduce binding clauses in contracts with clients and intermediaries, enabling the EC and the EIB to suspend the disbursement of funds in case of clear breaches of human rights or environmental and social standards.

These conditions should be considered as linked to a positive agenda of economic and environmental justice. This is a very different set of conditions that those often set at European and international level to impose structural adjustments, fiscal reforms and austerity measures.

The ongoing political discussions about what a "sustainable" investment means - in particular around the creation of the EU Taxonomy for sustainable investments - demonstrate the magnitude of risks that the EGD ends up financing harmful projects. Carbon-heavy industry and several governments have exerted a massive push to keep climate-harmful energy supplies like gas or wood burning as eligible under the future Taxonomy, jeopardizing the climate credentials of the EGD from the outset.

For the EGD to play a positive role, the SEIP should not channel a single cent to the fossil fuels industry, be it directly (we can think here of the massive push for gas projects to still receive public funding) or through the back door (in particular with the push for creating an hydrogen economy which would lock our societies in a gas-fuelled era). The nuclear industry, as well as forest-destroying biomass, should also be excluded entirely from the beneficiaries of the EGD's support.

In addition, all financing tools under the SEIP should be fully immune to greenwashing. The current focus on "false solutions" such as Carbon Capture and Storage (CCS) should cease before billions of Euros are injected into technologies that only enable to make the carbon-heavy industries of the past marginally greener⁷⁷.

⁷⁷ Another important area for investments concerns the cleaning up of industrial plants and areas. In the future, EU and EIB funding are likely to be more and more target to build "green" projects (including hydrogen, renewables) on industrially polluted areas. A challenge will be to ensure that these investments truly clean up these areas and profoundly transform them, instead of bringing a "green" top up to polluting activities.



The EIB and all institutions involved under the EIP should focus on projects that mitigate climate change, build resilience and do no harm, while refraining from entering the new business of offsets and payments for ecosystem services⁷⁸. As described in Chapter 1, offsetting has been rapidly expanding as a promising policy for allowing development and economic growth while achieving a “No Net Loss” of biodiversity. The “Net” is important because it enables destruction or pollution on the assumption that the damage can be offset. Ultimately, these mechanisms, along with many other attempts to create markets for ecosystem services, all contribute to the financialisation of nature.

Therefore, instead of trying to make nature an asset class and develop a whole set of “innovative” financial instruments to protect biodiversity, the various financial tools - in particular subsidies and grants under the EU Budget - should aim at protecting biodiversity wherever it is found, including in clearly established No Go Zones⁷⁹. Companies supported under the SEIP should explicitly avoid the use of carbon and biodiversity offsets, due to their terrible track record in meaningfully reducing emissions and protecting biodiversity.

Finally, social issues, and the reduction of inequalities, should be at the heart of the financing pillar of the Green Deal. In order to ensure that the financing of the EGD goes to working people hit by the COVID-19 crisis, the protection of labour rights and decent jobs for companies receiving SEIP funding should be made central.

Introducing meaningful conditions on the respect of workers’ rights is crucial. Companies that fail to respect labour rights and/or refuse to negotiate with or recognize trade unions and worker’s representatives should not be eligible for SEIP financing.

In their financing operations, the Commission and the EIB should take the necessary measures to prevent any company receiving their support from paying dividends to its shareholders, giving out bonuses to its CEO or from carrying out share buybacks, for as long as they receive public support. It must help compel companies to protect their employees, safeguard employment and offer decent working conditions as a matter of priority. For instance, companies receiving support should not be allowed to have staff restructuring or layoffs before the full repayment of their loans by the EIB, or under the InvestEU programme.

⁷⁸ Detailed recommendations for the EIB to make the “EU Climate Bank” a reality are available in this joint statement by 47 civil society organisations: <https://counter-balance.org/publications/making-the-eu-climate-bank-a-reality>

⁷⁹ See for example the initiative by Banks & Biodiversity: <https://banksandbiodiversity.org/the-banks-and-biodiversity-no-go-policy/>

A JUST TRANSITION NEEDS TO BE WORKER-LED

Two of Counter Balance's members, Friends of the Earth France and Platform in the UK, have been leading campaigns to amplify the voice of workers within the oil and gas industries, whose livelihoods are inextricably linked to the energy transition. Both organisations have run surveys to better understand the needs of workers and are trying to shape their campaigns around what workers want from their governments and employers⁸⁰.

Friends of the Earth France is also supporting specific workers' fights, for example the employees of the refinery of Grandpuits in the area of Paris. In September 2020, Total announced a reconversion plan that was highly contested by its own employees. Not only would the proposed activities not properly contribute to the necessary transition, the plan could also destroy up to 700 jobs and endanger workers' security on site. FoE France together with a coalition of NGOs supported the workers during their 40-days strike⁸¹, decrypted Total's greenwashing⁸³ and are now elaborating an alternative plan of reconversion in close collaboration with the workers.

These campaigns highlight the need to build more links and solidarity between environmental movements and labour movements to ensure that the perspectives and needs of workers are taken into account.

They start from the perspective that a transition can only be just when the workers affected can have a say in the future of their livelihoods and are able to benefit from the transition. Any solution that excludes workers in decision-making will likely fail to deliver social justice.

