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Accompanying the document

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the public sector loan facility under the Just Transition Mechanism

{ COM(2020) 453 final }

INTRODUCTION

This analytical document accompanies the legislative proposal for a public sector loan facility, which constitutes the third pillar of the Just Transition Mechanism.

It aims to provide the rationale and policy objectives that underpin this legislative proposal, as well as the envisaged implementation mechanisms to attain its objectives. It provides criteria for assessing the performance of the instrument as well as for its evaluation.

I. CONTEXT AND RATIONALE FOR THE LEGISLATIVE PROPOSAL

On 11 December 2019, the Commission adopted a Communication on the European Green Deal¹, drawing its roadmap towards a new growth policy for Europe, based on ambitious climate and environmental objectives.

This transition towards a sustainable and climate-neutral economy will nonetheless represent a significant challenge for some territories. It will require a fundamental structural change in their economies, changes in their business models and new skills for their labour force. In several instances, those changes are already at work. The most vulnerable regions and territories are those most affected by the transition given their dependence on fossil fuels, including coal, peat and oil shale or greenhouse gas-intensive industrial processes, and among those in particular the regions and territories with less resources to deal with the economic and social costs of that transition.

Some key economic sectors are or will be declining; those where reduction in economic output and employment levels will be inevitable and irreversible given the high greenhouse-gas emission levels, in particular economic activities based on the production and use of fossil fuels, in particular coal, lignite, peat and oil shale. Other areas of economic activity will be transforming; these are sectors where, in spite of currently high greenhouse-gas emission levels, economically efficient alternative technologies for carbon-intensive processes exist or can be found in order to sustain economic output and employment.

Coal infrastructure currently is present in 108 European regions (defined at NUTS3 level). Close to 237 000 people are employed in coal-related activities, whereas almost 10 000 people are employed in peat extraction activities and around 6 000 in the oil shale industry. Numerous additional indirect jobs also depend on the fossil fuel value chain and the greenhouse gas-intensive industrial processes. Without the necessary accompanying measures, there are limited chances for a just and socially sustainable transition to happen in these territories given the socio-economic costs involved.

On 26 February 2020, the Commission published Country Reports for all 27 Member States setting out its analysis regarding the territories that are expected to be the most negatively impacted by transition. The high level of potential job losses was a major factor in identifying these territories, together with the high level greenhouse-gas emission levels.

II. OBJECTIVES PURSUED BY THE LEGISLATIVE PROPOSAL

In order to address the specific challenges encountered by the most vulnerable territories, the Commission has proposed, through its Communication on the European Green Deal Investment Plan², a Just Transition Mechanism. It aims at providing targeted support to

¹ COM(2019) 640 final.

² COM(2020) 21 final.

generate the necessary investments in these territories, in order to alleviate the corresponding economic and social costs. The Just Transition Mechanism consists of three pillars:

1. a Just Transition Fund,
2. a dedicated just transition scheme under the InvestEU programme, and
3. a public sector loan facility in order to leverage additional public investments.

The proposal for establishing the Just Transition Fund was adopted by the Commission on 14 January 2020³. It sets up the content, scope and rules applicable for the implementation of the Fund.

In particular, it requires Member States to submit territorial just transition plans, which are instrumental to the programming and implementation of the Fund. The plans need to set out the key steps and timeline for the transition process, identify the territories most negatively affected by the transition towards climate-neutral economy and the envisaged types of operations for each territory concerned that contribute to a successful transition. They also need to identify synergies and complementarities between the three pillars of the Just Transition Mechanism, as well as with other Union programmes.

The proposal for a Just Transition Fund also includes, in its Annex I, a methodology for calculating the national allocations under this Fund. The Fund will have an allocation of EUR 7.5 billion over and above of the Commission's MFF proposal, to be matched with additional resources from the ERDF and the ESF. It is expected to mobilise investments worth EUR 30-50 billion (taking into account national co-financing and mandatory transfers from the ERDF and the ESF+).

The Just Transition Fund focuses on economic diversification and revitalisation measures for the impacted territories along with support for their workers. The scope of intervention and its geographical scope are limited to allow for concentrating support, consistently with its political objective.

