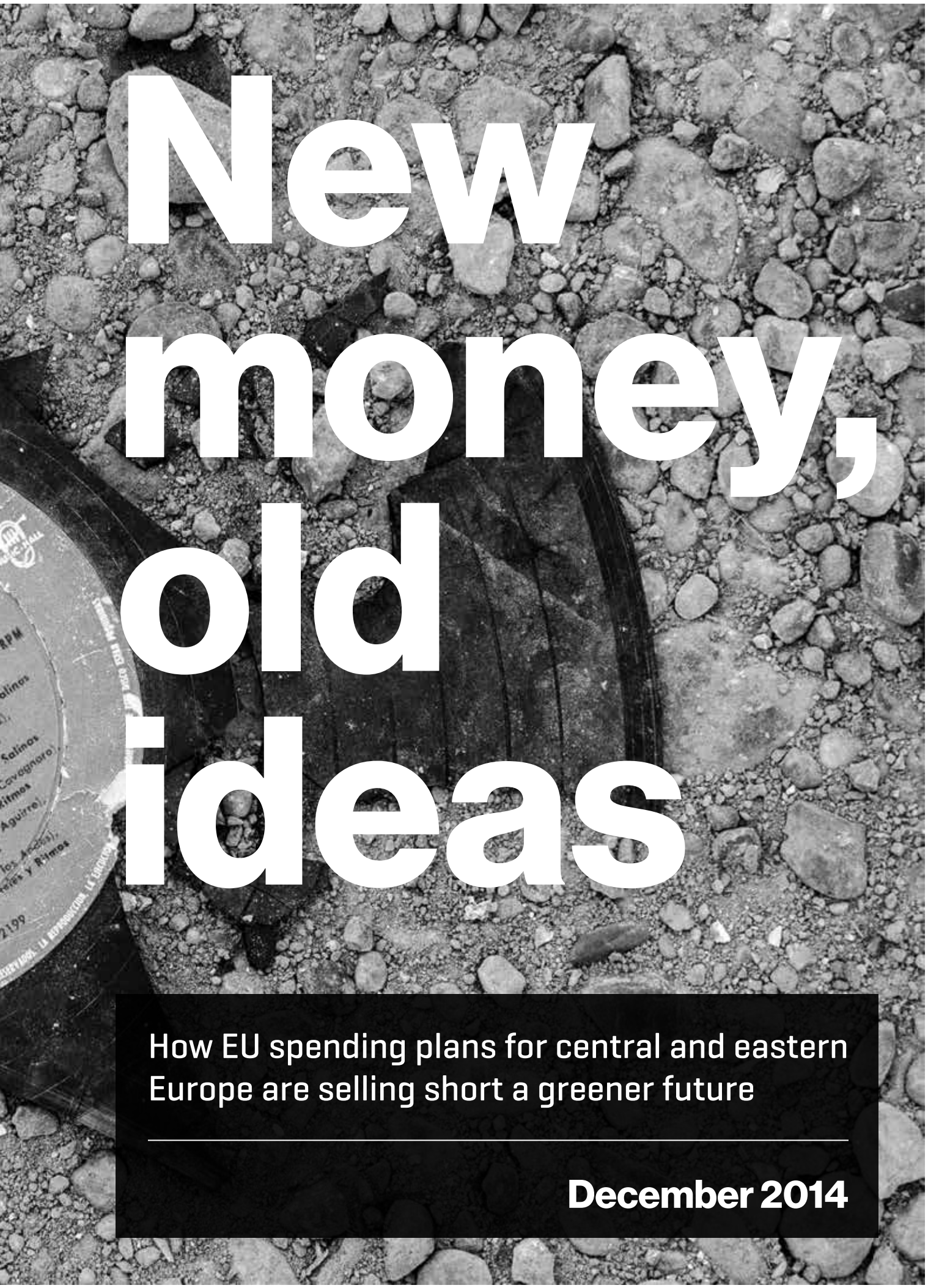

New money, old ideas

How EU spending plans for central and eastern Europe are selling short a greener future

December 2014

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Introduction

This report presents an analysis of the European Structural and Investment funds[1] programming documents in eight countries of central and eastern Europe. CEE Bankwatch Network and Friends of the Earth campaigners in the Czech Republic, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia evaluated their countries' Operational Programmes, the key documents that will guide EU funds investments in the next seven years between 2014 and 2020. Bankwatch looked specifically at the planned allocations distributed across the 'categories of interventions,' the EU framework that provides information about the level of financial support for specific areas and measures.

These figures are the basis of our analysis and have been extracted from the draft Operational Programmes that were submitted to the European Commission during 2014. Some of these documents have been finalised and approved. However with the negotiating process between Member States and European Commission ongoing, some Operational Programmes – and thus the allocations – are still subject to change.

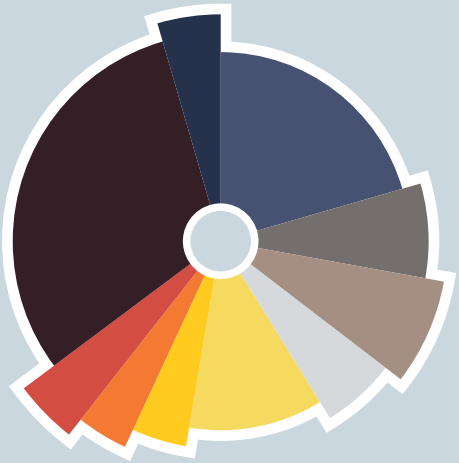
These Operational Programmes are somewhat 'living' documents, reflecting months of work and negotiations among different stakeholders. The aim of this report is to assess whether the spending plans, in their current form, are set to deliver on the EU's promise of smart, sustainable and resource-efficient development in central and eastern Europe.

The present analysis focuses on allocations in the areas related to sustainable development and climate action: renewable energy sources, energy efficiency, transport, waste management, climate change adaptation and mitigation and biodiversity conservation.

Not all information was available in all countries, therefore some figures are missing from the analysis: in Hungary, planned spending under two Operational Programmes is unknown, as is information about Social Fund allocations in Croatia. As such, the aggregated figures collected in this report may differ slightly from those officially communicated by the EU and Member States. Those discrepancies however are marginal, and with the vast majority of funds accounted for, conclusions can be drawn about the quality of EU funds investment plans in central and eastern Europe.

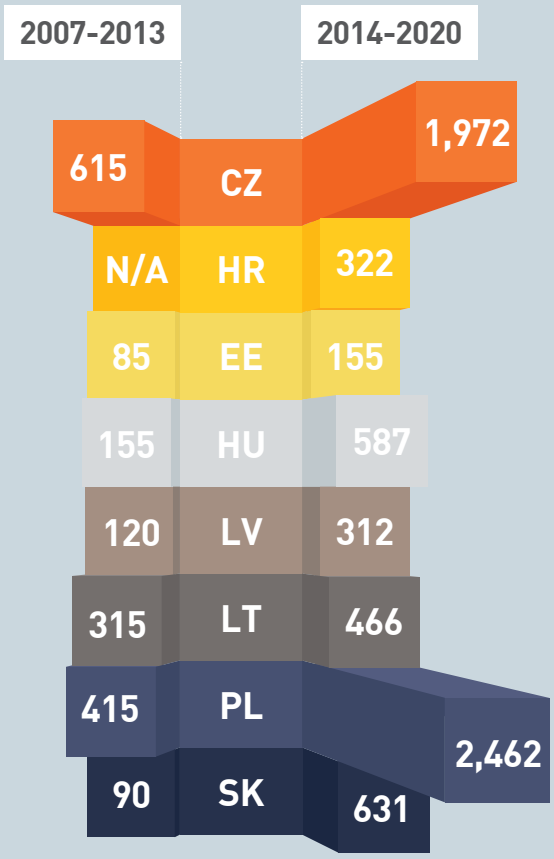
Taken together, these plans do not provide the certainty and leverage that investors need to commit to renewable energy and other low-carbon technologies, nor do they send the sort of signal that could kick-start a transition to a 'circular economy'.

GRAPH 1: TOTAL ALLOCATIONS IN 8 CEE COUNTRIES REGIONAL DEVELOPMENT AND COHESION FUND, 2014-2020, EUR MILLION

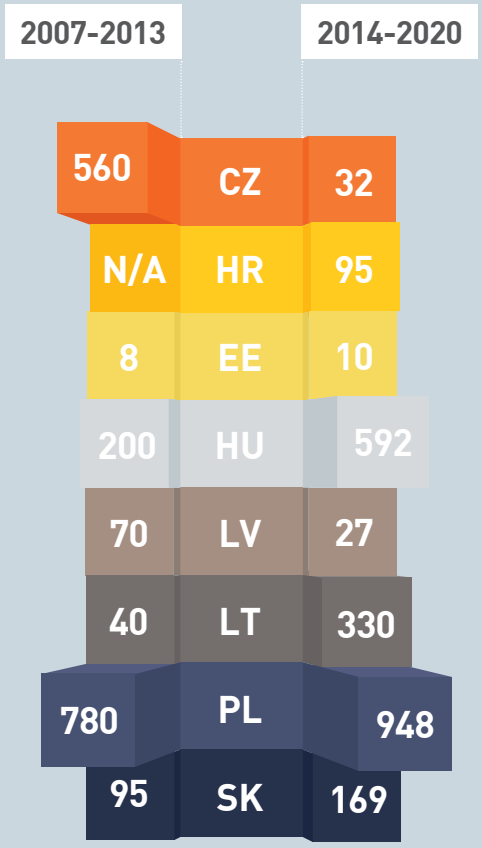


[1] Unless otherwise specified, 'EU funds' refers to European Regional Development Fund and Cohesion Fund, ie it does not include the European Social Fund, Marine and Fisheries Fund, and Rural Development Fund, which together comprise the European Structural and Investment Funds.