⁸⁰ See: <https://platformlondon.org/p-publications/offshore-oil-and-gas-workers-views/> and <https://www.amisdelaerre.org/enquete-transition-juste/>

⁸¹ See: <https://www.amisdelaerre.org/communique-presse-raffinerie-de-grandpuits-nouvelle-mobilisation-a-la-defense-pour-denoncer-le-greenwashing-et-la-casse-sociale-de-total/>

⁸¹ See: <https://www.amisdelaerre.org/communique-presse/plateforme-zero-petrole-a-grandpuits-total-enfume-les-raffineurs-et-le-climat/>



/ FOCUSING ON ESSENTIAL PUBLIC SERVICES AND COMMON GOODS /

The solutions to the climate crisis should not only be “green” but they should actually contribute to a real transformation of our societies and economies. We need to move away from seeing climate change as a technical problem (i.e. CO2 molecules in the wrong place) and rather see it as a political and economic problem.

As outlined in Chapter 1, the EU Green Deal is not the only existing proposal for a social and environmental transition. A wide range of alternatives have been proposed by feminist and decolonial movements. These include - but are not limited to - new social and economic models (such as the social and solidarity economy) that put people and their needs at the centre, the remunicipalisation of public services and the reclaiming of the commons.

Central to these proposals is the need to shift from a focus on economic growth to one focused on care and well-being. They propose a broader view of the “Just Transition”, as an economy and society-wide transformation that seeks to fundamentally improve people’s life, by expanding social and public services, providing quality and unionised jobs, and investing in care work.

In this context, the SEIP should clearly prioritize support for public goods, as well as services and infrastructure on which social and human reproduction relies. Reinforcing public services accessible to all should be at the heart of the public mission of the Green Deal.

Grants, loans and technical assistance available under the SEIP hold the potential, in tandem with recovery plans at EU and national level, to make a difference in the development of energy efficiency projects, building renovation, decentralized renewable energy sources, circular economy and other forms of infrastructures that are connected to the needs of citizens and territories.

OTHER FORMS OF ECONOMIC MODELS AND ALTERNATIVES TO GREEN FINANCE

All across the world, a myriad of alternatives to mainstream economic models are attempting to tackle the root causes of the climate crisis, centering around social justice and working with the diversity of local needs instead of looking for “one-size-fits-all” solutions. Some (overlapping) examples include:

SOCIAL AND SOLIDARITY ECONOMY:

Socio-economic measures that prioritise the needs of people over making a profit and guided by values of solidarity, environmental sustainability, participation and the community⁸³.

(RE)MUNICIPALISATION:

Part of a broader set of reforms that seek to reverse privatization and move back to public ownership and management of vital services and infrastructure (including but not limited to water, energy, healthcare and education⁸⁴).

RECLAIMING AND BUILDING NEW COMMONS:

Measures that seek to return local and community control over natural resources and limit the scope of the market.

RELOCALISATION:

Strategies to build societies based on the local production of food, energy and other goods instead of relying on global value chains⁸⁵.

AGROECOLOGY AND FOOD SOVEREIGNTY:

Strategies that emphasise the creation of diverse and relocalised farming systems, centred around democratic control and access over land, seeds and other resources⁸⁶.

COMMUNITY-OWNED RENEWABLE ENERGY:

Small-scale solar and wind projects that are planned and run by and for communities.

DEGROWTH:

Degrowth emphasizes the need to reduce global consumption and production and advocates a socially just and ecologically sustainable society with social and environmental well-being replacing Gross Domestic Product as the indicator of prosperity⁸⁷.

⁸³ For more information see: <http://www.ripess.org/what-is-sse/what-is-social-solidarity-economy/?lang=en>

⁸⁴ For more information see the book of the Transnational Institute (TNI): “The Future is Public -Towards Democratic Ownership of Public Services”, 2020: <https://www.tni.org/en/futureispublic>

⁸⁵ See for example the following article of Society for International Development calling to “Re-balance global and local value chains” : https://www.2030spotlight.org/sites/default/files/download/Spotlight_Innenteil_2020_web_re-balance.pdf

⁸⁶ For more information see: ECVC, A guide to Food Sovereignty, 2018 <https://viacampesina.org/en/wp-content/uploads/sites/2/2018/02/Food-Sovereignty-A-guide-Low-Res-Vresion.pdf>

⁸⁷ How to invest in the context of a degrowth economy is a little-researched area. A contribution from Tommi Lehtonen (Sustainable Investment and Degrowth, 2018 <https://www.taylorfrancis.com/chapters/edit/10.4324/9781351173643-11/sustainable-investment-degrowth-tommi-lehtonen>) highlights various strategies for degrowth investments.

/ DECOLONISING THE GREEN DEAL /

As described in Chapter 1, while there is an urgent need to transition to low-carbon societies and economies, it should not be done through the continuous exploitation of communities and natural resources. Although the EGD outlines efforts to achieve a just transition, resource efficiency, and a circular economy, these will mean little if they are built on promises of green growth and increasing pressure on people and resources to export natural resources to the European Union.

As a consequence, an objective for the financing pillar of the EGD should be to contribute to the relocalisation of supply chains. In order to avoid a never-ending and damaging race to raw materials imports, a genuine strategy to stop all extraction of natural resources should accompany the European Green Deal. This strategy should not be about securing privileged access to these materials outside the EU borders - as currently proposed by the European Commission - but about exploring options for a reduced use of raw materials⁸⁸ and resource efficiency in tandem with the relocalisation of industry and production lines closer to where consumption is taking place. As Max Ajl writes in his book: *“To begin to carry out popular development in the North in a way that makes people’s lives in the North better while also making people’s lives in the South better, we need to look towards sectors and industries where we can increase the production of things which are useful to poor people without causing further social or environmental harm to the South.”*⁸⁹

Such efforts could be framed under the objective to “decolonise” the Green Deal, as promoted by many other academics and activists, including for instance **Bhumika Muchhala**⁹⁰ or **Avila and Arauz**⁹¹. In Avila and Arauz’s words, *“climate emergency may be a planetary reality, but there is no justice in how its causes and consequences are divided up between the Global North and the Global South”*.

