



**ECO/526**

**Public sector loan facility and amendment to the Just Transition Fund**

## **OPINION**

European Economic and Social Committee

**Proposal for a Regulation of the European Parliament and of the Council on the public sector loan facility under the Just Transition Mechanism**

[COM(2020) 453 final - 2020/0100 (COD)]

**Amended proposal for a Regulation of the European Parliament and of the Council establishing the Just Transition Fund**

[COM(2020) 460 final - 2020/0006 (COD)]

Rapporteur: **Petr Zahradník**

Referral	Council of the European Union, 08/06/2020, 10/06/2020 European Parliament, 17/06/2020
Legal basis	Articles 175 (3) and 304 of the Treaty on the Functioning of the European Union
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	20/07/2020
Adopted at plenary	18/09/2020
Plenary session No	554
Outcome of vote (for/against/abstentions)	219/0/1

## 1. **Conclusions and recommendations**

- 1.1 The EESC strongly supports and appreciates a big increase in the JTF (Just Transition Fund) financial allocation to facilitate a changeover from a carbon intensive economy and society to a more modern, sustainable and diversified one.
- 1.2 The EESC is deeply convinced that for reaching an optimal result in the Just Transition process, not only sufficient financial resources of a modern type addressed to precisely defined areas of support, but also the flexible interpretation of State Aid rules is of great importance.
- 1.3 The EESC very much appreciates the proposal for a public sector loan facility and considers it innovative, original and highly demanded by the public sector entities on their way to climate transition.
- 1.4 The EESC underlines that after the new proposals connected with the Recovery Plan and the Next Generation EU, the JTM has a real chance to become a very important tool of the future MFF 2021-2027 with its benefits not only for the EU Green Deal, but also for the post-COVID recovery and reconstruction.
- 1.5 The EESC calls on the relevant EU institutions to accelerate the preparatory, approving and implementation works with the adjusted JTM as much as possible to introduce it to practical functioning soon. In this game, time is a fatal parameter.
- 1.6 The EESC welcomes the specific attention paid in the public sector loan facility to the less developed regions in the just transition.
- 1.7 The EESC is convinced that the innovative idea on which the public sector loan facility is based could also serve as a source of inspiration for a similar type of financial products at the Member States level.
- 1.8 The EESC considers the eligibility selection criteria as well as the proposed investment areas very relevant for the purpose of a just transition.
- 1.9 The EESC also welcomes and supports additional financing in favour of the InvestEU Programme and its dedicated just transition scheme which increases the potential to utilise financial instruments in the process of just transition.

## 2. **The issue and context**

- 2.1 At its June 2020 plenary, the EESC adopted the opinion on the Just Transition Fund<sup>1</sup>, which in many details explains the EESC's position on the topic of the just transition process and also works with a post-COVID reflection. Its general results, conclusions and recommendations, of course, remain valid.

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<sup>1</sup> OJ C (not yet published) (ECO/504)

- 2.2 However, in this turbulent period, at the end of May, the European Commission released its Recovery Plan and all three pillars of the Just Transition Mechanism (JTM) represent a substantial part of the Next Generation EU Programme; in comparison with the original proposal of January 2020, the JTM should operate with a visibly higher financial allocation and base. The newly proposed set of documents is reflecting a symbiosis and feasible coexistence between the EU Green Deal targets and the post-COVID recovery and resilience plan.
- 2.3 It also works now with the title of Just Transition Platform (JTP), which is to provide technical and advisory support for public and private stakeholders in coal and other carbon-intensive regions to have sufficient information on funding opportunities.
- 2.4 The adjusted JTM would work further with its three pillars:
- a Just Transition Fund;
  - a just transition scheme under the InvestEU Programme;
  - a public sector loan facility.

On the other hand, the COVID pandemic has shown the rationale behind continuing to fulfil reasonable Green Deal targets and support the process of economic restructuring, especially in the vulnerable regions and territories. That is why the JTM was proposed to robustly increase its financial allocation and base.