GRAPH 2: COMPARISON OF TOTAL ALLOCATIONS FOR ENERGY EFFICIENCY MEASURES, 2007-2013 VERSUS 2014-2020, EUR MILLION



GRAPH 3: COMPARISON OF TOTAL ALLOCATIONS FOR RENEWABLE ENERGY, 2007-2013 VERSUS 2014-2020, EUR MILLION

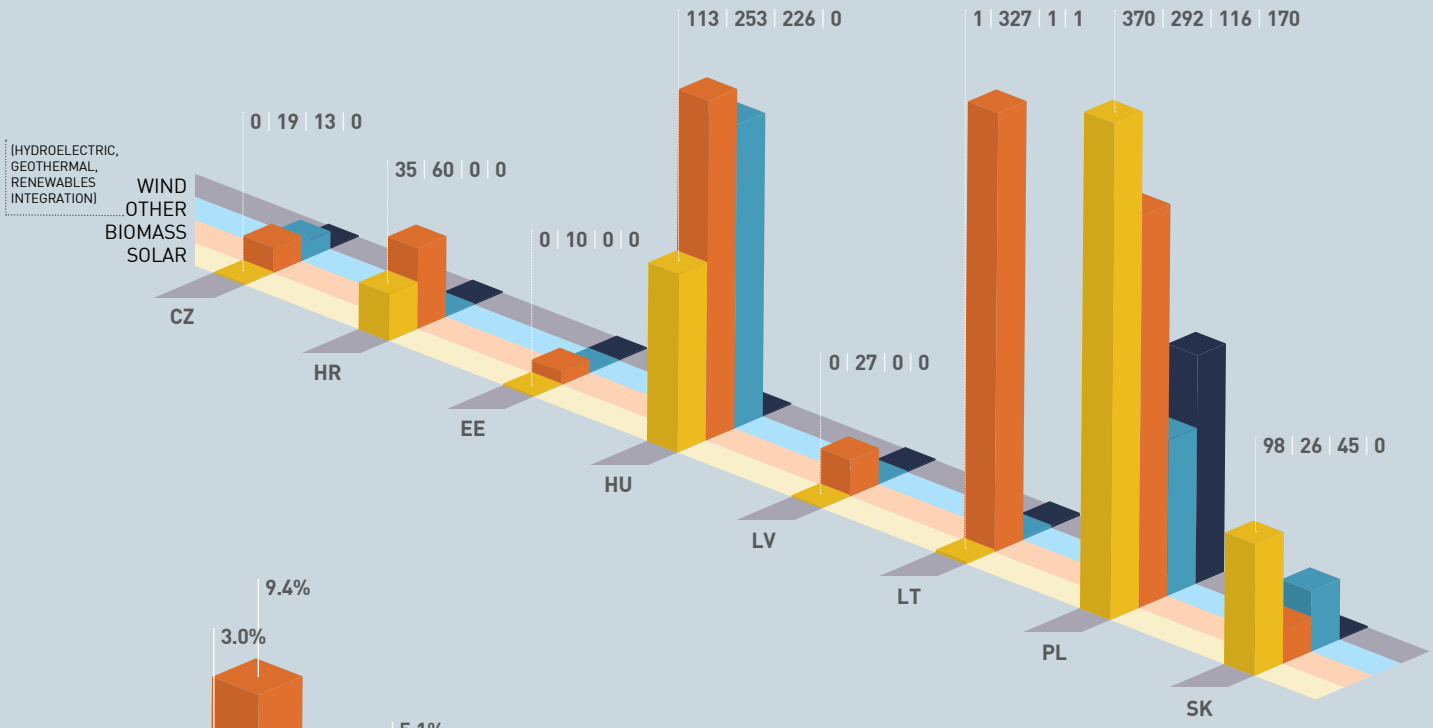


We do welcome that a higher proportion of funds compared to the 2007-2013 period has been allocated for energy efficiency measures, and especially the introduction of private housing sector as eligible recipients of EU funding, a necessary condition to tap the potential of energy savings. It is also imperative that these funds are accessible to socially vulnerable groups that do not have either the resources or the capacity to implement efficiency measures on their own. To this end, appropriate financial instruments should be shaped to address this issue. At the same time, it makes little economic sense that large enterprises still receive EU funds for energy efficiency measures: large enterprises have sufficient capital and a much longer financing horizon to cover such costs.

Our analysis also shows that in several countries allocations for renewable energy sources are stagnant or even in decline. Of particular concern is the fact that the majority of this support is planned for biomass. In order to be considered genuinely renewable, biomass must be sourced sustainably, which would require the Commission to establish clear criteria for each planned biomass project.

Overall, the share of sustainable energy infrastructure – energy efficiency, renewable energy sources and SMART grids – has increased compared to the 2007-2013 period. However, these allocations are a drop in the bucket given the overall investment needs for achieving the EU's long-term decarbonisation agenda.

GRAPH 4: ALLOCATIONS BY TYPE OF RENEWABLE ENERGY SOURCES, 2014-2020, EUR MILLION



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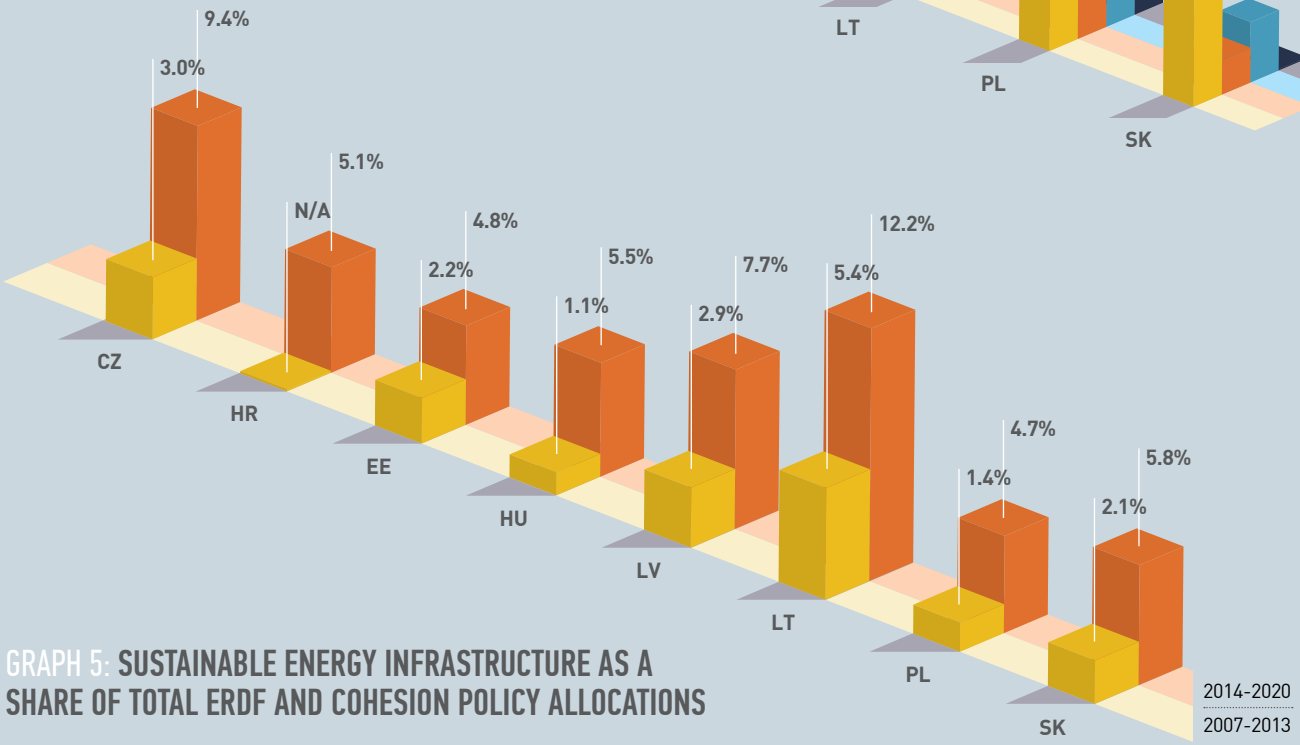
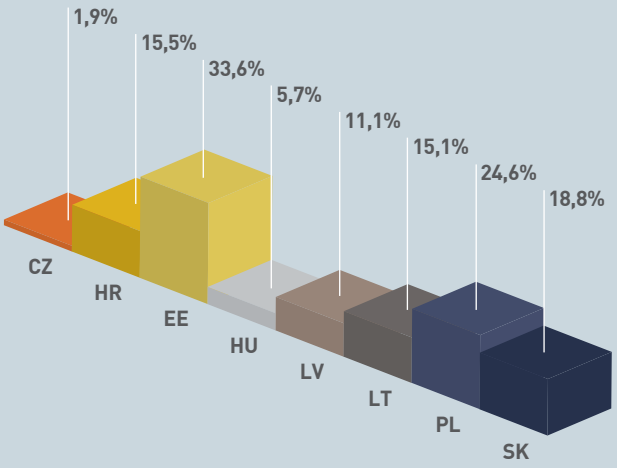


EU funds are still being earmarked for fossil fuel industries. Apart from allocations for the gas sector, countries analysed in the study plan to support combined heat and power plants ('co-generation') based on coal, for example by 'modernizing' or upgrading the plant to add and co-fire biomass. For the modernisation of heating systems, it will be possible to change old boilers with coal-based ones that simply emit less.

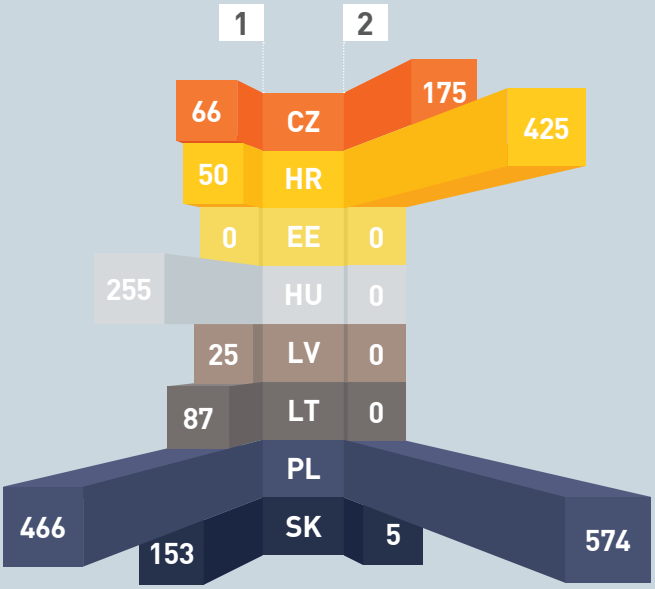
It is business as usual in the transport sector, where on average more than 50 per cent of funds are allocated for roads, while rail receives just one quarter to a third of available funds. Sustainable urban transport is slated to receive little more than in the 2007-2013 period. Such an approach contradicts the Commission's transport sector roadmap, which recommends that "sustainable mobility concepts" lead to a 60 per cent reduction by 2050 in greenhouse emissions across the sector.

