Bankwatch's proposals for the next EU budget

CEE Bankwatch Network

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Introduction

The next EU budget, the cornerstone of the EU's policy action, must respond to today's multiple challenges by directing public spending towards building a more resilient, just and sustainable economy. It must also focus on making good use of the EU's limited financial resources by following the horizontal principles of solidarity, cohesion, a just transition, human rights, transparency, partnership, 'do no significant harm' and 'leave no one behind'.

Our current crises stem from the environmental and social injustices of past decades. It is therefore essential that we learn from current EU budget instruments to create a coherent, strategic, enforceable and accessible framework for the next EU budget.

This will require a reformed budget that enables long-term, sustainable investments while ceasing support for harmful developments. And although efficient economies and effective crisis responses are essential, short-term economic considerations cannot override the needs of a healthy population and a thriving natural environment.

Europe's strength lies in fostering funding for the green transition and the protection of biodiversity, which is essential for life on earth. The perceived dichotomy between competitiveness and environmental provisions is misleading. Europe's energy future should be driven by the pursuit of clean technology and the development of green skills. This approach has the potential to drive job creation, boost energy efficiency, support decentralisation and decarbonisation of the heating and power sectors and further improve grid management.

To achieve the goals of the European Green Deal, we need clear and binding legislation that supports the implementation of key strategies, particularly the circular economy. This will help to reduce resource use, decrease import dependency, and increase efficiency.

The EU budget must be rooted in solidarity and capable of fulfilling the Lisbon Treaty objective of economic, social and territorial cohesion, while empowering and supporting citizens across the regions. According to a 2022 Eurobarometer survey on fairness perceptions of the green transition, 88 per cent of EU residents support the shift; yet, more than half doubt it will be fair and affordable for everyone by 2050.[1]

This scepticism reflects a harsh reality: In 2023, our fossil-fuel-based energy system left 10.6 per cent of EU citizens unable to adequately heat their homes, with 20.7 per cent and 12.5 per cent of people in Bulgaria and Romania, respectively, at risk of not being able to heat or cool their homes properly.[2]

The transformation towards a sustainable economy is a lengthy and complex process that goes beyond EU funding cycles. Many of the impacts of shifting away from an economy driven by fossil fuels will require further attention well beyond 2027. In her political guidelines for the European Commission until 2029, the Commission President expressed a commitment to 'significantly increase our funding for a just transition

[1] European Commission, Special Eurobarometer 527 Report | Fairness perceptions of the green transition | Fieldwork: May-June 2022, *European Commission*, 13 October 2022.

[2] Eurostat, 10.6% of EU population struggled to keep homes warm, *Eurostat*, 23 January 2025.

across the next long-term budget'.[3] This pledge must be put into practice by continuing to support regions that have already embarked on their just transition pathways.

The EU needs a reinforced budget capable of bridging the climate and biodiversity investment gap, responding to new challenges, and supporting EU enlargement. We support the introduction of additional new 'own resources' and joint borrowing mechanisms. Tools like the Carbon Border Adjustment Mechanism and the second EU Emissions Trading System must be enforced as planned, as they not only generate additional revenue and provide legal certainty for investors, but also substantially boost decarbonisation efforts in EU accession countries.

New tax revenues are required to maintain sound public finances, close the investment gap for a just energy transition, and lay strong foundations for future generations. In 2023, the Commission issued valuable proposals for EU-wide taxation in adherence with the 'polluter pays' principle, designed to be socially just and contribute directly to climate neutrality. Regrettably, an agreement on these proposals has yet to be reached.

The next budget must continue to fulfil the goals of the European Green Deal and uphold the EU's global commitments on climate and biodiversity. However, recent communications from the Commission indicate a shift in priorities, with increased emphasis on simplification, competitiveness and potential deregulation.