Given the transition challenge territories and regions face, additional investments will, however, be necessary. In particular, the broader development needs, stemming from the transition process and detailed in the territorial just transition plans will need to be addressed. This may involve a wider scope for investments and a wider geographical area for implementation but still with the aim of benefitting the territories most exposed, as identified in the territorial just transition plans.

In particular, new economic activities and the local economy should be promoted to replace activities that need to be phased out given their harmful effects on climate and environment. The second and third pillars of the Just Transition Mechanism aim at providing additional support to these territories. The wider range of investments both from a sectoral and, potentially, geographical perspective, will reinforce the effectiveness of support under the Just Transition Fund and maximise the effect of those investments including through the additional resources leveraged. The adoption of the territorial just transition plans will provide access to additional support under the second and third pillars for the territories concerned.

The just transition scheme under InvestEU will target economically viable projects, promoted mostly by private beneficiaries. It is expected to crowd in private investments through

³ COM(2020) 22 final.

guarantee mechanisms which would offer risk coverage and leverage investments supporting transition territories.

However, major public investments will also be needed to accompany the transition that most affected territories face. Those development needs should, in principle, be satisfied by the public sector or actors with a public service mission. However, public project promoters may not have easy access to financing and may not be bankable, especially where their projects do not generate a sufficient stream of own revenues. It is key that additional resources are made available to them in conditions that make those essential investments possible.

The third pillar of the Just Transition Mechanism therefore aims at providing additional resources for these public sector projects in view of addressing the social, economic and environmental challenges resulting from the climate transition. The support is taking in this regard the form of a public sector loan facility, combining grant support from the EU budget with loan support from the European Investment Bank. To that end, a cooperation framework will be put forward, providing for a just distribution of these additionally available resources for public sector projects with insufficient market revenue streams.

The objective of the legislative proposal is therefore to provide public sector projects, targeted funding resources to implement measures in order to facilitate the transition to a climate-neutral economy and benefitting the just transition territories.

While aspiring for supporting the best quality projects, this instrument should also ensure that the distribution of resources remains fair and just across all territories and Member States of the EU in order to provide for a level playing field for all public sector projects. It is also necessary that public sector projects in less developed territories with a lower capacity of financing receive additional support to increase chances for receiving support from the public sector loan facility.

III. MECHANISMS PROPOSED TO MEET THE OBJECTIVES

The legislative proposal provides for a set of forceful measures in a comprehensive framework to enable the instrument to meet the above-described objectives.

First, it ensures a fair and balanced access to the public sector loan facility across the 27 Member States:

- Until 31 December 2024, calls for projects will be launched based on earmarked national allocations. These will be calculated pursuant to the relative national shares as a result of the allocation methodology provided for in Annex I of the proposed Just Transition Fund Regulation. This will ensure a fair chance for all Member States that their concerned territories effectively benefit from these resources once their territorial just transition plans are adopted by the Commission in the programme providing Just Transition Fund support.
- From 2025 onwards, calls will be launched on a competitive basis without further earmarked allocations. However, both the Commission and the European Investment Bank will ensure fair access to the public sector loan facility across all Member States, taking into account the need to ensure predictability of investment and the promotion of regional convergence.
- The EU grant rate, calculated on the basis of the amount of the loan provided by the European Investment Bank or another finance partner, will be modulated with regard to the level of development of the concerned regions. The maximum ceiling is increased in this regard by 5 percentage points for projects located in less developed regions, taking into account their lower investment capacity.

Secondly, it ensures fair access to the public sector loan facility to all public sector entities, irrespective of their size as borrower:

- For smaller scale projects, typically promoted by smaller municipalities, loan schemes may be implemented – enabling support where the relatively small size of projects could otherwise prevent individual project-based lending by the European Investment Bank (due to its lending policy). Financing Agreements, therefore, could be put in place with public intermediaries in view of reaching out to smaller public sector projects and entities.
- Advisory support will be channeled through the advisory hub set-up under the InvestEU programme to support project preparation and implementation, in view of supporting notably public project promoters with weaker administrative capacities.