Funding for the 'heavy investment acquis,' which includes the waste and water sector, prevails. Large polluters receive funding, rather than paying, to pollute, as is enshrined in EU treaties vis a vis the polluter-pays principle. Eco-system and biodiversity protection and support for Natura 2000 sites are marginal, meaning that EU funds will not contribute to halting the loss of biodiversity. This negligence is further compounded by planned allocations for risk prevention measures, which includes more construction of dikes and

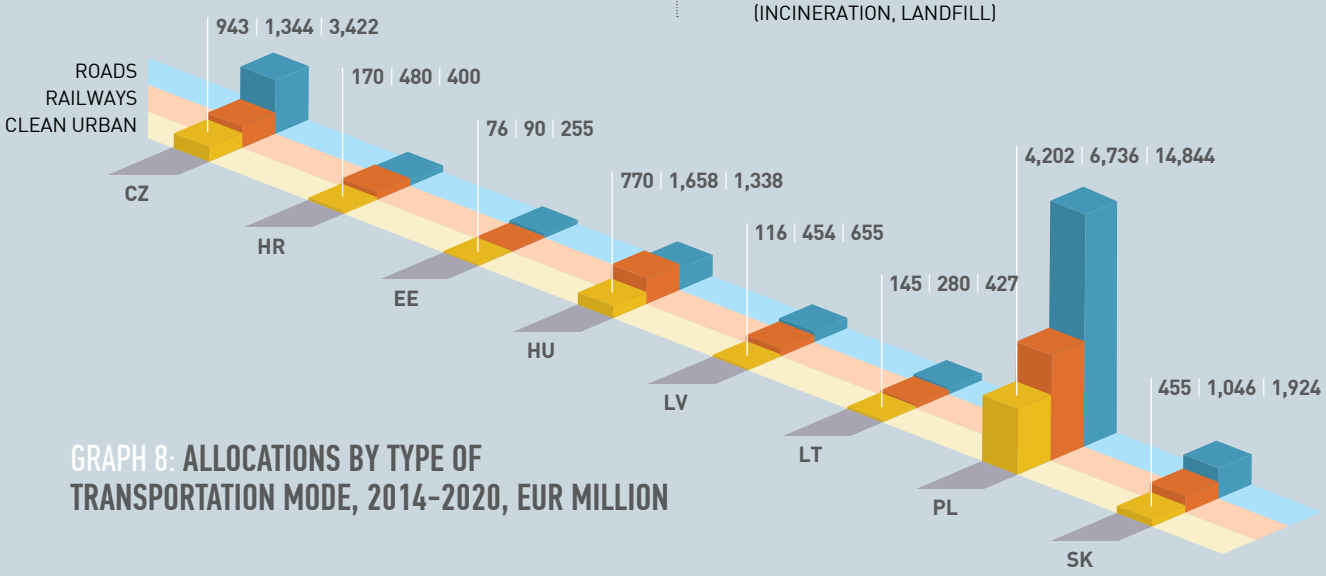
GRAPH 6: FOSSIL FUELS AS A SHARE OF TOTAL ALLOCATIONS IN ENERGY



GRAPH 7: ALLOCATIONS BY TYPE OF RESOURCE MANANGEMENT MEASURE, 2014-2020, EUR MILLION



1. HOUSEHOLD WASTE IN LINE WITH EU WASTE HIERARCHY (MINIMISATION, SORTING, RECYCLING)
2. HOUSEHOLD WASTE AGAINST EU WASTE HIERARCHY (INCINERATION, LANDFILL)



GRAPH 8: ALLOCATIONS BY TYPE OF TRANSPORTATION MODE, 2014-2020, EUR MILLION

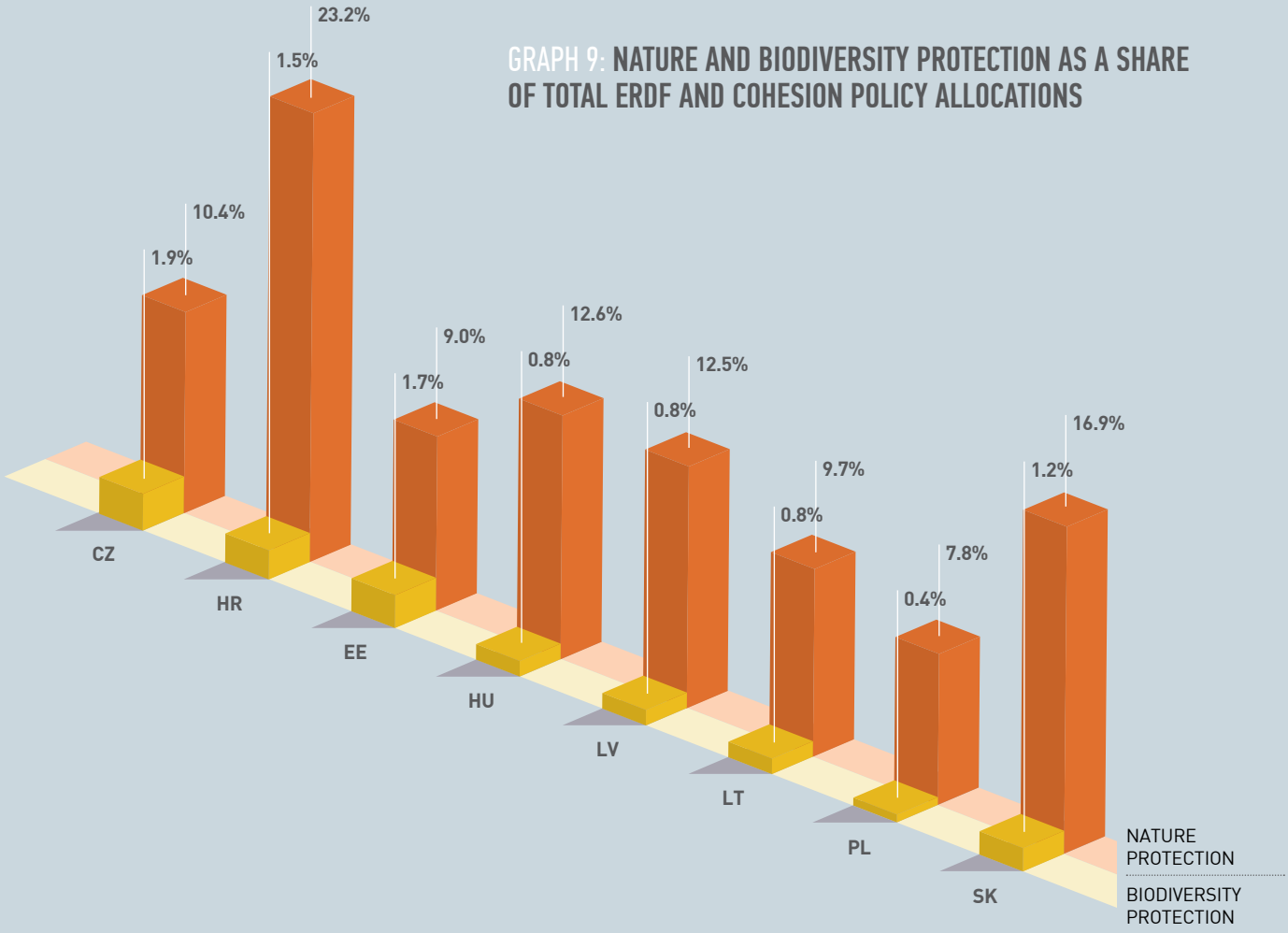
dams that in the long-term increase pressures on the environment and people.

In the waste management sector, allocations for waste incineration and landfilling prevail. The "waste hierarchy" outlined in the EU's flagship resource efficiency initiative (prevention, reuse, reduction, recycling BEFORE waste incineration and landfilling) has been turned upside-down.

Decisions about energy, transport and resource infrastructure investments will have implications for decades. The current proposals from central and eastern European Member States will in no way contribute to making economies cleaner, leaner, and lighter. Instead of catalysing a transition to a decarbonised, renewables-based and resource saving economy that respects the planet's boundaries, we see an investment approach that maintains the fossil fuels-based, resource-intensive economy that threatens the long-term sustainability of European societies. We see an investment approach whose potential remains unfulfilled.

This report therefore is a call to the European Commission during the current negotiations with Member States to reject those spending plans that undermine a future-oriented, forward-looking EU investment and development policy.

GRAPH 9: NATURE AND BIODIVERSITY PROTECTION AS A SHARE OF TOTAL ERDF AND COHESION POLICY ALLOCATIONS



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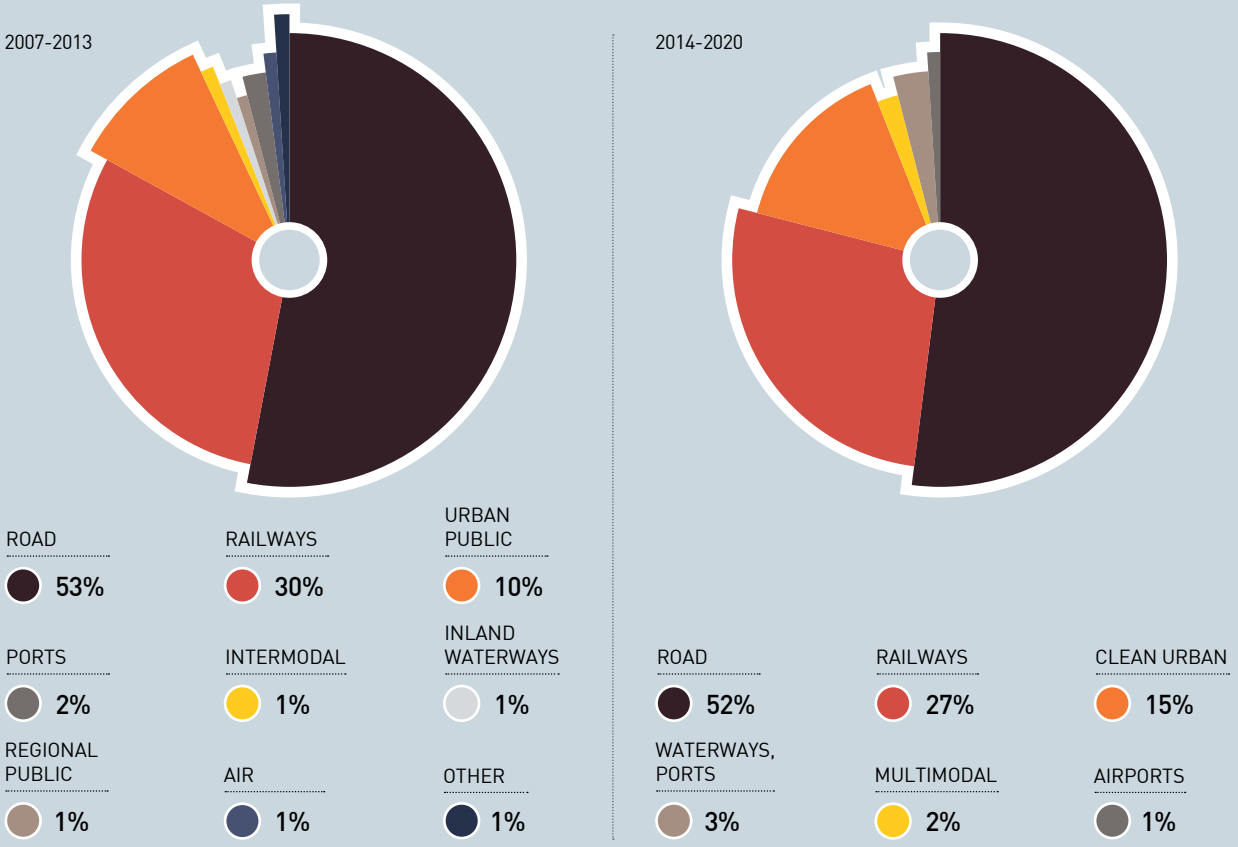