For instance, the proposed Omnibus package, the simplified Multiannual Financial Framework architecture for single-country plans, and the Draghi report on EU competitiveness all illustrate a trend towards deregulation. Indeed, there is a considerable risk that these initiatives will serve as a Trojan horse for dismantling environmental legislation and safeguards. For this reason, simplification must increase consistency and coherence across the budget, ensure access to funding for vulnerable and smaller beneficiaries, and strengthen environmental protections.

Our proposals

1. Make the rule of law a conditionality for funding and a key driver for enforcing the EU climate and environmental legislation.

The Commission's recent communication on the road to the next Multiannual Financial Framework highlights the clear need for a strong rule of law and the role of the EU budget in upholding it. However, a crucial consideration is overlooked: the enforcement of the environmental rule of law.

There is increasing certainty that the Commission will pursue a performance-based approach – modelled on the Recovery and Resilience Facility – for disbursing and implementing EU funds in the next Multiannual Financial Framework. This means that Member States will only receive funding upon meeting specific milestones and targets, with the potential for these funds to be suspended or withheld in cases where these conditions are not fulfilled.

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[3] Ursula von der Leyen, Europe's choice: Political Guidelines for the next European Commission 2024–2029, 18, *European Commission*, 18 July 2024.

This provides a crucial opportunity to more assertively condition EU funds on environmental implementation and enforcement. Sufficient rules must be established to guarantee that funds are only disbursed when implementation conditions have been met. Conversely, funds should be suspended in cases of infringement. This will further ensure an equal internal market that can deliver legal certainty while increasing Europe's climate resilience.

However, the enlargement countries have almost no experience with an approach modelled on the Recovery and Resilience Facility, as the implementation of the Reform and Growth Facilities for the Western Balkans and Moldova is only just beginning. In these cases, it is too early to be sure whether such an approach can deliver the desired results. While it is reasonable to continue testing the model, it would not be advisable to extend it to cover almost all EU funds for these countries.

Additionally, adopting an approach modelled on the Recovery and Resilience Facility in accession countries will require significant improvements compared to the current Reform and Growth Facilities for the Western Balkans and Moldova, particularly regarding the inclusion of environmental reforms – of which there are currently very few – and public consultation on planned reforms.

Actions to support environmental and social protection, the just transition, and the participation of civil society must continue irrespective of reforms in other areas, as they form the bedrock of our democratic processes.

2. Unify 'do no significant harm' standards and procedures to ensure the efficient use of EU funds and prevent environmentally harmful subsidies.

To improve coherence, effectiveness and ease of use, sector-specific guidelines must be developed and applied across all EU funds. For simplicity, project types that are the least preferred policy options and are more likely to undermine other environmental objectives need to be subject to a cross-fund exclusion mechanism.

Among other things, this means that the next Multiannual Financial Framework must make no room for investments that support fossil fuels or harm biodiversity, regardless of the funding instrument. Support for innovation must focus on advancing promising new technologies instead of resurrecting the fossil-fuel industry, which, even after 150 years, continues to rely on subsidies.

As Russia's war of aggression against Ukraine and the energy crisis have demonstrated, fossil-fuel dependence on unpredictable external forces is a weakness that carries massive geopolitical and economic risks. Additionally, the increasingly problematic reliance on other fossil-fuel suppliers – including Azerbaijan and, more recently, the United States – must not distract the EU from its overarching decarbonisation goals.

Therefore, the eligibility rules for EU funding in the 2028–2034 budget must be revised to end all direct and indirect support for fossil fuels. This includes extending the exclusion list for oil and coal – introduced in the 2021–2027 budget – to also cover fossil gas.

The principle of fossil-fuel exclusion must apply horizontally to all EU funding instruments, with no exceptions. This also applies to funds that are currently not part of the Multiannual Financial Framework, such as the Modernisation Fund, which is funded through the EU's Emissions Trading System.

3. Apply the partnership principle to all EU funds and policies to make EU funding a model of openness, inclusiveness and dialogue, and to drive systematic change in the management of public finances.