Hence, the repeated calls from the European Commission and the European Council to export and externalise the European Green Deal outside of the EU bear an ambiguous meaning⁹². On the one hand, it is welcome that the EU institutions aim at raising the bar on climate finance and contributing to the just transition of territories outside of Europe. On the other hand, this externalisation of the Green Deal is also about opening markets for European companies to export “clean” technologies, and, as flagged above, securing energy and raw materials supply for consumption within Europe.

Therefore, any serious attempt to build a Global Green Deal should be fully based on solidarity, ownership, participation of local populations, and not end up with exporting an economic model that is failing in Europe to other continents⁹³.

This should run in parallel to efforts to democratise global economic governance so that countries in the Global South have an equal say on decisions that affect their own futures and development paths. This also means systemic reforms of the global financial architecture, debt architecture reforms, and enhanced international cooperation on tax matters.

⁸⁸ For instance by favouring plants for the use of recycled metals, like aluminium, instead of new aluminium plants

⁸⁹ Ajl, A People’s Green New Deal, April 2021, pp. 167-8 <https://www.plutobooks.com/9780745341750/a-peoples-green-new-deal/>

⁹⁰ See: <https://www.rosalux.de/en/news/id/43146/towards-a-decolonial-and-feminist-global-green-new-deal>

⁹¹ See: <https://progressive.international/blueprint/1d2b3058-2466-4f04-b36d-af7618ac44d3-vila-arauz-decolonise-the-green-new-deal/en>

⁹² See for instance the following article by Ursula von der Leyen, President of the European Commission, and Werner Hoyer, President of the European Investment Bank on a “Global Green Deal” <https://www.project-syndicate.org/commentary/a-global-green-deal-through-european-climate-leadership-by-ursula-von-der-leyen-and-werner-hoyer-2021-03>

⁹³ For example, Hamza Hamouchene describes the massive plans to produce renewable energy in the Sahara Desert and export it with power lines as “Green Energy Grabs” <https://global-gnd.com/land/#green-energy-grabs>

2 USING EU PUBLIC FINANCE TO DE-FINANCIALISE THE ECONOMIC SYSTEM

We need EU public finance to really make a difference in countering a market logic that drives inequality and effectively puts our economies, politics and societies in a straitjacket. For that to happen, public finance needs to become a key tool for the structural transformation of economic systems and territories. EU public finance holds a genuine redistribution potential, able to steer ecological transition, reduce inequalities between citizens and territories, support social services – especially in less developed regions and countries, counter the financialisation of the economy and finance people-led and decentralized initiatives.

It is crucial for public finance and the European Green Deal not to contribute to the further financialisation of our economies and to avoid financing speculative bubbles. In this regard, a new objective should be added at the core of the financing pillar of the EDG: de-financialisation.

Here, we refer to de-financialisation as *“a path away from the short-term, speculative and often predatory practices of the hyper-financialized hyper-globalized world that emerged from the 1980s, as financial markets were liberalized and cross-border capital flows were completely unregulated”⁹⁴. In other words, de-financialisation aims at “rolling back the socially useless aspects of modern finance and advancing both its productive potential and the democratic interest over its activities and objectives”⁹⁵.*

⁹⁴ McDonald, Marois & Barrowclough, Public Banks and Covid-19, 2020 https://publicbanks-covid19.org/images/PDF_FILES/Public_Banks_and_Covid19_-_Full_Book.pdf

⁹⁵ See: <https://www.ippr.org/publications/definancialisation-a-democratic-reformation-of-finance>



/ FOCUSING ON THE REAL ECONOMY INSTEAD OF THE FINANCIAL SECTOR /

The European Green Deal, and the financial resources it will channel in the coming decade, could be used as a tentative to de-financialise the European economy. Exploring options in this regard are actually necessary in order to put public mission and people over profit.

As a starting point, the SEIP should focus on the real economy⁹⁶, by supporting transformative projects benefiting the common good.

⁹⁶ The real economy can be defined as the production, purchase and flow of goods and services within an economy, focused on the activities that allow human beings to directly satisfy their needs and desires, apart from any speculative considerations. This runs in contrast to the financial economy, which concerns the aspects of the economy that deal purely in financial transactions, including of financial assets which represent ownership - or claims to - of real sector goods and services.

Reclaiming public finance and public investment is not only about finding an alternative to private finance in order to support the transition we need. Most importantly, it is about activating the most transformative tool at our disposal to shrink private capital markets and re-channel private wealth into public interest mechanisms acting progressively outside pure market logic. The financing of a just socio-ecological transformation cannot happen without transforming wealth accumulation mechanisms, and thus significantly reducing the role of capital markets.

Instead of having the public offering guarantees for new public-private schemes aimed at reducing risks for private investors and making investments more appealing while leaving the management of the investment in the hands of the latter, the public investment banks and funding programmes under the SEIP could:

- Fund cooperatives or other actors in the social and solidarity economy sector to set up community-led banks that invest directly in their local and sustainable economies.
- Proactively offer a stable, moderate and capped return to institutional investors willing to diversify their portfolio, ultimately by issuing some very long-term targeted bonds just for them; >>Then manage the resources directly raised from investors for interventions taking place outside the pure short term profit maximisation logic of markets, and be able to produce in the long-run a moderate return.