Poland

SUMMARY

- **IT IS BUSINESS AS USUAL IN THE TRANSPORT SECTOR, WITH MORE MONEY SLATED FOR ROADS AND LESS FOR RAIL, THOUGH WELCOMED ALLOCATIONS INTRODUCED FOR LOW-CARBON, URBAN TRANSPORT**
- **IN SPITE OF THE FACT THAT ONE IN FIVE POLES CANNOT AFFORD TO HEAT THEIR HOMES PROPERLY IN WINTER, FUNDING FOR EFFICIENCY MEASURES THAT WOULD REDUCE ENERGY BILLS HAVE BEEN DEPRIORITISED FOR PRIVATE HOMES**
- **INSUFFICIENT FUNDING AND INADEQUATE MEASURES TO ADAPT TO A CHANGING CLIMATE WILL LEAVE THE COUNTRY VULNERABLE TO FLOODS AND DROUGHTS**
- **IS CONSERVATION REALLY ABOUT CONSERVATION? THE PRIORITIES FOR BIODIVERSITY FUNDING FOCUS ON TOURISM**

Poland will be the largest recipient of European Structural and Investment Funds (ESIF), receiving approximately EUR 80 billion under the Cohesion Policy for 2014-2020. With significant investment needs identified in the transport sector and for energy infrastructure, as well as for innovation and resource efficiency measures, EU funds, as the major source of financing for Poland's development, are key in addressing the challenges Poland faces in meeting the EU's 2020 targets and the long-term goal of sustainable development.

Poland has a decentralised structure for implementing EU funded projects. Its 22 Operational Programmes follow the priorities set forward in the Partnership Agreement[2]. Six national OPs – implemented centrally – focus mostly on large-scale, national investment projects. Around 40 per cent of all EU funds will be distributed directly by Poland's sixteen regions, with local governments responsible for preparing and operationalising the 16 regional investment plans. This decentralisation is especially marked in the 'low-carbon economy' thematic objective, where more than half of about EUR 9 billion allocated for energy efficiency, renewable energy and clean, sustainable transport will be invested by Polish regions.

TRANSPORT

The transport sector will once more receive a major share of EU investments, with planned allocations totalling 36 per cent of available funding. While substantial investments are needed here, due to the low density and poor condition of existing connections, Poland has prioritised more money for the development of roads at the expense of railways and clean, urban transport.

This is concerning for a number of reasons. First, the density of railway services in Poland and the number of available passenger connections is extremely low when compared to other European countries. This is a consequence of the poor condition of a majority of existing railways, which do not operate or are used only for freight services. Also the share of railways in the modal-split of passenger services is currently one of the lowest in Europe at approximately 5 per cent. At the same time, the share of individual car transport has risen sharply to 89 per cent of all passenger transport, now the second highest in Europe[3].

With the majority of Poland's 38 million people travelling by car, greenhouse gas emissions, air pollution and resource and energy use are significant. In 2009 the transport sector accounted for 12 per cent of all greenhouse gas emissions, and this share has climbed steadily since

[2] Ministry of Infrastructure and Development, Partnership Agreement, 21 May 2014

[3] Centre for Sustainable Transport, Expenditures for Railway Transport in the 16 ROP Projects - Common Comments, Warsaw, September 2014

[4] Główny Urząd Statystyczny, Wskaźniki Zrównoważonego Rozwoju Polski, Katowice 2011

1990[4]. With further investments planned for roads, these problems will continue to grow. At the same time, rail transport will require sizeable investments to ensure better connectivity both regionally and internationally and to improve the access and quality of services. Shifting spending priority from roads to railway will also help Poland remain in line with the objectives of the EU's transport strategy, the White Paper 'Roadmap to a single European Transport Area – towards a competitive and resource efficient transport system'. With current allocations for rail insufficient for meeting the country's needs on the one hand, and with EU funds being channelled towards road infrastructure on the other, it is unlikely that Poland will be able to maintain a dense network of high-speed train connections, offer quality services to passengers, and meet its national goal of reducing greenhouse emissions by 14 per cent by 2020.

It would be remiss not to mention that significant amounts of money have been allocated for clean and sustainable urban transport, with nearly EUR 4 billion to reduce energy consumption, greenhouse gas emissions and improve air quality in cities.

However on the regional level, provisions for supporting investments in low-emissions public transport are in most cases included not in the transport sections of the Regional Operational Programmes but rather under the low-carbon development priority. This means that costly investments in urban transport, including new, low-emissions rolling stock, will consume a great deal of funding under the regional 15 per cent ring-fencing for low-carbon economy. This is problematic because it means that the EUR 1.5 billion earmarked for urban transport accounts for almost a third of all funds for sustainable, green economic development in Poland's 16 regions, could effectively limit the amount of money available for energy efficiency measures and investments in renewable energy.

ENERGY EFFICIENCY

Poland has one of the most energy-intensive economies in the EU, at more than twice the EU average[5]. The building sector is responsible for around 40 per cent of final energy use, and three quarters of this consumption i.e. approximately 30 per cent of all energy consumption in the country happens in the residential housing sector. Public sector buildings account for just 10 per cent of final energy use. This is problematic given the usually poor energy standards of Polish houses, many of which resemble buildings in western Europe in the 1970s.

On average, a residential building in Poland has an energy performance of 215-230kWh/m^2 per year[6]. According to the EU's 2010 Energy Performance of Buildings Directive, all new buildings and buildings undergoing major renovations should have nearly zero energy consumption from 2020 onwards. The same standard will also apply to public buildings two years before then[7]. To achieve this objective and the EU's 2020 targets on emissions reductions and improved energy efficiency, Poland must invest significantly in modernising and retrofitting existing buildings.

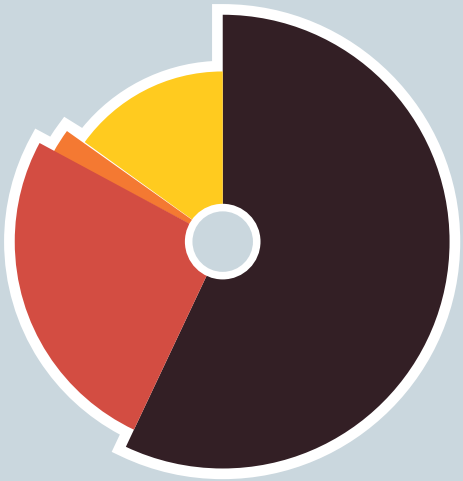
Given the amount of energy consumed by residential buildings, the funding allocated for energy efficiency measures in the housing sector is alarmingly low. The public sector will receive almost twice as much support as housing. In total, Poland will allocate EUR 788 million to energy efficiency measures for the housing sector and EUR 1.3 billion for improving energy standards in state and municipal buildings. Most of these investments will be managed on the regional level.

In other words, just about a third (both on the national and regional levels) of EU funds will be used to finance the retrofitting of multi-family houses. Moreover, single-family homes – approximately 80 per cent of all residential buildings, responsible for housing 40 per cent of Poland's population[8] – are ineligible for EU funds because of a provision in the Partnership Agreement. This limits the ability of many Polish families to improve the energy standards of their homes.

Reducing household energy use in order to improve the quality of life in Poland cannot be ignored. Energy poverty is common in Poland, with households spending on average around 15 per cent of their disposable incomes on energy bills[9], and more than 20 per cent unable to afford comfortable temperature levels at home during the winter[10]. Deep retrofits of residential buildings can save up to 70 per cent in energy consumption and significantly alleviate the financial burden faced by many Polish families, all while improving air quality and reducing greenhouse gas emissions. Homeowners are often unable to undertake such investments because they do not have the financial means, access to subsidies or loans on preferential terms. As such, the area is one in which support from EU funds can bring significant changes and benefits to both people and the environment.

5 Eurostat, Energy intensity of the economy, data for 2012
6 Institute for Sustainable Development, Institute for Structural Research, Low-Emission Poland 2050, II Energy Efficiency, July 2013
7 Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the Energy Performance Of Buildings.
8 Główny Urząd Statystyczny, census of 2011
9 Institute for Sustainable Development, Institute for Structural Research, Low-Emission Poland 2050, July 2013
10 Koalicja Klimatyczna i WWF Polska, Efektywniej o efektywności - przewodnik po wdrożeniu Dyrektywy Parlamentu Europejskiego i Rady w sprawie efektywności energetycznej (EED), Warsaw 2013

GRAPH 11: ALLOCATIONS BY TYPE IN THE TRANSPORT SECTOR, 2014-2020, EUR MILLION



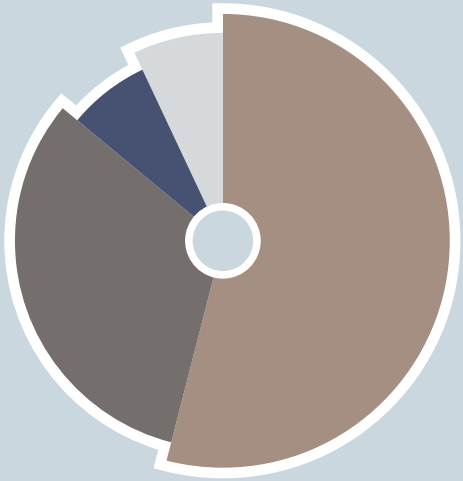
ROAD
14,864
57%

RAIL
6,736
26%

LOW-CARBON URBAN
3,925
15%

MULTI-MODAL
543
2%

GRAPH 12: ALLOCATIONS BY BENEFICIARY IN THE ENERGY EFFICIENCY SECTOR, 2014-2020, EUR MILLION



PUBLIC SECTOR
54%

HOUSING
32%

SMEs
7%

BIG COMPANIES
7%

GRAPH 13: REGIONAL ALLOCATIONS FOR ENERGY EFFICIENCY MEASURES BY SECTOR, 2014-2020, EUR MILLION

PUBLIC
1,141
69%

HOUSING
517
31%

GRAPH 14: REGIONAL AND NATIONAL ALLOCATIONS FOR ENERGY EFFICIENCY MEASURES BY SECTOR, 2014-2020, EUR MILLION

PUBLIC
1,322
63%

HOUSING
788
37%

The EUR 2.1 billion for energy efficiency in buildings, though a sizeable amount, seems inadequate when compared with the EUR 9 billion allocated for investments in the low-carbon economy, particularly considering that the Partnership Agreement clearly emphasises that priority funding should be directed to energy efficiency and energy savings measures, which have the most potential to reduce emissions and the energy intensity of the Polish economy.