- 2.5 The main changes in comparison with the January 2020 proposals include:
- a robust increase in financial allocation, mainly in case of the JTF, the original basis financial allocation is proposed to increase from EUR 7.5 bn to EUR 40 bn (additional EUR 2.5 bn within the ordinary MFF and a new sum of EUR 30 bn within the Next Generation EU); the rule to multiply (1.5 up to 3-times) the JTF financial base through the ERDF, or ESF+ transfers is related only to the sources within the MFF 2021-2027, not to those in the Next Generation EU instrument;
  - increased sources in favour of InvestEU – the guarantee amount would be doubled; the sustainable infrastructure window is to work with EUR 20 bn, the research, innovation and digitalisation window with EUR 10 bn, the same amount is allocated for the SME window, the social investment and skill window has EUR 3.6 bn, and the financial allocation for the newly proposed strategic European investment window is EUR 31bn;
  - the public loan facility receives through this package a legal base for this proposal and represents a unique and innovative combination of practical implementation of financial instruments and subsidies.
- 2.6 The other proposed elements in the European Commission's January 2020 package remain unchanged and valid in full content; these are related to the activities and areas supported (and also excluded from the support), to the implementation processes (several alternatives for the

Operational Programmes), the role of the territorial just transition plans as the main background documents that are decisive for the support as well as the types of beneficiaries.

- 2.7 It is suitable to understand the proposals related to the adjusted JTM as just one element in the structure of a comprehensive and internally interconnected mosaic represented by the Next Generation EU Programme package as well as the adjustment of the MFF 2021-2027 proposal to increase the fiscal (budgetary) base of the EU and to address it to the current urgent needs. The proposed fiscal measures also complement the already adopted emergency steps in the monetary and structural policies as well as in the regulatory frameworks. They also need to be supported by parallel efforts to improve the Banking Union and the Capital Markets Union areas.
- 2.8 The package to establish a Recovery Instrument and to adjust the MFF 2021-2027 to the needs of the post-COVID situation is considered an extraordinary step in EU financing, but also a necessary and urgent one. The EU budgetary policy under the current circumstances and rules would have been simply insufficiently flexible and not able to make an action that could visibly help to solve the crisis situation. On the other hand, the proposal can seem to be highly possible in the current political situation.

### 3. **General comments**

- 3.1 The EESC welcomes this proposal as it recognises the structural reforms and support for economic diversification as a very important long-term EU priority.
- 3.2 The EESC looks at the JTM adjustment from the whole Recovery Instrument perspective and considers it a fair, innovative, inclusive and effective tool to support the regions and territories facing the green transition from coal and carbon-intensive industries to modern and sustainably diversified economic activities. Combined with the most flexible possible interpretation of State Aid rules, it now offers a real possibility of facilitating the achievements of a Just Transition in these areas.
- 3.3 The EESC supports the idea to utilise the additional JTF funding within the Next Generation EU (EUR 30 bn) in a fast-track mode to help accelerate green transition investments robustly until 2024 at the latest.
- 3.4 The EESC calls upon the European Commission to create the relevant framework to have the increased JTF instrument ready already at the beginning of 2021, when particular regions could suffer hard from the consequences of the crisis in their economic performance as well as social and environmental conditions. On the same occasion, the EESC calls upon the Member States to accelerate the work on the territorial just transition plans, the *sine qua non* strategic planning document necessary for accessing funding under all three pillars of the JTM.
- 3.5 The EESC also welcomes the Invest EU Programme's additional allocation that brings benefits for particular regions to absorb their green transition needs. The Committee welcomes the fact that under the just transition scheme, a support in favour of investments in just transition regions will be possible through any of the InvestEU policy windows, depending on the specific

investment needs identified by Member States in their territorial just transition plans. The EESC also supports the participation of the newly proposed strategic European investment window in the activities covered by the JTM.