In such a scenario, institutions acting in the public interest will decide on their own, without interference from the private sector, which interventions in the economy to support. Progressively, therefore, a greater amount of private wealth could be managed not by private investors but by public institutions acting in the public interest. A prerequisite is to stop leveraging and de-risking private investments simply for the sake of it. Indeed, this approach ends up financing business as usual and ensuring an extraction of profits for clients. A public bank at the heart of the EGD like the EIB shall not act as a commercial bank and enhance lending to already bankable and highly profitable entities and projects. On the contrary, public banks should focus their efforts on financing projects with high added value in terms of addressing social justice, inequalities and poverty reduction for instance – projects that could otherwise be considered as too risky by commercial banks and the financial markets. Therefore, the EIB and a programme like InvestEU should stop aiming just at making projects “bankable” but should rather consider themselves as simply one element of a toolbox that the EU needs to have in its hand in order to support the multi-faceted Just Transition necessary in Europe and beyond.

Acting as long-term investors, the Commission and EIB should not aim at tackling short term market failures, such as temporary equity participation into private companies or financial institutions that go bankrupt. On the contrary, public investments should address structural market failures precisely where markets alone are not interested in allocating capital because of a lack of sufficient profits.

By focusing on the real economy, the SEIP should consciously try to “slow and fix flows of capital”. Thomas Marois provides an interesting perspective on the matter: *“Ideally, the entire financial system would be re-regulated so as to be less highly concentrated, more competitive and less vulnerable to banks that are ‘too big to fail’, but even without this public banks can be a bastion for change. They can be shielded by the public sphere so they need not operate only in narrowly financial terms and can do more to provide catalytic and ‘patient finance’ that provides long-term public benefits in the public interest”*. This role could help reduce *“dependencies on foreign, private, market-based finance and the monopoly control of private bankers over public policy”*⁹⁷.

Looking at the future operations of the InvestEU fund, the economists Natalia Naqvi and Stephany Griffith Jones come to the conclusion that *“in order to increase investment in the real economy and play a role in structural transformation, InvestEU must have a greater focus on the final beneficiaries of projects rather than on the private financial intermediaries themselves”*. And *“in those cases where it is necessary to use intermediaries, performance related conditionalities could be enforced to have greater control over projects”*⁹⁸.

Sustainable finance can have a role to play in a fair transition, but it needs to be a very different kind of sustainable finance than the one on the drawing boards at European level; one that is based on a reduction of energy consumption and resource demands in the Global North, rather than to pursue the myth of green growth.

The sustainable finance we need for a desirable future should be directly linked to the real economy and target a reduction in the consumption of natural resources and energy rather than green growth, and prioritise people’s wellbeing and environmental protection over profit maximisation. Such sustainable finance should include investment in energy efficiency, building renovation, agroecology and localised food systems, public healthcare, green public transport, and decentralized renewable energy sources, prioritising projects centered around public ownership and control.

In the spirit of the de-financialization objective highlighted above, the EU sustainable finance agenda should recognise that creating new asset classes will not solve the climate urgency but ultimately risks aggravating it. The focus on Environmental, Social and Governance (ESG) standards for sustainable investments cannot solve it either, as the result of it is mainly the expansion of a “green finance” that is disconnected from the real economy and the needs of citizens and territories.

⁹⁷ McDonald, Marois & Barrowclough, Public Banks and Covid-19, 2020, p. 18 https://publicbanksco-vid19.org/images/PDF_FILES/Public_Banks_and_Covid19_-_Full_Book.pdf
See: <https://www.ippr.org/publications/definancialisation-a-democratic-reformation-of-finance>

⁹⁸ Naqvi & Griffith Jones, Lessons for the post-COVID response from the EIB and EFSI, July 2020 <https://www.geg.ox.ac.uk/sites/geg.bsg.ox.ac.uk/files/2020-07/GEG%20WP%20143%20July%202020%20Industrial%20policy%20and%20risk%20sharing%20in%20public%20development%20banks.pdf>



**/ A NEW WAVE OF PUBLIC-PUBLIC INVESTMENTS AND PARTNERSHIPS IS NEEDED:
EXPLORING OTHER FINANCIAL OPTIONS FOR A STEADY ECOLOGICAL AND SOCIAL JUST TRANSITION /**

In this report, we call on a new wave of public-public investments and partnerships to be at the heart of the financing of the European Green Deal. Indeed, we consider that the limited public financial resources put on the table would be used at best if invested in reinforcing common goods and essential services. While many of the current tools under the SEIP are designed to de-risk private investments, we should instead rely on public-public and public-community partnerships⁹⁹ to replace public-private partnerships as a stated objective for financing the Green Deal¹⁰⁰.

The economist Stephany Griffith Jones in a recent [paper](#) on the role of the EIB in EU Green transformation¹⁰¹, argues that the goal of a financial institution should be for its instruments to aim at appropriate risk sharing with private financial institutions and companies, rather than “de-risking”, which usually means transferring risks from the private sector to the EIB, and ultimately to EU governments and taxpayers. Alongside other economists Mazzucato and Mikheeva, she calls for significant risk-sharing to accompany profit sharing.

Ultimately, this can be translated into the EIB, and other public banks benefiting from InvestEU guarantees, to take equity in public and private companies and exert strong policy steer via this equity share. Griffith Jones highlights that this could allow the EIB to take risks in supporting economic actors strongly contributing to the goals of the Green Deal, so that *“if the company/project becomes very profitable, the EIB will obtain part of the profits, which it can use to cross-subsidize socially or environmentally desirable operations and/or increase the EIB’s own capital or reserves, leading to future increased ability to carry out larger or more transactions”*.

If they are really to benefit European citizens, European public investments should be re-oriented towards supporting and further developing efficient public services, for example in the health and education sector. In the past, [we have documented how the Juncker Plan has been contributing to the privatization and weakening of existing public services](#) in the field by financing ill-designed national programmes and privatization schemes¹⁰².