CLIMATE CHANGE ADAPTATION AND BIODIVERSITY PROTECTION

Well-designed measures for adapting and mitigating the effects of climate change are needed to improve Poland's resilience and ensure environmental and economic security. While the costs of such measures are significant, failing to address the threat posed by climate change will cost far more in the long run. Between 2001-2010, climate-related extreme weather events were responsible for damages totalling an estimated PLN 54 billion (EUR 13 billion), and the failure to implement adaptation measures will result in additional losses of PLN 86 billion (EUR 21 billion) by 2020[11].

EU funds will be one of the major sources of financing for climate change adaptation in Poland. With more than EUR 700 million earmarked, adaptation will receive the most of all environment-related funding, apart from waste water treatment. Yet the measures slated to receive priority funding may not be enough to prepare Polish regions, cities and the environment to weather the storm of a changing climate.

The Partnership Agreement and Operational Programmes list a variety of measures for flood and drought prevention eligible for funding under the climate change adaptation thematic objective. As outlined in the EU strategy on adaptation to climate change[12], a priority should be given to ecosystem-based solutions and support for natural retention through the restoration of wetlands, ponds and lakes, rivers and valleys.

Due to their local character and relatively small value, natural retention projects will be implemented on the regional level and financed from the Regional Operational Programmes. However most regions continue to adopt an infrastructure-based approach as was the case in the 2007-2013 funding period. Technical solutions whose ability to improve regional resilience to climate change – like the building of multipurpose and small retention reservoirs or infrastructure to regulate or restrain water flow in rivers – will receive priority. Much of the available funds will be spent on equipment for emergency responders.

Effective and environmentally friendly solutions to the growing threat of unpredictable rainfall patterns that increase floods and droughts in all Polish regions are necessary to avoid further economic losses, growing insecurity and a marked fall in the quality of life of people both in urban and rural areas, as well as the further deterioration of the environment and growing pollution of water and soil. A focus on environment is especially important due to the disappointing set-up of funds for biodiversity conservation.

Poland has considerable biodiversity, which is increasingly at risk due to pressures of urbanisation and changing climate. Although the Partnership Agreement emphasises the need for action to halt biodiversity loss by providing support to active conservation and protection projects, this urgency is not reflected in the allocations of the programming documents. Instead, nature is treated not in and of itself as valuable, but rather simply as a resource to be exploited to strengthen economic and social development of regions.

Such an utilitarian approach is illustrated by the low amount of money available for active protection of the natural environment. This amount is generally considered insufficient for addressing the challenges of ensuring the conservation and resilience of ecosystems and the implementation of national and EU biodiversity targets and strategies. Moreover the actual funding for biodiversity conservation is even lower, because in most regions it is only a fraction (often no more than 20 per cent) of the allocations planned under this investment priority.

Instead of using the EU funds for biodiversity conservation and enhancement, wildlife protection and green infrastructure, a vast majority of Polish regions plan to focus their 'biodiversity' spending on promoting nature tourism and developing tourism infrastructure, or building cycle tracks and footpaths. While important, these actions will not improve the conservation status of biodiversity-rich areas and can indeed have an adverse effect and place additional pressures on nature and wildlife. Instead of protecting the natural assets and enhancing biodiversity and ecosystem services, Polish regions plan to invest in exploiting nature's potential for economic development.

[11] Ministry of Environment, Strategic Plan for the Adaptation of sectors and areas subject to climate change by 2020, with the prospect of the year 2030, Warsaw 2013

[12] European Commission, EU Strategy on adaptation to climate change, COM(2013)216 final, 2013

Czech Republic

SUMMARY

- **MONEY FOR ENERGY EFFICIENCY IS THERE, BUT WITH LOW EFFICIENCY STANDARDS, ENERGY SAVINGS WILL REACH NEITHER THEIR POTENTIAL NOR THE EU TARGETS SET FOR CZECH HOUSEHOLDS**
- **NEARLY NON-EXISTENT IS MONEY FOR RENEWABLE ENERGY, GRINDING TO A HALT THE DEVELOPMENT OF THE SECTOR OVER THE NEXT SEVEN YEARS**
- **GRID INVESTMENTS WILL STRENGTHEN THE CURRENT ENERGY MONOPOLY AND DISCOURAGE GREEN ENERGY FROM COMING ONLINE**
- **BACKWARDS STRATEGIES IN THE WASTE SECTOR CONTRADICT THE EU APPROACH AND WILL COST THE COUNTRY AS MUCH AS FIVE TIMES MORE**
- **IN SPITE OF LIP SERVICE PAID TO THE LOW-CARBON ECONOMY, THE PREVAILING TREND OF MONEY FOR ROADS CONTINUES**

ENERGY EFFICIENCY

The Czech Republic has allocated a considerable EUR 2 billion for energy efficiency measures in the next 2014-2020 EU funding period. Of this, EUR 622 million will be invested in renovations of existing, multi-apartment residential buildings and another EUR 603 million in public buildings. Small and medium-sized enterprises will be able to access over EUR 447 million for energy efficiency and large businesses almost EUR 300 million. If the conditions are set properly, then the Czech Republic can reach the target on end-use energy savings in residential buildings by 2020 as outlined in the EU's Energy Efficiency Directive.

In order to do so, the country would need to invest EUR 5.6 billion by 2020. The 'New Green for Savings' programme should contribute EUR 1 billion to this amount in the form of support for family houses. This amount is expected to leverage an additional EUR 1 billion, for a total of EUR 2 billion by 2020. In the Integrated Operational Programme, EUR 622 million will be disbursed through a financial instrument that will provide 15 per cent in the form of grants or low interest rate loans for multi-apartment buildings. Together with private funding, total investment can reach over EUR 4 billion. If some allocations from Operational Programme Prague are included in this sum, and the JESSICA or Panel-plus initiatives are continued, then the Czech Republic will reach its target with just around EUR 5.6 billion for the housing sector.

Yet the country looks set to ignore such an approach. The Building Renovation Strategy identifies a scenario in which the 'fast and deep renovation' approach is considered the most cost-effective. This scenario would require in energy costs alone EUR 1.4 billion by 2020 as opposed to the EUR 1 billion in the scenario above. While the amount of EU funds for multi-apartment buildings is then sufficient to reach the target in the Energy Efficiency Directive target, it will not properly maximize the potential of energy savings. The devil, as always, is in the details.

One of the premises of the Building Renovation Strategy is that 50 per cent of residential buildings

are to be renovated to the average level of efficiency. This is the recommended level set in Czech legislation, corresponding to energy class 'B'. But the Integrated Regional Operational Programme counts only a minimum, energy class 'C' standard. Unlike in the New Green for Savings programme, the nationally-funded energy savings programme, there is no motivation for flat owners to achieve higher levels of savings. The criteria of the Integrated Regional Operational Programme will thus lead to low level of energy savings, endangering the achievement of the target. Reaching higher efficiency levels would therefore require financing more projects, but as the allocation is fixed, the risk is that fewer projects would be financed.

Also problematic is the EUR 300 million allocated for energy efficiency measures in large enterprises. While the greater figure of EUR 477 million is available to SMEs, one must ask whether public investment in large enterprises, which have better access to commercial capital, is not better invested in enterprises where scarce EU funds can have a bigger impact. As energy efficiency investments amortise and given that for large projects it is relatively cheaper (per GJ saved) to use Energy Performance Contracting (whereby energy savings directly finance efficiency gains via an arrangement between a beneficiary and an Energy Savings Company), it is necessary to consider the added value of such investments.

The use of so-called 'innovative financial instruments' is also planned as a part of energy efficiency allocations for the industry. However the Operational Programme Enterprise and Innovation for Competitiveness contains little details about these instruments and does not differentiate between small and large enterprises. The Czech Republic must justify the exact purpose of its financing of large enterprises (and not only for energy efficiency), as has been requested by the Commission on this particular programme.

RENEWABLES

Funding for renewable energy has fallen off sharply. Although some investments in renewables are hidden in other categories of intervention – as in the case of energy efficiency measures like biomass boilers and solar thermal panels or waste management like biogas generated from biodegradable municipal waste –no financing whatsoever is planned for wind power, solar photovoltaic or geothermal energies. Only EUR 19 million is allocated for biomass projects and just EUR 13 million for hydropower. This amount is just 6 per cent of what was allocated during the 2007-2013 period. Moreover, money is available only for the private sector, leaving the public sector, municipalities and even universities without the possibility to finance renewable installations.

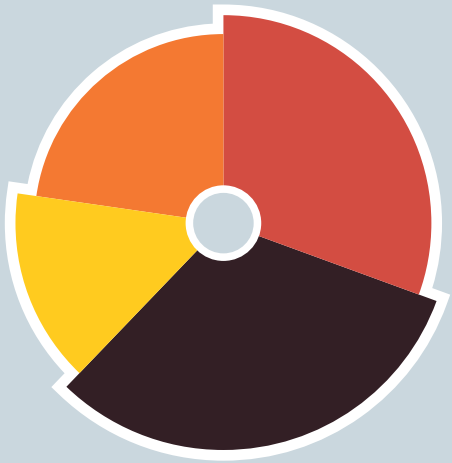
The Ministry of Industry is wont to argue that in the current context, there is no absorption capacity for more renewables projects. While this argument is to an extent valid, the reason for this situation is that support measures like feed-in tariffs and green bonuses have been stopped for new installations, with the exception of small hydropower projects and combined heat and power plants fired with biomass and mixed waste from biodegradable components. With the rapid development of the renewables sector, a lack of EU funding justified by unfavourable conditions that the state itself has created may seriously harm the further development of these technologies in the Czech Republic and undermine the country's ability to implement such projects in the future.

SMART GRIDS

Against this backdrop in the renewables sector, investments into intelligent energy distribution systems, which total more than EUR 37 million, take on a different meaning. Rather than supporting a shift to a low-carbon, decentralised and renewables-based economy, such grid investments maintain the status quo.