The partnership principle must be broadened and strengthened to encompass all EU policies and financial instruments – both within and outside the EU – including the entire Multiannual Financial Framework. This should apply to cohesion policy, the Common Agricultural Policy, the Modernisation Fund, the Social Climate Fund, and instruments managed by the European Investment Bank (EIB).

The principle should also guide the design of reforms associated with EU funds and be incorporated into existing or emerging coordination tools, including the European Semester as part of the EU's wider economic governance.

Vertical partnership must focus on maximising the empowerment of local governments and ensuring a balanced relationship between local authorities, national governments, and the Commission. Additionally, the voices of citizens must be heard and amplified at the lowest administrative levels, fostering partnership in cohesion policy programming at regional, national, and European levels.

At the same time, horizontal partnership must empower stakeholders, including civil society, to help them overcome existing challenges, provide tailored solutions, and make them feel meaningfully involved. Further enhancing independent, transparent monitoring mechanisms for fund allocation, as well as the monitoring and evaluation of project performance, will guarantee accountability, optimal use, and ownership of EU public resources. We must move forward together and not give the impression that people are being left behind.

We also strongly recommend a paradigm shift in the application of the partnership principle to cohesion policy objectives, moving from a model of investing *for* citizens to one of investing *by* citizens. Energy communities are a case in point: by supporting grassroots initiatives like these, citizens are empowered to become active partners in fulfilling the EU's energy transition objectives. To strengthen this process, partners must also be given greater technical assistance and capacity-building support.

4. Increase the quality and volume of biodiversity financing.

EU biodiversity financing is currently delivered through funds with contradictory policy objectives, resulting in competition across sectors and the neglect of biodiversity priorities. To adopt a more uniform approach and eliminate these conflicts, a separate, dedicated funding instrument is needed. If the proposed single country plan proceeds, a separate environment pillar should be included.

To further improve mainstreaming efforts, binding spending targets – similar to those for climate – should be introduced to scale up biodiversity financing. At least 10 per cent of the overall EU budget should be allocated to biodiversity, supported by a clear plan outlining how different programmes will contribute to this target.

These actions must be complemented by a revised biodiversity tracking methodology to more accurately assess the contribution of EU funds to the realisation of conservation objectives, particularly in light of the Nature Restoration Law, whose successful implementation will require stable funding.

5. Keep the just transition of carbon-intensive regions a dedicated priority under cohesion policy and make it a strategic priority for the Western Balkans and Ukraine.

The just transition plays a key role in increasing opportunities for local economies heavily reliant on fossil fuels. Retaining support for the just transition will continue to help regions address the social, employment, economic, and environmental impacts of transitioning towards the EU's 2030 energy and climate targets and achieving a climate-neutral economy by 2050 in line with the Paris Agreement.

The just transition should be applied as a horizontal principle across all policies affecting both EU and accession countries. Additionally, it should remain embedded within the cohesion policy framework, including adherence to the European Code of Conduct on Partnership.

The territorial focus of the current Just Transition Fund should be preserved in future national transition plans, even if a single national funding plan is maintained. Affected just transition regions must have a decisive voice in the planning and implementation process. This also requires maintaining the strategic benefit of supporting regions that are most negatively affected by the economic and social impacts of the transition. The Just Transition Fund must continue to prioritise those regions phasing out carbon-intensive industries, particularly coal and lignite mining, as well as peat and oil shale.

At the same time, to ensure a fair level of funding for subregions, allocations should be based on gross domestic product per capita at the third level of the Nomenclature of Units for Territorial Statistics (NUTS 3), rather than the broader NUTS 2, which is the current practice under cohesion policy funds. This adjustment would allow coal regions, which often have a lower gross domestic product per capita than that of the broader NUTS 2 regions, to receive more funding and benefit from reduced contribution levels under the Just Transition Fund.

6. Ensure the Multiannual Financial Framework supports a fully renewable economy.

Advanced smart grids offer a significant opportunity to connect millions of European prosumers – both individuals as well as companies capable of generating their own electricity or leveraging energy storage – in a highly decentralised way.