⁹⁹ A growing number of civil society organisations and academics are advocating for public-public and public-community partnerships as an alternative policy to privatisation and PPPs. Public-public partnership (PUP) can be defined as a collaboration between two or more public authorities or organizations, based on solidarity, to improve the capacity and effectiveness of one partner in providing a specific public service. They have been described as a “peer relationship forged around common values and objectives, which exclude profit-seeking”. Public-community partnerships can be viewed as a form of public-public partnerships but with a stronger focus on the community <https://www.tni.org/en/collection/public-public-partnerships>

¹⁰⁰ It is crucial that financial instruments promoted by the EU institutions do not lead to privatisations and further financialisation of our economies. A cautious approach towards the use of Public-Private Partnerships (PPPs) is needed. The Commission and EIB should recognise the financial and other significant risks that PPPs model entails, especially in sensitive public services sectors.

¹⁰¹ Griffith Jones & Carreras, the role of the EIB in the green transformation, April 2021, <https://policydialogue.org/files/publications/papers/role-of-the-eib-in-eu-green-transformation-pp.pdf>

¹⁰² Counter Balance & CEE Bankwatch, Not Worth Celebrating – Yet?, October 2019 <https://counter-balance.org/publications/not-worth-celebrating-yet>

Given the vulnerabilities in our public health systems that the COVID-19 pandemic dramatically exposes, past mistakes that contributed to the vulnerability of our societies facing the crisis – such as financing the privatisations of public services – should not be repeated. The EIB has a responsibility in this regard since it channeled public funds to support the privatisation of the health sector. Therefore, we call on all programmes and institutions under the SEIP to stop aggressively incentivizing and supporting PPPs and publicly recognise the financial and other significant risks that this model entails, especially in sensitive public services sectors like health through its investments in hospital, healthcare and health innovation.

At Counter Balance, our position is that, in order to reclaim public finance, it is of utmost importance to value quality of public funding over quantity. Hence, we have for instance historically called on the EIB to link any capital increase to a set of fundamental reforms to make it a more democratic, transparent and sustainable institution, before its lending volumes escalate.

Still, given the size of the challenges faced by our economies and societies, the issue of the volume of public funding available to accompany and steer a just transformation is more relevant than ever. In connection to the European Green Deal, an open question remains about how other instruments and tools which are yet absent from the SEIP - like fiscal and monetary policy, could be brought in to ensure more and better funding to steer a just ecological transformation of our economies and societies. In this regard, the debate on increased “own resources” for the European Union represents an opportunity, especially if it is used to raise increased revenues through fairer and higher taxation of multilateral corporations and wealthy individuals. Without measures put in place to reintroduce controls over the international movement of capital and significantly tax financial wealth, profits, rents and transactions, the EGD by itself is unlikely to put an end to the disruptions inevitably resulting from the state of affairs and structure of our financial and economic systems.

As part of the heated political discussions on the EU recovery package, a lot of attention is being paid to the topics of monetary policies - for instance around the cancellation of debt held by the European Central Bank (ECB) - as well as the future of spending and fiscal rules at EU and national level.

Under the EU economic recovery package, the European Commission started in June 2021 to issue bonds on financial markets to finance its flagship “NextGenerationEU” instrument. In essence, these are Eurobonds aiming at providing additional firepower at the EU level to strengthen national recovery plans, in theory in line with EU policy objectives.

It is worth noting that another much less visible form of Eurobonds has already existed for a while: indeed, the bonds issued by the EIB on financial markets are already largely bought up by the European Central Bank (ECB). As researched by [Positive Money Europe](#), since 2015 EIB bonds have represented more than 40% of the outstanding supranational debt eligible to the Quantitative Easing programme of the ECB¹⁰³. Out of a total amount of €250 billion of supranational debt purchased at the end of July 2020, the Eurosystem had bought approximately €100 billion of EIB bonds. From an investor’s perspective, it is clear that EIB bonds offer a safe asset backed by the European Union.

Still, it looks illusory at this stage to imagine that a way to raise the level of investments at EU level could simply take place through a purchase programme at the ECB to buy more EIB bonds, hence increasing the financial firepower of the bank. The [Pacte Finance Climat](#), a proposal developed by civil society actors in France, for instance called on the EIB to create a subsidiary for its climate operations, which would entitle European governments to drawing rights worth 2% of their GDP every year, amounting for instance to €65 billion of new annual investments for Germany every year, and €45 billion for France¹⁰⁴.

Such proposals are highly welcome in order to find innovative ways to ensure adequate financing to tackle the multiple emergencies of the 21st century, but still they fall short of capturing some of the realities on how the EIB and large multilateral public banks operate. An EIB with a 10 times higher annual investment objective would actually be unable to identify enough projects to finance. Indeed, the EIB is not equipped to massively increase its level of financing, and it would need to use financial intermediaries in any case to channel additional money to the real economy. This channeling through intermediaries would come with a dilution of responsibilities and less due diligence on projects and operations benefiting from public finance.

¹⁰³ See: <https://www.positivemoney.eu/2020/11/real-safe-asset-eib-bonds/>

¹⁰⁴ See: <https://agirpourleclimat.net/en/>

Hence, we consider it more relevant to think about **how the ECB could directly support national, regional and local public banks in order to support a just eco-social transformation**. Still, the support provided by the ECB to the EIB could also be strengthened, for instance by raising the maximum threshold of bonds from supranational entities (like the EIB) that the ECB can buy - from the current level of 50% to 60% or beyond.

In this context, it is crucial for the EU institutions, and the public at large, to further discuss how monetary creation and the EU's supranational institutions could raise necessary funds for the economic recovery and green transition. Such discussion should take place in connection to the imperative for any new public investments to decarbonize, de-financialise and democratise our economies and societies.