To illustrate this point, consider the result indicators in the Operational Programme Enterprise and Innovation for Competitiveness and the average number and time of interruptions in power supply annually per consumer. There is no evidence that renewables would cause any power supply interruptions in the country. Expected results of increased capacity for decentralised renewable connections described in the OP will not happen. Nor will the allocation contribute to proclaimed increased competitiveness of the economy. Distribution fees are typically the highest portion of the electricity price for final consumers, exceeding payments for power consumed, taxes and other fees. The new Czech energy bill recently approved by the

GRAPH 15: ENERGY EFFICIENCY ALLOCATIONS BY TYPE, 2014-2020, EUR MILLION



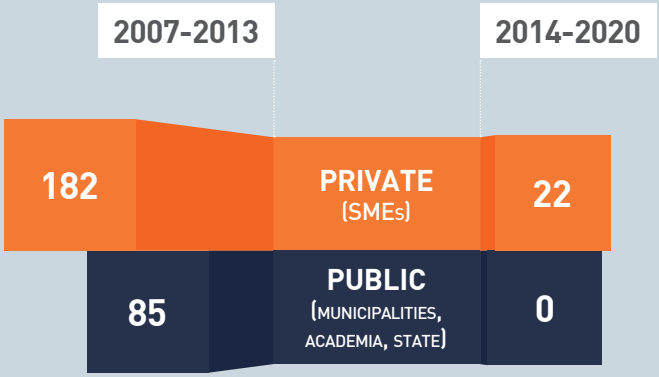
RENOVATING EXISTING HOUSING STOCK
623
32%

RENOVATING PUBLIC INFRASTRUCTURE
603
31%

ENERGY EFFICIENCY AND DEMONSTRATION PROJECTS IN SMES
448
23%

PROMOTING ENERGY EFFICIENCY IN LARGE ENTERPRISES
298
12%

GRAPH 16: RENEWABLE ENERGY ALLOCATIONS BY BENEFICIARY, 2007-2013 VERSUS 2014-2020 FUNDING PERIOD, EUR MILLION

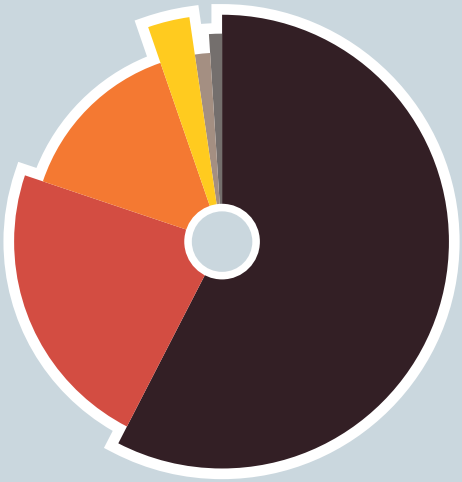


GRAPH 17: ALLOCATIONS FOR HOUSEHOLD WASTE TREAMENT MEASURES BY TYPE, 2014-2020, EUR MILLION

MECHANICAL BIOLOGICAL TREATMENTS, THERMAL TREATMENT, INCINERATION
175
73%

MINIMISATION, SORTING, RECYCLING
66
27%

GRAPH 18: TRANSPORT ALLOCATIONS BY TYPE, 2014-2020, EUR MILLION



ROADS, NEW AND RECONSTRUCTION
3,421
58%

RAILWAYS, NEW, RECONSTRUCED AND VEHICLES
1,343
23%

URBAN TRANSPORT
865
15%

MULTIMODAL TRANSPORT
177
3%

INTELIGENT TRANSPORT SYSTEMS
77
1%

INLAND WATERWAYS
60
1%

Parliament may even increase this share. We cannot expect grid improvements financed by EU funds to translate into lower distribution fees for customers. Grid infrastructure, a natural monopoly, is divided among three companies: CEZ, E.ON and PRE who will keep the benefits of EU funds for themselves.

Even more dubious is the allocation of almost EUR 200 million for modernising the electricity transmission grid, which should in theory contribute to the EU's goal of increased energy security, stability of supply and completion of the EU single power market. This allocation was originally reported under thematic objective 4 'low-carbon economy', but as its contribution to this goal could not be proved, it was moved by the programming authorities to thematic objective 7 on energy transmission and distribution infrastructure. Here again, its contribution to the thematic objectives remains doubtful.

A deeper examination shows why. Doubling the capacity of existing transmission lines, constructing new transforming stations, replacing outdated transformers and modernizing communication and control systems appear on the surface to fulfil these objectives. But as described in the investment plans of ČEPS, the transmission grid operator, no new cross-border connections are planned before 2023, and part of the increased domestic capacity should serve two new blocks of the Temelin nuclear power plant. What is more, the Czech Republic has asked for support for its internal transmission lines from the Connecting Europe Facility. Couple with the current grid capacity that allows the country to export 20 per cent of its power, EU funds bring little additionallity for grid transmission.

WASTE

Funding priorities in the waste sector do not respect the waste hierarchy set by the EU's Waste Framework Directive. The first three levels of the hierarchy – minimisation, reuse and recycling – are set to receive only 27 per cent of total waste management allocations, while the rest will be used for mechanical-biological treatment, biogas generation or incineration. This scenario is present nowhere else in the countries analysed and is a significant black spot for EU funds in central and eastern Europe.

Given the costs associated with these two approaches to waste treatment, the scenario is particularly puzzling. The EUR 66 million that the Czech Republic will use to prevent, separate, recycle or materially reuse waste will treat over 3 million tonnes of primarily municipal waste each year. Compare this with the EUR 175 million for material-biological treatment and incineration, which will treat just EUR 1.4 million tonnes of waste. In other words, the Czech Republic is willing to pay five times as much to treat the same amount of waste, using methods that run contrary to EU directives.

TRANSPORT

As in the previous 2007-2013 period and like its neighbour to the north, the Czech Republic will prioritise transport investments, with total allocations nearing EUR 6 billion. The construction or reconstruction of roads is almost EUR 3.5 billion, compared to just EUR 1.3 billion for railways, including vehicles and EUR 942 million to urban public transport.

Allocations include strategically-important pieces of the road network like the modernization of the D1 motorway that links the capital and the second largest city Brno, as well as the R35 to provide an alternative to the notoriously-crowded D1. In the rail sector, no significant changes are envisioned. For instance, key international rail links like Pilsen to Muenchen and Nuernberg – now operated by busses due to a lack of conditions for even average speed trains – is included only among projects to be supported in cases of insufficient absorption rates.

In the 2007-2013 funding period, a lack of well-prepared road projects, combined with complex permitting procedures and poor public administration in planning led to a necessary reallocation of road to rail. More problematic projects are expected in the upcoming period, like the 'R1 511 Běchovice – D1' east of Prague. Dating from the 1960s, the route now interferes with densely populated residential areas and breaches legislation on noise. Moreover, plans to build two new locks on the Elbe River will challenge Natura 2000 protection rules.

These two examples highlight what little attention is given to project planning. Instead more money is needed for the reconstruction of the wide regional railroad network, which in many cases is in appalling state. Long-term neglect of regional railways has led to lower speeds and thus lower consumer interest.

Hungary

SUMMARY

- **MORE THAN A THIRD OF EU FUNDS ARE ALLOCATED TO BUSINESS VIA THE ECONOMIC DEVELOPMENT AND INNOVATION OPERATIONAL PROGRAMME WITHOUT ENSURING IT IS INVESTED IN SUSTAINABLE DEVELOPMENT**
- **NO FUNDS FOR WIND POWER, MITIGATION MEASURES FOR AIR AND NOISE POLLUTION, AND LITTLE ALLOCATIONS FOR WASTE MANAGEMENT AND NATURE PROTECTION**

Hungary will receive more than EUR 21.5 billion from the ESIF. With the help of these funds, the government aims to achieve its national development goal of economic growth based on sustainable production methods that adds value and creates employment. In order to achieve these ends, Hungary is focusing EU funds investments in five main areas:

1 *Improving the competitiveness of economic stakeholders and increasing their international engagement;*
2 *Increasing employment (through policies on economic development, employment, education and social inclusion, with special regards to regional differences);*
3 *Increasing energy- and resource-efficiency;*
4 *Managing the challenges of social inclusion and demography; and*
5 *Implementing local and regional developments to aid economic growth.*

Like most recipients of EU funds, Hungary struggles with implementing otherwise worthwhile objectives [13]. In the Partnership Agreement approved by the Commission, Hungary plans to allocate about 60 per cent of EU funds for economic development vis a vis support for private enterprises: more than a third of all EU Funds are allocated under the Economic Development and Innovation Operational Programme.

Such support could seriously distort the Hungarian economy. The role of the state should be to act as a customer and to create an appropriate legislative framework. Mainly loans should be used for direct support. More emphasis should have been given for this type of funding, and priority support should be shown to locally-based SMEs by strengthening the relationship between local economic actors.

While the private sector is slated to receive significant funding, other sectors of the economy will miss out with zero or inadequate support.

ENVIRONMENTAL PROTECTION

The Strategic Environmental Assessment of the Energy and Energy Efficiency Operational Programme (EEOP) says, "In the EEOP there are no, or insufficient measure to achieve the goals, hence these measures would be really needed... Not only much, but also fundamental environmental objectives remain untreated in the programme." [14]

What this means is that no funding for several environmental problems has been made available. While more than 50 per cent of the population is exposed to high levels of noise from traffic and 5 per cent suffer from industrial or service pollution, the EEOP does not address the issue. While there is some funding for traffic-related noise problems in the Intelligent Transport Operational Programme, the programmes do not deal with the problem by financing directly mitigation measures.

There are no measures in any of the Operational Programmes to protect air quality. This is particularly

alarming given the findings of a recent WHO study commissioned by the European Council that named Hungary as having one of the worst air qualities among central and eastern European countries.

Support for wind energy is also missing entirely from the programming documents, making Hungary a laggard across the entire EU [15]. Moreover, a strategic environmental assessment of areas covered by the Operational Programmes like waste management and nature protection found that many are underfunded.

HUMAN RESOURCES

As its name indicates, the Human Resources Development Operational Programme aims to ensure adequate human resources for the labour market in Hungary. But in spite of this, only slightly more than 10 per cent has been allocated for this programme, which is responsible for funding sectors including education, health care, health awareness, social services, gender equality, disadvantaged and marginalised groups and issues of child and fuel poverty. For physical and mental health sectors, this is of specific concern. Life expectancy is among the bottom five in the EU[16], and the OECD's Better Life Index ranks Hungarians' satisfaction with their lives and happiness in the last three globally [17].

TECHNICAL ASSISTANCE

At just EUR 14 million, Hungary uses only a fraction of the EU funds available for technical assistance. This means that there will not be enough funding for meaningful support of involved stakeholders for monitoring EU funds or for contributing to the proper implementation of projects while advising on sustainable development opportunities.

[13] The detailed evaluation of results in accordance with the codes is very difficult because the reporting system does not require detailed output assessments. However, the 2010 evaluation synthesis analysis has revealed that around 33 percent of commitments in relation to total ERDF and CF allocations for enterprise support could be reached. – Impact and effectiveness of Structural Funds and EU policies aimed at SMEs in the Regions, European Parliament, Directorate General for Internal Policies, 2011

[14] National Sustainable Development Strategy Framework, National Sustainable Development Council, 2013

[15] The analyses based on the Operational Programmes submitted to the European Comission by the Hungarian Government in June, 2014.

[16] Environment and Energy Efficiency Operational Programme 2014-2020, (EEOP 4.0 version, 07.06.2014.), Strategic Environmental Assessment

[17] http://semmelweis.hu/hirek/2012/02/17/legszennyezettseg-europa-szerte-magyarorszagon-a-legrosszabb/

[18] Wind energy scenarios for 2020, A report by the European Wind Energy Association - July 2014

[19] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Mortality_and_life_expectancy_statistics

[20] http://www.oecdbetterlifeindex.org/topics/life-satisfaction/

Estonia

SUMMARY

- **THE ECONOMY REMAINS HEAVILY RELIANT ON FOSSIL FUELS, WHILE ENERGY EFFICIENCY POTENTIAL IS LEFT UNADDRESSED**

Estonia describes in its programming documents a path to development via an 'open economy that is highly connected to the global economy'. This development is described as smart, sustainable and inclusive economy, which can be achieved via macroeconomic stability and flexibility and a balance of internal and external trade. Estonia refers to GDP and the employment rate as the main benchmarks of economic development. At the same time, there is no mention of the Estonian economy's heavy reliance on fossil fuels as a source of energy and its energy inefficiency.