Moreover, the legislative proposal remains flexible through envisaging a large sectoral coverage, which corresponds to the lending policy of the European Investment Bank or other future financing partners as well as the objectives of the Just transition Mechanism defined in the European Green Deal Investment Plan. This wide scope of intervention will ensure that the public sector loan facility can address, in essence, all development needs identified in the territorial just transition plans. Investments to be supported may include energy and transport infrastructure, district heating networks, public transport, energy efficiency measures including renovation of buildings, as well as social infrastructure or environmental investments such as those supporting the transition towards the circular economy and land restoration and decontamination – always for the benefit of the just transition territories as identified in the just transition plans.

Prioritisation criteria will be further developed in the Commission’s work programme where priority areas could be identified, for example through favouring investments which contribute directly to the climate transition – for instance, in energy efficiency or sustainable energy sources. The selection and award criteria to be included in the calls can further reinforce and operationalise these priorities. These mechanisms will ensure that the public sector projects selected represent the best value for money and that an appropriate mechanism is elaborated in order to ensure the ranking of project applications where demand exceeds the available (national) allocations.

Additionally, the application and other administrative processes for applicants and beneficiaries have been largely simplified through providing for a one-stop shop approach. A single application process and subsequent coordinated handling between the Commission and the European Investment Bank should lead to minimising the administrative cost and burden for applicants and beneficiaries.

IV. MONITORING THE ACHIEVEMENTS

In line with the current requirements of Better Regulation and the Inter-institutional Agreement on Better Law-Making, the proposed legislation includes specific monitoring and evaluation provisions aiming at verifying that the specific objectives of the public sector loan facility are achieved.

The public sector loan facility aims at supporting public investments benefiting the territories most negatively impacted by the transition towards climate neutrality. The type of investments supported will vary across territories, depending on the specific development needs to be met as defined in the territorial just transition plans. Therefore, sectoral result indicators cannot be established in advance and may be difficult to monitor even subsequently. Instead, the success of the public sector loan facility will be measured in the light of its capacity to support public investments and their contribution to the transition

process in the context of the above-mentioned territories, irrespectively of the sectors at stake. However, the evaluations to be carried out will take into account the sectoral split of the interventions and will also be assessed against the context of the territorial just transition plans. Evaluations (cf. below) are better placed to measure the success of the instrument in this regard given the longer time horizon giving a better perspective for measuring impacts and results the instrument will bring about.

The geographical location of the investments will also be monitored. As the public sector loan facility is designed, with the recourse to national allocations for the calls launched until 31 December 2024, to be fairly accessible to all eligible territories, such achievement should also be reported.

Specific performance monitoring indicators are therefore envisaged with a view to reporting the results of the public sector loan facility, on the following elements:

- Financial execution, through the volume of grants and loans granted. It will be used in particular to monitor the implementation pace and detect possible implementation shortcomings
- Overall investment mobilised, broken down by sectors in view of identifying the key objectives pursued by projects supported in the context of promoting a climate-neutral economy
- Beneficiaries supported, including information on the territorial coverage. Such information will be used to monitor, in particular, the fairness of the territorial coverage:
 - until December 2024, for territories located within the Member State;
 - beyond this date, distribution of support within and between Member States.

These performance monitoring indicators may be further adjusted to provide more accurate information based on experience with implementation after the first calls.

Monitoring and reporting provisions will be included:

- In the administrative agreements to be signed with the European Investment Bank and possible future other financing partners. Beneficiaries will need to report both to the Commission and the European Investment Bank, pursuant to their own procedures. However, for simplification purposes and to avoid unnecessary administrative burden for beneficiaries, the requested data have been largely harmonised.
- In the grant agreement signed with the beneficiaries. For loan schemes, the obligations of the intermediary will be detailed as regards the data to be collected from final recipients (and to be processed subsequently).

In addition, **evaluations** will be carried out to feed into the decision-making process.

In particular, an interim review of the public sector loan facility will be performed by 30 June 2025, when sufficient information is expected to be available about the implementation of the public sector loan facility.

The evaluation will need to demonstrate in particular how Union support will have contributed in addressing the needs of territories implementing territorial just transition plans. In addition, a final evaluation report on the results and long-term impact of the programme will be issued at the end of the implementation period, not later than December 2031.