A recent policy paper from Positive Money for instance suggests to accelerate building renovations in the EU by tweaking the ECB's gigantic "TLTROs" programme to incentivize banks to offer cheap loans for energy efficiency building renovations¹⁰⁵.

As a concluding note, it is also important to acknowledge that there is so much that EU public finance can do in comparison to funding and investments at national level. Therefore, the current debate about a U-turn on European spending rules and fiscal discipline is equally important to the discussions about EU investment plans. The Growth and Stability Pact at EU level has been one of the key tools, alongside the European Semester, asserting austerity measures across Europe in the last decade. Its temporary suspension until the end of 2022 in the context of the COVID-19 pandemic offers a breathing space for EU Member States to raise public investments to support their economies. Together with renewed state aid regulations being discussed at EU level, the further suspension - or definitive scrapping - of this pact could have long term impacts on the fiscal space for European governments to finance the European Green Deal¹⁰⁶. As a group of economists stated in a June 2021 open letter, "Instead of fetishising fiscal discipline, we should prioritise more important social, economic and environmental outcomes — like creating well-paid green jobs, lifting millions out of poverty and implementing green infrastructure projects"¹⁰⁷.

Still, a potential scenario for the coming years is that the EU economic recovery plan (alongside the SEIP) would become an add-on (acting on a counter-cyclical basis) to a renewed wave of austerity measures at national level. Such a scenario would be a missed opportunity to actually link the EU investments plans (both the SEIP and NextGenerationEU) with increased public spending at national level to engineer long-term structural transformation.

¹⁰⁵ Positive Money, Money looking for a home, February 2021 http://www.positivemoney.eu/wp-content/uploads/2021/02/2021_Building-Renovation-TLTROs.pdf

¹⁰⁶ The well documented report of the Veblen Institute "Making the Green Deal work: a social and environmental programme to lead Europe out of crisis" (<https://www.veblen-institute.org/Making-the-Green-Deal-work-a-social-and-environmental-programme-to-lead-Europe.html>) for instance highlights the need to overhaul macroeconomic coordination within the EU through three key entry points:

- Change the budget rules on green public investment;
- Reform the European Semester;
- Create a European standard for green budgeting and increase green budget allocations.

¹⁰⁷ See: <https://www.veblen-institute.org/Open-letter-It-s-time-Europe-stopped-fetishising-fiscal-discipline.html>

3 DEMOCRATISING AND HOLDING PUBLIC FINANCIAL FLOWS AND INSTITUTIONS TO ACCOUNT



/ FROM SUBSIDIARITY TO PEOPLE-CENTERED INITIATIVES: ENSHRINING DEMOCRATIC PROCESSES IN INVESTMENT DECISIONS /

We believe democracy goes beyond the technical prerequisites that in theory give a particular structure the label of “democracy”. That is considering processes, beyond formal electoral procedures and representative systems, that enable citizens to participate in democratic debates, deliberations and participatory decision-making. It means a comprehensive democracy

in all aspects, based on citizens’ participation, democratic institutions and continuous accountability to citizens.

Public participation processes should be put at the forefront of public financial institutions involved in the EGD, both in the institution’s decision-making process and at a project level. Public participation should be

inclusive, meaningful and safe for participants. It shall empower the public to genuinely affect the outcome of a process - including the option of not supporting a given project or considering true alternatives. Ultimately, public participation, transparency and accountability are a source of good governance, sustainable development and lower risks for public funds to fuel corruption.

As far as public investments are concerned, democratization can be understood as ways for society to have a meaningful say over how financial resources are deployed. In Thomas Marois’s recent book on public banks, the democratization of the governance and decision-making of financial institutions, for instance the EIB, is described as “a process that can,

among other things, drive innovation alongside social inclusion and equity through internalizing the public interest and mobilizing towards identified societal priorities. The democratization of finance is a central and recurrent demand made by academics and community groups critical of financialized capitalism. At the same time, public banks cannot exist as an island of democratic governance within a broader sea that follows other, non-democratic principles”¹⁰⁸.

In the context of the EGD, this means in practice that a top-down approach to investment decisions is not suitable. A more democratic decision-making process is necessary for investment decisions to be taken at the appropriate level. This includes the possibility of a more decentralized model with smaller vehicles operating at local, regional and state level to finance economic transformation. This is why the new financial instruments created at EU level should be directly channeled to a web of democratic and sustainable public banks and funding programmes acting at sub-state level.

A bottom-up approach to the financing of the European Green Deal and a just transformation should go hand in hand with a reinforced democratic control over institutions like the EIB¹⁰⁹.

The idea behind the “European Climate Pact” and the creation of a European Climate Change Council (ECCC, to be set up in 2022) could be reinforced and translated to also cover the financing of the Green Deal¹¹⁰. Ensuring that the Partnership Principle foreseen for EU cohesion funds is expanded to other financial tools as part of the EGD could be a first step forward. Still, it is necessary to flag that creating new advisory or scientific “councils” and citizens assemblies is unlikely to bring significant results if they are not properly set and truly backed politically. The experience of the Citizens Convention for Climate in France in 2019 and 2020 has for instance been heavily criticised for failing to significantly impact the new climate law in France, despite having offered a necessary space for citizens’ debate and identified a large number of reforms and areas for intervention. Exploring the possibility of setting up more democratic peoples’ assemblies to steer the direction of the EGD and its financing would be welcome, but only if there is a strong bottom-up pressure to establish and run such assemblies¹¹¹.