In general the EU funds thematic objectives are either environmentally-neutral or positive[21]. At the same time, there is no clear focus on establishing a low-carbon economy, which instead is just one of many objectives. A Strategic Environmental Assessment of the Operational Programme proposes low-carbon technologies and energy efficiency as preconditions for meeting all 'low-carbon' objectives. While this may create conditions for these kinds of investments, no clear statements to this end are provided in neither the Partnership Agreements nor the Operational Programmes, and the Ministry of Economy has been against such an approach.

To an extent, this type of green-washing appears in the countries 'sustainable transport' chapters where investments in motorways and airports can be found, and as well in 'Energy efficiency,' which includes allocations for oil shale producers. Also the Rural Development Plan includes water protection agricultural schemes that in reality might result in more intensive farming practices.

Although there are debates about Estonia's dependence on local fossil fuels, in particular oil shale, this issue is not addressed in the spending plans. Instead, investments remain absent for developing renewable energy in the electricity sector. Different ministries argue that the country's renewable energy goal has already been met in the electricity sector and that the only gap remaining is related to renewable energy in the transport sector. As such, investments have been allocated for biogas innovation and development, along with household energy efficiency renovations.

Estonia also lacks a climate adaptation and mitigation strategy. Expected by the end of 2015, the missing strategy will be unable to guide EU funds investments properly. For instance, wetlands restoration is considered one of best ways to adapt and mitigate against climate change by increasing natural carbon storage. This is a good way to combine nature protection and climate measures. Yet no plans for such investments are in place.

'SUSTAINABLE' TRANSPORT

In the transport sector, the label 'sustainable' is surely a misnomer, with investments slated for building motorways and an international airport. Additionally, fears persist that the massive Rail Baltic development project to connect the country to western Europe will exhaust investment capacity for railways, precluding finance for other important projects in the sector. Roughly the same amount of motorways and railways (110 km) are expected, and while the OPs mentions low-noise, low-carbon, non-motorised transport projects, no measures to support bicycle transport development are in place.

WATER PROTECTION AND RESOURCE EFFICIENCY

Allocations aimed at protecting drinking water, constructing wastewater treatment facilities and restoring ecosystems face challenges. On the one hand, the Operational Programme says, "Interventions will be carried out under this priority axis in conjunction with the interventions planned in the Rural Development Plan,

which aim to reduce the pollution load and improve the status of surface water and groundwater." Yet the Rural Development Plan does not include measures to help decrease nutrient run off from agricultural land, meaning that the amount of run-off will increase.

Allocations for resource efficiency and waste management aim to achieve a 15 per cent increase in the amount of energy efficiency in enterprises and to recycle an additional 16 500 tonnes of waste. The proposed activities will contribute to the objectives of the EU's flagship initiative 'Resource-efficient Europe' and promote the preparation of waste for reuse and recycling. But the number of projects receiving support for the reuse of waste is just 5, while the number of projects aimed at recycling is 15.

THE PARTNERSHIP PRINCIPLE

Estonia began its programming period early and from the onset looked set to involve a wide-range of partners. But some EU regulations on the future Cohesion Policy were not in place, and the government failed to explain to partners how discussions would be conducted. Decisions about investment priorities were made behind closed doors without clear feedback to partners about how the results of the public discussions were integrated.

Under the supervision of the Ministry of Finance, the planning of specific allocations was more inclusive. However because of time pressures and the wish to commence already in 2014, the last planning stages excluded future beneficiaries who were unable to influence practical considerations like the required co-financing.

This assessment is based on the Partnership Agreement text available at http://www.struktuurifondid.ee/public/EE_Partnership_Agreement_EN.pdf; the Operational Programme available at http://www.struktuurifondid.ee/public/EE_Operational_Programme_EN.pdf and strategic environmental assessment report (In Estonian): http://www.struktuurifondid.ee/public/Perioodi_2014-2020_EL_vahendite_kasutamise_partnerlusleppe_ja_uhtekuuluvuspoliitika_fondide_rakenduskava_keskkonnamoju_strateegilise_hindamise_aruanne.pdf.

[21] The objectives are:

0.1 Strengthening research, technological development and innovation;
0.2 Enhancing access to, and use and quality of, information and communication technology;
0.3 Enhancing the competitiveness of small and medium sized enterprises, the agricultural sector (for EAFRD) and the fisheries and aquaculture sector (for EMFF);
0.4 Supporting the shift towards a low-carbon economy in all sectors;
0.5 Promote climate change adaptation, risk prevention and management;
0.6 Protecting the environment and promoting resource efficiency;
0.7 Promoting sustainable transport and removing bottlenecks in key network infrastructures;
0.8 Promoting employment and supporting labour mobility;
0.9 Promoting social inclusion and combating poverty;
0.10 Investing in education, skills and lifelong learning; and
0.11 Enhancing institutional capacity and efficient public administration.

Latvia

SUMMARY

- **NOT ENOUGH SUPPORT FOR FLOOD PREVENTION, WATER PROTECTION AND RECYCLING**
- **GOOD SUPPORT FOR ENERGY EFFICIENCY BUT THIS MUST ALSO TARGET THE POOR AND VULNERABLE**

ALLOCATIONS FOR CLIMATE CHANGE ADAPTATION, RISK PREVENTION AND MANAGEMENT ARE NOT ENOUGH TO PREVENT FLOODS

The destruction caused by floods and erosion affects the quality of life for people and the environment of the Baltic Sea. Adapting to climate change is important to reduce the risk of floods in urban areas. If activities outlined in the strategic objective will be implemented, a number of city residents will be safe form the floods and coastal erosion caused by a changing climate.

Approximately EUR 28 million has been allocated for such measures, but the Ministry of Environmental Protection and Regional Development claims that this would not be enough to finance the building of dams, meaning that citizens remain exposed to future flood risks.

Waste management excludes support for the development of a PET bottle deposit system.

Latvia is not fulfilling the EU's environmental acquis in the area of waste, particularly with respect to recycling. The following table shows to what extent Latvia is lagging behind EU standards.

TYPE	TOTAL WASTE (TONNES)	% TOTAL	EU TARGET
Biodegradable	382 099	40	65
Household	649 485	16.2	50
Packaging	213 906	49	55
End-of-life vehicles/electric	10 640/ 5 020	85	95/85

By 2022, Latvia is required to meet all EU Directives on waste management, for which it has allocated EUR 41 million in EU funds. The Ministry for Environmental protection and Regional Development also proposed support for a PET bottle deposit system management to recycle at least 6 per cent of the country's plastic packaging. However the plan was rejected during programming negotiations, meaning that Latvia will not be able to fulfil conditions of the EU Directive on packaging and packaging waste.

LESS SUPPORT FOR DRINKING WATER SUPPLY SYSTEM

In order to reduce the environmental risks of non-collected waste water and improve the drinking water supply system, EU funds investments have been allocated for areas where centralized water supply services are not available to all and in areas where waste water drains into sensitive water bodies.

With the help of the investments to manage water services, the share of inhabitants in areas above 2,000 people with secure water supplies will increase from 94 to 97.8 per cent by 2023. The share of actual water supply connections will increase from the 2012 level of 82 per cent to 95.4 per cent by 2023, and the number of sewerage connections will increase from 79 per cent to 95.9 per cent in 2023.

Latvia has allocated EUR 126 million to develop and upgrade the quality of water supply and sewerage system services and to ensure connection possibilities, but only a very small portion is allocated to ensure the drinking water supply (around EUR 6 million). This support is also planned only for specific municipalities in order to fulfil the requirements of the Directive for Drinking water.

ENERGY EFFICIENCY FOR RESIDENTIAL BUILDINGS

If Latvia develops the appropriate financial instruments, the country will be on track to ensure that all projects

fulfil requirements of building renovations and energy efficiency. The Ministry of Economics agreed that promoting energy efficiency in buildings would create demand for such projects equal to the previous 2007-2013 EU funds period. This will require the creation of a new revolving fund, the Latvian Energy Efficiency Fund, to implement energy efficiency measures in residential buildings and to provide beneficiaries with low interest rate loans. At present EUR 150 million is available to the fund, with the goal of attracting additional private funding.

The main difference in this scheme is that beneficiaries, who are used to receiving a grant of at least 50 per cent, will now receive a loan that fully covers construction and supervision costs. The loan will have a low percentage rate (EURIBOR plus 2 two per cent) but if the project achieves high energy efficiency rating, it is possible to receive a rebate of up 35 per cent of the loan amount.

The government also aims to improve the quality of projects in terms of the energy consumed for heating after renovation. If energy consumption is not more than 90 kWh/m^2 after completion, the beneficiary is eligible for 25 per cent rebate; 30 per cent if not higher than 80 kWh/m^2 per year, and 35 per cent if not higher than 70 kWh/m^2 per year. In addition, a part of the loan principal will be erased only after one full heating season and an evaluation of the renovation indicators.

Opinions are mixed on this approach. Apartment owners, energy experts and representatives of municipalities speak positively about the measures, as a focus on quality of implementation could help avoid mistakes and failures experienced during the previous EU funds period. At the same time, taking on credit is somewhat stigmatised in Latvia, given the experiences of the most recent economic crisis. During the 2007-2013 period the demand for insulation measures was high due to the 50 per cent grant contribution of EU funds. In the 2014-2020 period, this rate will decrease to 35 per cent, and it remains to be seen if demand will still be that high. Another concern is that the calculations for the 20 year repayment period used by the Ministry of Economics may not match the actual experience of implementation, where most loans are closed on average after 10 to 12 years.

Many households that are potential beneficiaries also have limited financial means. As such, it is important that mechanisms encourage participating in energy efficiency schemes. In order to introduce such a policy, municipalities will need encouragement and to be made aware about the benefits of energy efficiency for socially vulnerable groups. This requires a systematic and coordinated information campaign to promote energy efficiency, including the establishment of support centres where potential loan recipients can get the information they need to prepare the necessary application materials.

Allocations are also needed for energy audits, which at the moment are not covered, in order to better understand which efficiency measures are needed. Experience during the previous EU funds period shows that not enough time is devoted to the development of technical documentation, leading to delays in project implementation and significant cost increases.