Boosting support for renewable energy sources and innovations in grid technology should also serve to increase Europe's export capacity in sectors where it holds a competitive advantage, while also promoting the wider utilisation of European technologies.

In addition, revenues from the EU's Emissions Trading System should be primarily directed towards renewable energy-based solutions. This includes providing greater support for households, public buildings, and businesses to improve their energy efficiency and transition to sustainable forms of renewable heating, cooling, and electricity. Any further support for fossil fuels, such as through the Modernisation Fund, must be eliminated.

7. Reaffirm the EU's position as a global leader in advocating and promoting human rights through a values-based approach to its external action strategies.

Considering recent global challenges, including democratic backsliding and increased predatory and exploitative financial practices by the United States and China, it is essential that the EU's external action be upheld in line with the objective of Article 21(d) of the Treaty on European Union: the eradication of poverty and the advancement of fair economic, social, and environmental development in developing countries.

The EU's Global Gateway strategy should exercise the utmost caution when accessing critical materials. It must also condition its support for this sector on a green transformation, the establishment of local productivity alongside the transfer of know-how, and the improvement of human rights across the supply chain. This requires much greater coherence between EU values and its financing actions, such as the External Action Guarantee, than has been the case so far.

Adherence to EU corporate responsibility regulations on the global supply chain has the potential to support compliance with EU objectives. The EU must ensure effective environmental, social and human rights due diligence across all its external action strategies, including the Global Gateway. In cooperation with financial institutions like the EIB, the EU must also establish more effective grievance mechanisms to address complaints from impacted people and facilitate remedies for negative impacts.

The EU's regionally tailored approaches must tackle several unique challenges, including breaches of the rule of law, corruption, and the lack of political will for enlargement in the Western Balkans and the Eastern Neighbourhood.

For Ukraine, targeted approaches should focus on post-war reconstruction, strengthening democratic institutions, supporting the green transition, and fostering civil society resilience. Additionally, robust monitoring systems, capacity-building initiatives, and public participation must be integrated to maximise the impact of EU funding while ensuring alignment with geopolitical priorities, particularly in the Eastern Neighbourhood and Central Asia.

By adopting the above principles, the EU can ensure that its strategic undertakings prioritise the long-term development of partner countries and uphold shared values on human rights, transparency, and sustainability. In doing so, it can also strengthen its global influence and reinforce its credibility as a force for good in an increasingly fragmented world. Now more than ever, a consistent and principled stance is essential to address global inequalities and promote a fairer, more stable international order.

8. Ensure the EIB sustains its lending targets for climate action, environmental sustainability, and cohesion policy regions.

In recent years, the EIB has phased out its lending to fossil-fuel projects and established climate action and environmental sustainability as its major lending objective, setting a relative lending target of at least 50 per cent. The EIB should maintain this target at its current level at least, including under its lending activities in cohesion policy regions and its operations supporting the Just Transition Mechanism.

The EIB can amplify its climate action impact by fostering alignment between its operations supporting climate change mitigation and adaptation, nature restoration, public and social infrastructure, competitiveness, energy security, and strategic autonomy. Identifying investment gaps and developing corresponding plans in close cooperation with Member States could help the EIB strategically direct its funding to areas where loans are most needed in both the public and private sectors.

The EU budget instruments established to support the EIB's lending operations should demonstrate strong additionality in terms of achieving emissions reductions, exhibiting a higher economic and financial risk profile, and targeting the most disadvantaged territories in cohesion policy regions facing depopulation and economic decline. These instruments should be enhanced with additional transparency and public participation requirements for the EIB, including the implementation of the partnership principle for EIB operations supported by the EU budget.

Operations in support of corporations, such as those under the Clean Industrial Deal, should be subject to the publication of a corporate decarbonisation plan that aligns with the Paris Agreement. Lastly, the EIB should only finance companies that adhere to the highest social and environmental standards.