Overall, the financing pillar of the EGD shall be used as a platform for exchange of ideas and knowledge across Europe - including at local and regional level. Public finance should steer ecological transition, reduce inequalities between citizens and territories and support the delivery of publicly funded and delivered social services of a high standard – especially in less developed regions and countries. To do that, democratic decision-making should lead to decisions being taken at the most appropriate level in order to avoid top-down investment plans ignoring local realities, under the principle of subsidiarity. In practice, this means focusing the EGD support on local and regional public authorities, and sub-state financial institutions, as flagged above.

At project level, in all operations under the SEIP, the responsible EU institutions should incorporate binding clauses in contracts to ensure meaningful public participation by the project promoters and strengthen the client’s ability to identify and respond to local needs. Opening up SEIP’s support to community-led initiatives and small-scale projects is equally crucial. Particular attention should be given to projects that are centred around public ownership and control, and managed at local and municipal levels. The Commission and the EIB should ensure sufficient human resources to be able to finance such projects and increase contacts with local and regional authorities and financial institutions like cooperatives and national public banks.

¹⁰⁸ Marois, *Public Banks: Decarbonisation, Definancialisation and Democratisation*, May 2021 <https://www.cambridge.org/core/books/public-banks/0EC8E41F837E1F10BE53FC31DA83D012>

¹⁰⁹ The Green New Deal for Europe for instance advocates for the EIB to “adopt a multi-stakeholder model, uniting climate experts, labour unions, policy makers, EU member state representatives, NGOs and economic actors — including representatives of energy cooperatives — to ensure that its strategy is long-term, democratic and immune from capture” <https://report.gndforeurope.com/>

¹¹⁰ See: https://ec.europa.eu/clima/policies/eu-climate-action/pact_en

¹¹¹ See the proposal from the Green New Deal for Europe’s to organise People’s Assemblies at municipal, regional, national, and European levels: <https://report.gndforeurope.com/>

MAKING EU RECOVERY FUNDS ACCESSIBLE TO SMALLER ACTORS

ODG in Spain, a Counter Balance member, has been working on trying to make EU funding more accessible to smaller actors, including small and medium-sized enterprises (SMEs), self-employed women and those involved in the social and solidarity economy.

Large companies not only have much higher capacity and resources, but also more experience in requesting funds from the EU. It is also much easier for banks to directly fund big projects rather than smaller ones, thus reducing transaction and due diligence costs.

ODG has therefore been working on increasing awareness around the EU Recovery Plans and advocate for more transparency, assistance and environmental and social conditionalities to make such funds available to smaller actors and social and solidarity projects.

In March 2021, they developed a practical guide intended for collectives, social movements, public institutions and citizens to enhance understanding of the processes and risks associated with NextGenerationEU funds and propose a range of criteria to ensure that the funding is conditional on contributing to a just ecological transition¹¹².

¹¹² See: https://odg.cat/wp-content/uploads/2021/03/Guide-to-NextGenerationEU_ENG_web_DEF_compressed.pdf



/ TOWARDS A TRANSPARENCY AND ACCOUNTABILITY OVERTURN /

Public finance under the EGD should be publicly accountable vis-a-vis its overall mission and the social and developmental benefits on which investments were initially premised by reporting back on benefits delivered. It should act transparently in favour of a democratically determined public interest - for the whole society.

It is crucial to emphasize that public finance must work in the public interest and not focus primarily on furthering private interest. Assuming that promoting the private sector is in all of the public's interest should not be a starting point to fulfill a public mission.

When considering a public bank like the EIB, such an institution can in theory function differently from a commercial bank because it can be democratically governed. But the fact of being publicly owned does not systematically translate into a transparent and accountable functioning - as civil society has documented at the level of the EIB for more than a decade.

As Marois explains it well:

"This strength or weakness of public bank governance ultimately depends on social forces in time- and place-bound historical contexts. What public banks do and how they evolve are the results of recurrent power struggles among and between contending public and private interests within capitalism. In fact, far from being meant to finance market development or being destined to fall victim to political corruption, public banks are much more 'dynamic' and indeterminant institutions whose functions are shaped and reshaped by class-divided social forces in the shadow of contemporary financialized capitalism"¹¹³.

¹¹³ McDonald, Marois & Barrowclough, Public Banks and Covid-19, 2020, p. 11 https://publicbanksandcovid19.org/images/PDF_FILES/Public_Banks_and_Covid19_-_Full_Book.pdf

A public bank is not necessarily better by virtue of being publicly owned. Hence, it is up to citizens and decision-makers to make an institution like the EIB, and the financial tools intended to finance the European Green Deal, follow a pro-public and socially just development orientation.

In this context, European governments and the European Commission should do their utmost to ensure the organs responsible for managing public finances and the financing of the EGD are accountable to citizens, their associations, communities, other democratic representative institutions and finally to persons affected by its operations. Governing bodies of public finance institutions shall be liable for all their operations, admit failures, provide a remedy in case of damages, harm and losses incurred following its operations and learn from mistakes. For this to happen, more oversight is needed from citizens, their democratically-elected representatives (such as national parliaments and the European Parliament) and institutions like the European Court of Auditors. It is for instance striking that the European Court of Auditors does not have full auditing rights on all elements of the SEIP.

Therefore, we call for all tools under the SEIP (including the EIB as such) to be subject to greater control and scrutiny from EU Institutions. In particular, the European Court of Auditors should have full mandate to audit all elements of SEIP, including the EIB.

On the fraud and corruption front, the European Anti-Fraud Office (OLAF) and the newly created European Public Prosecutor Office (EPPO) should have a specific focus and dedicated staff to monitor the SEIP and to ensure its integrity. At the level of the EIB, a key challenge is to insert - and make serious use of - suspension clauses in contracts with clients in case of serious corruption allegations and when investigations at national or EU level are opened (see our detailed recommendations for the review of the EIB Anti-Fraud policy¹¹⁴).