On a positive note, allocations for energy efficiency in buildings will be available to more and more building owners, and the level of support will depend on the level of energy efficiency standard envisioned: the higher the savings, the higher the amount of EU funds support. That concept could motivate building owners to take on more comprehensive measures. Given that investments required in this area are much greater than the amount available, consideration should be given on how to attract private investment and introduce measures to encourage Latvians to become more energy efficient, through easily accessible and understandable information about opportunities and benefits.

NOTES

[1] Informative report on the European Union Structural Funds and the Cohesion Fund, the European Economic Area Financial Mechanism, the Norwegian Financial Mechanism and the Latvian and Swiss cooperation program' absorbtion until 27/08/2014
[2] Project " Energy Efficient and Integrated Urban Development Action „ (UrbEnergy)," Financial concept for energy-efficient renovation of buildings in Jugla, Ltd. "Rigas pilsētbūvnieks", 2010
[3] EMZino_120813_Solutions; Informative report on use of the EU funds resources and standart solutions in energy efficiency improvements for typical multi-residential apartment buildings
[4] http://www.em.gov.lv/em/2nd/?id=33352&cat=621
[5] EMZino_120813_Solutions; Informative report on use of the EU funds resources and standart solutions in energy efficiency improvements for typical multi-residetial apartment buildings
[6] EMZino_120813_Solutions; Informative report on use of the EU funds resources and standard solutions in energy efficiency improvements for typical multi-residential apartment buildings

Slovakia

SUMMARY

- **LIP SERVICE PAID TO LOW-CARBON TRANSPORT BUT NOT ENOUGH MONEY IS BEING MADE AVAILABLE**
- **LOW-CARBON ALLOCATIONS MAY BE PROMISING BUT DEPEND LARGELY ON SOLID SUSTAINABILITY CRITERIA FOR BIOMASS AND HYDROPOWER PROJECTS**

CLEAN URBAN TRANSPORT: STRATEGY WITHOUT PRIORITY

For the first time, Slovakia has developed a set of quality strategic documents in the transport sector, including a strategy for the development of personal public transport and cycling transport. These strategies clearly dictate priorities and evaluate projects based on their ranking in the regional transport plans and their readiness to be implemented.

The Operational Programme Integrated Infrastructure includes a separate priority on public transport, though demonstrating the gaps between identified priorities and their investment needs and the funds allocated for this programming period remains outstanding.

The allocations for public transport and sustainable urban mobility total EUR 488 million, of which roughly a third is for projects implementable before 2016. An imbalance between the allocation and the needs is evident, as developing a solid, efficient and low-carbon regional transport systems is low on the list of priorities. Slovakia remains stuck on a path of prioritising large-scale infrastructure, especially highways.

Pressure for more motorways is based on the desire to connect Slovakia to the TEN-T network for the continental transport of goods, an end advanced by a strong transport lobby that is working against the EU's goal of a decarbonised transport sector. Politicians favour cutting ribbons on fresh stretches of highway rather than less visible projects. The implications for projects in the public transport sector are yet to be seen. But there is a risk that purchasing new vehicles for city and regional transport will be a politically-motivated priority that casts aside much needed investments in intermodal nodes and the logistic efficiency of public transport.

Despite pressure from groups advocating for the development of better quality non-motorized transport in cities, cycling infrastructure is still an area not understood by decision-makers as a viable transport option. Support for cycling infrastructure did not make it into the transport master plan, and in the Integrated Infrastructure plan it was not considered strategic. Even less thought was given to cycling in the Integrated Regional programme, where it is listed under the sustainable mobility priority axis. The ambitious objective is "to increase modal share of bike transport from 1.5 to 10 per cent in 2020". Yet this should be done with an allocation of just EUR 24 million. Cycling experts in Slovakia say this is unrealistic and is no more than a copy-paste of the objective from the cycling strategy. The strategy for the development of public transport says that total investment costs for ready cycling projects is EUR 61 million, which would hardly be able to be covered with the 39 per cent allocation available.

The Integrated Regional programme is ambitious in scope if planned activities allocate EUR 99 million for public transport measures. This programme complements Integrated Infrastructure and will focus solely on busses and public road transport infrastructure. Again there is a risk of using most of the money for new busses rather than the integrated transport infrastructure that was described above.

'LOW-CARBON' ENERGY INVESTMENTS - NO TRANSFORMATION IN SIGHT

Financing renewable energy has come a long way in Slovakia. The programme Quality Environment has many positive elements, like the fact that local energy strategies will now be eligible for funding. Conditions have also been placed on biomass projects, with concern given to air quality and minimising particulate pollution, the efficiency of the energy generation process and the sustainability of resource managed. Managing authorities also included financing for small renewable energy sources on buildings and have widened the scope of eligible sources to include

small hydropower installations. Wind power however remains out, as the Slovak Energy Policy deemed this source not desirable.

Smart grids were also left off the list of eligible investments, although their importance for the transformation of the energy system is well-known and indeed supported by both the EU and experts in Slovakia. Instead the Operational Programmes focus on the rehabilitation of decaying and dated centralised heat distribution systems, which are mainly based on the combustion of fossil fuels. The system faces a decrease in heat consumption as energy savings measures appear and an increasing number of households and companies leave centralised systems as new, renewable heat sources are put into operation. The systems are also facing problems of energy loss, which is characteristic of older central heating systems based on large fossil fuel-based energy installations. This cannot be improved, in spite of the fact that many coal power plants are switching to the co-firing of biomass.

A look at the allocations shows a clear preference for centralised systems over the rehabilitation of distribution networks. Energy production and distribution measures are slated to receive just EUR 354 million. Official estimates about the total investment cost for reaching Slovakia's 2020 target of 14 per cent share of renewables are in the range of EUR 340-440 million annually.

High efficiency cogeneration and centralised heat distribution systems are set to receive EUR 185 million, which is roughly equal to the amount allocated to renewables. This amount needs to be carefully scrutinised. For new installations, coal-based plants are out but gas-fired ones are in, meaning that this heading cannot automatically be considered 'renewable'. Additionally, the reconstruction of old heat sources would to a large extent necessarily mean the refurbishment of coal-powered heating sources to partial biomass combustion. This is a dangerous trend, as it equates biomass with coal or any other fossil fuel. In order to be considered a 'renewable' resource, biomass needs to adhere to much stricter criteria, ensuring that it is sourced and processed sustainability without causing additional environmental burdens on land use, forestry and agriculture.

For these reasons, allocations for 'low-carbon' energy sources in Slovakia must be approached with caution. The intention to introduce project selection criteria and conditions are a good sign, but pressures form heat producers was significant during the programming process. Without explicit conditions for the sustainable utilisation of biomass, the whole entire EUR 25.8 million allocation is questionable at best.

Similarly, problems appear with respect to allocations for hydropower installations, as the 2013 Slovak strategy for using hydropower potential does not comply with environmental assessment standards and the EU's Water Framework Directive.

Both biomass and hydropower are increasingly controversial in Slovakia. Although the form of support is different with the new law restricting feed-in tarifs, the principle is the same: energy will remain in corporate or state hands and continue to be large-scale, centralised operations.

One way to reverse these trends is to work with local stakeholders and help them apply for small, decentralised citizen- or municipality-owned renewable installations. Even though EU funds are setup to support such local initiatives, care is needed to ensure that the calls for project proposals

highlight these aspects, with awareness-raising and capacity building for potential beneficiaries built in.

REALISING THE ENERGY SAVINGS POTENTIAL IN BUILDINGS? SLOVAKIA IS MISSING OUT

Estimates suggest that Slovakia has a huge potential for energy savings, with an average 80 per cent reduction in costs achievable. Such savings could help prevent significant social problems for residents and their energy bills, through deep renovations of at least 58 000 units annually Slovakia can make significant gains. This requires though a minimum standard of at least 60 per cent of energy savings.

Yet despite the significant increase in energy efficiency allocations compared to the 2007-2013 EU funds period, it still may not be enough. The Ministry of Regional Development estimates that EUR 13.1 billion is needed for retrofitting Slovakia's 790000 homes, and in order to achieve this by 2030, 32500 homes need to be retrofitted at a cost of EUR 547.7 million annually.

Whether allocations will be sufficient or not depends on how they will be used. If the money enters the markets as loans, it most certainly will not be enough. Additional leverage of private resources through e.g. loan products or subsidies from commercial banks might help reach the needed renovation rate, but the reality is that the difference between available and needed capital is so huge that leveraging enough will be difficult.

The Operational Programmes also offer a significant impact on public buildings, with allocations for refurbishment covering up to 80 to 95 per cent of total costs. From EUR 426.8 million allocated for public buildings, 560 non-residential buildings can be refurbished, assuming that the costs per project do not exceed EUR 765 000. By more than 15 000 non-residential buildings of which only 2 000 have undergone some form of refurbishment, the renovation rate should reach at least 3 per cent annually of the stock. This is around 450 buildings each year, or a bit more than 3 000 buildings for the duration of the programming period. The allocation covers less than a fifth of the investment needs for the public sector, or 18.6 per cent.

Single family houses also have been left out as potential beneficiaries of EU funds in Slovakia. While transaction costs and the administrative burden of handling a large number of smaller projects is significant, the Czech example of the 'Green to savings' programme offers a way forward. This segment however did not get into the OP strategies.

In summary, EU funds allocations in Slovakia require significant leverage by financial instruments in the housing sector and a combination of funding with other support schemes. The public sector is missing a substantial two-thirds of financing needs for reducing energy loss. Also regional and local level administrations remain unaware of the socio-economic and environmental benefits of reducing energy consumption. Integrated Territorial Investment strategies in Slovakia focus almost exclusively on repairing roads, with little consideration of energy savings. Yet this is precisely the pool of resources that could provide the necessary funding for following up national sustainable development plans. Community Led Local Develoment strategies will only have to show their priorities. More focus needs to be placed on building awareness about energy savings.

Conclusions

In light of our analysis, Bankwatch and Friends of the Earth Europe are asking the European Commission to reject those spending plans that undermine a future-oriented, forward-looking EU investment and development policy during the current, ongoing negotiations with Member States.

The alarming conclusions that we draw from the programme documents paint a clear picture: the path to development outlined by Member States in central and eastern Europe is business-as-usual. Investments focus on big infrastructure projects, like in the transport and waste sectors, with countries allocating millions to roads and incinerators all while ignoring the environmental risks and challenges associated with these types of projects. Alongside the welcomed and relatively-high allocations for energy efficiency, fossil fuels will continue to receive EU support in a number of ways, both directly and indirectly.

It is clear that countries of central and eastern Europe may lose much of the transformative potential of the substantial amount of EU funds that should at the end of the day foster a decentralised, decarbonised model of a circular economy. In spite of some positive developments, it is difficult to imagine how the planned investments will provide the sort of certainty and leverage that private investors need to commit to renewables and other low-carbon solutions.

With EU funds often the main source of public development funding, many of the countries in this analysis are at risk of being unable to catalyse the shift to a low-carbon, resource-efficient economy that will allow them to meet Europe's 2020 targets.

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