- 3.6 The EESC appreciates that the inclusion of the InvestEU projects into the second JTM pillar addresses economically viable and market-tested investments by private and public sector entities through an innovative type of financing.
- 3.7 The EESC strongly supports and appreciates the idea of a public sector loan facility that represents a very innovative solution for the public sector that integrates a joint product developed by the European Commission and the EIB, where it is intended to combine a loan component with a grant. This mix is to mobilise as much as EUR 30 bn of public investments for the benefit of energy and transport infrastructure, district heating networks, public transport, energy efficiency measures, social infrastructure and other types of projects for support of affected communities and regions and improvement of their well-being and competitiveness.
- 3.8 The EESC underlines the innovative and original character of the public sector loan facility that on a project level supports the implementation of financial instruments by a supplementary grant. The EESC supports the idea put forward that this instrument is additional to the JTF and the InvestEU cross-cutting financial scheme. Against this background, the requirement that projects supported under the public sector loan facility cannot receive other EU funding sources seems reasonable.
- 3.9 The EESC respects that the grant component would be managed directly by the European Commission and until the end of 2024 it will be redistributed through a system of national envelopes. In this context, the EESC calls on the Commission to proceed rapidly with the launch of calls as soon as a number of territorial just transition plans are adopted and on Member States to proceed as of now with the preparation of projects. This could ensure that the resources earmarked for Member States are exhausted through the calls launched by end-2024.
- 3.10 The EESC is well aware of the exclusivity and originality of the innovative instrument of the public sector loan facility to support public entities' investments that fulfil the climate transition requirements and do not guarantee sufficient revenues. The grant element is therefore decisive for practical provision of the economic, social and environmental projects that are not sufficiently financially viable and thus cannot be financed by the financial instruments only.
- 3.11 The EESC underlines the great importance of territorial just transition plans that are equally relevant for all the three JTM pillars. The EESC agrees that only Member States with an already approved territorial just transition plan can access the funding. These plans are indeed a key means to trigger commitments from Member States to progress towards a climate-neutral economy.
- 3.12 The EESC welcomes the concept that projects in less developed regions (i.e. with a GDP/capita not exceeding 75% of the EU average) receive a 5 p.p. higher grant over the loan than projects in other territories (up to 20% against 15%). However, the EESC is concerned by the fact that

the effective grant rate may be as low as 5-7% compared to the total project cost. This may not result in sufficient incentive for projects getting financing.

- 3.13 The EESC also considers that the involvement of finance partners other than the EIB would be beneficial for the implementation of the resources proposed for the facility. It could open a space for financial institutions based in the Member States to develop this original and innovative type of product and offer it to their relevant clients.
- 3.14 The EESC considers the JTF important, especially to offer to beneficiaries appropriate and equal information and technical service that contribute to the efficiency of allocated funding. In this context, the EESC also underlines the importance of the assistance available for Member States to develop their territorial just transition plans through the corresponding call and support launched by the Commission.

#### **4. Specific comments**

- 4.1 The EESC asks the European Commission to specify more precisely the extent of the just transition scheme within the adjusted InvestEU Programme and eligibility of Green Deal-based projects in the strategic European investment window as well.
- 4.2 For the public sector lending facility, the EESC appreciates the proposal for support of public investments through preferential lending conditions, targeted to the territories most negatively affected by the climate transition and being in accord with the territorial just transition plans.
- 4.3 The EESC respects the requirements for project selection criteria and their prioritisation and agrees with the concept of their detailed specification in the calls at national level.
- 4.4 The EESC recommends that the European Commission define and more precisely specify the areas for synergy with the other instruments of the Next Generation EU to support the integrated approach and, in parallel, to eliminate overlaps.
- 4.5 The EESC highly appreciates that the eligible beneficiaries are the stakeholders from all relevant areas, namely the public sector institutions (the state, regions, cities and municipalities), businesses, research institutions and universities, schools, education institutions, labour market advisors and NGOs.
- 4.6 The EESC calls on the Council and the EU Member States to complete as soon as possible all the necessary preparatory work to implement the JTF. The European Commission is requested to approve the Member States' JTF programmes as soon as possible under a fast-track procedure. Only in this way will it be possible to minimise delays in the disbursement of the funding and to achieve the desired positive effects on the economic situation of the EU.
- 4.7 The EESC underlines that the intended transfer from the ESF+ in favour of the JTF is not to jeopardise the implementation of regular ESF+ projects; the intention consists of creating a sufficient financial base for socially oriented projects (re-skilling, education, training, etc.) within the JTF.

4.8 In the case of the public sector loan facility, the EESC considers the wide range of areas to be supported as adequate and appreciates its compatibility with the other JTM pillars as well as some other MFF financial tools and instruments.

Brussels, 18 September 2020

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The president of the European Economic and Social Committee

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