¹¹⁴ See: <https://counter-balance.org/publications/counter-balances-recommendations-on-eib-anti-fraud-policy>

In the long-term, it is also crucial that investment decisions having an impact on the lives of citizens can be challenged in front of the courts, especially the European Court of Justice. The large legal immunity of the EU institutions needs to be challenged, so that citizens can exercise their fundamental rights to access justice.

Ultimately, there is a need to fundamentally reform the institutions implementing the SEIP (EIB and national public banks), in particular on the transparency front. In June 2021, on the occasion of its Board of Governors

meeting, 24 civil society organisations called on the European Finance Ministers to reform the EIB, urging them to fundamentally transform the bank and push the boundaries on all levels, from transparency to climate, from human rights to the fight against corruption¹¹⁵. Revamped institutions should be easier to control and apply outstanding ethical principles, while favouring quality over quantity of investments with proper safeguards and conditions put on the use of public money.

Public finance should also be governed by a principle of transparency. Transparency and access to information are prerequisites for meaningful public participation, openness and good governance. In principle all documents held by a public institution shall be publicly available, both at a project level for all its

operations (direct, indirect or via intermediaries) and at the governing bodies' level (including minutes from the sittings of its governing bodies). A public financial institution shall strive to proactively make information available in the public domain and provide thorough justification about its decisions. Finally, people impacted by its operations shall be informed about the involvement of public finance as early as possible in the project cycle and about the opportunities to seek redress through its accountability mechanisms.

In order for these transparency standards to be implemented, the institutions involved in the financing of the EGD, in particular the European Commission and the EIB, would need to raise the bar on transparency. At the level of the EIB, a detailed set of recommendations endorsed by 53 organisations point out to some immediate steps that could be taken in the short run¹¹⁶.

¹¹⁵ See: <https://counter-balance.org/news/civil-society-groups-call-on-eu-finance-ministers-to-transform-european-investment-bank>

¹¹⁶ See: <https://counter-balance.org/uploads/files/Documents/Briefings-and-Policy-Files/2021-EIB-Transparency-Policy-Joint-Submission.pdf>

C O N C L U S I O N

Counter Balance joins with the many social movements who oppose the current trajectory of society which is towards increased inequality, increased environmental destruction, increased discrimination and increasingly undemocratic decision making.

We want the EU financing institutions - and related investment initiatives - to play a key role in building a different society, one grounded in environmental and social justice. For that, financial institutions – like the European Investment Bank – need to adhere to the principles mentioned above: public accountability, transparency, public participation, not-for-profit and subsidiarity. And new mechanisms are needed to make this happen and ensure this adherence. Indeed, a different set of priorities and business model for EU public finance - and the European Green Deal - are needed.

This report is an attempt to sketch out the beginnings of how to shake up the status quo: how to – and we acknowledge the scale of the challenge – conceive of and realise a new type of public intervention into the economy, one whose primary aim is to de-financialise the economy and reorganise it based on values of social and ecological justice.

Therefore it is not just a matter of pumping more money into the right investments, but also of how to subordinate the remaining majority of private finance to the logic and functioning of these much needed societal investments. This is precisely the opposite of what is happening today when

public institutions use the leverage of public funding to attract large amounts of private capital and financing interventions which originate in, are managed by and generate wealth solely for private capital markets and not the majority of the population.

In short, the issue is to think of a new type of public intervention into the economy, one whose primary aim is to de-financialise the economy by progressively re-absorbing wealth fluctuating on private capital markets within the realm of operations backed by public investment finance. This is a pre-condition for making any public investment plan under the European Green Deal sustainable and accountable to public interest goals in the long run.

As put forward by a group of 6 NGOs in 2020, *“for some years, the dominant narrative in this area has been that public finance’s main task should be mainly to de-risk private investment. We believe it can do much more than that: a Green Deal should unlock public finance directly to fund the transition, focusing on areas where public goods are involved and where households, enterprises and local authorities need help to overcome initial investment costs of the ecological transformation”*¹¹⁷.

If democratised and re-centred around the public good, the EGD and its financing could become an important opportunity to use public money for a truly just ecological transition that meets the needs of people and their territories. For that we need accountable institutions that work transparently and continuously involve

citizens. As much as possible, decisions of what should be financed and how should be taken at the local level, and support public services and projects centred around public ownership and control.

A truly just and sustainable EGD also means seriously engaging with the colonial legacy and neocolonial present, to ensure that a green transition in Europe does not rest on more devastation in the rest of the world. The EGD, or a global Green New Deal, should be fully attentive to the demands of communities in the global South in order to, as Max Ajl puts it, *“build a world big enough for everyone”*¹¹⁸.

While this report does not provide all the answers on how EU public finance can be reclaimed to work towards such objectives, we hope that it can at least contribute to the debates and set into motion the steps needed to get there.

For the Counter Balance coalition, this report is only a first step in a larger effort to transform European public finance, and we are looking forward to pursuing open and constructive discussions on these matters in the future.

¹¹⁷ See: <https://www.positivemoney.eu/2019/09/european-green-deal/>

¹¹⁸ Ajl, A People’s Green New Deal, April 2021, p. 98 <https://www.plutobooks.com/9780745341750/a-peoples-green-new-deal/>

ABOUT COUNTER BALANCE

Counter Balance is a coalition of 9 NGOs whose mission is to make European public finance a key driver of the transition towards socially and environmentally sustainable and equitable societies. Over the last decade, we have monitored extensively the operations of the EIB and led campaigns to make it a more sustainable, democratic and transparent institution.

More information is available at:
<http://www.counter-balance.org/>