The Greens | European Free Alliance
in the European Parliament

A Green investment plan for Europe:

A new path towards sustainable development, prosperity and quality jobs

Text as adopted by the Greens/EFA group on 13 November 2014

www.greens-efa.eu

1. Introduction

Europe's economy is stuck in stagnation, and a rising number of Member States are already having to deal with deflation. Since the outbreak of the financial and economic crisis the European Union has failed to ignite a new economic dynamic. Implosion was avoided, thanks large transfers and implicit subsidies provided to the private financial sector by the public sector. Such unprecedented transfers[1] have been keeping the economy from falling into a deep economic depression. Those few countries less affected by the crisis often benefited from effects of the downturn elsewhere, e.g. by extraordinarily low interest cost for state debt.

However, the policy responses to the crisis have not provided any solutions to the severe rise in unemployment, poverty and social exclusion while continuing the previous negative trends regarding the overall degradation of the environment and the learning conditions in primary and secondary schools – not only in the most affected 'peripheral' Member States, where the situation is genuinely disastrous and unprecedented in peace times, but also in the 'core' where the deterioration is more gradual but significant. Not only have the public transfers triggered a large socialization of costs to the benefit of the small minority of the population which holds a large amount of their wealth in financial assets, but such unfair socialization represents a deadweight for the next generations as the unavoidable losses created by the unsustainable debt accumulated ahead of the crisis will be amortized over a very long period of time to come. The never ending slump represents, therefore, a major loss of prosperity for both the current and future generations.

Between 2008 and 2013, bank lending to SMEs in the Eurozone dropped a staggering 35 per cent. European banks are continuing to deleverage and shed assets. Simultaneously, European finance is retreating behind national borders. Since 2008, cross-border bank lending has been reduced by an astonishing €1.7 trillion. Combined with the excessive austerity policies pursued, this has led to further distortions in financing conditions, particularly for Europe's South. Unsurprisingly, investments in the EU have also fallen. Since 2012 total investment was 18 per cent below 2007 with long-term investment trends looking volatile at best.[2] Eurostat data indicates that the lack of investment in the private sector is mostly determined by a lack of demand. A lack in financial resources seems to be only a secondary problem.

[1] See annex for detailed explanation of public transfers provided to the private sector since 2007.

[2] European Commission, 2013. Competing in Global Value Chains - EU Industrial Structure Report 2013 http://ec.europa.eu/enterprise/policies/industrial-competitiveness/competitiveness-analysis/eu-industrial-structure/files/report_euis_2013_final.pdf

Unemployment rates - especially youth unemployment - have risen to all-time highs with the industrial sector having shed 3.8 million jobs. Social precariousness and poverty are on the rise too, aggravated by unequal access to quality education. This has negative impacts on private households as well as on national budgets, and means a waste and decline in human resources and long-lasting harm to the psycho-social wellbeing of the affected persons and their families. Poverty and inequalities are behind the current lack of internal demand in Europe, and hence behind Europe's dependence on external demand and global trends, weakening its position as driving force at global level.

Meanwhile, the climate and environmental crises are continuing unabated whereas the economic crisis is being used as an excuse not to pay adequate attention to the former. Ambitious energy and climate policies have been put on the backburner, not at least by arguing a false trade-off between competitiveness and sustainability, ignoring the fact that energy savings and a leading role in renewable energies would create competitive advantages for the EU.

The sustainability dimension of the EU 2020 strategy, which was launched in 2010 by the European Council as a follow up to the expiring Lisbon strategy, which originally aimed at transforming the EU into the most competitive world economy, has not received more than scant attention by the European Commission and the European Council over the last years.

Progress towards the EU2020 headline targets on employment, R&D/innovation and poverty/social exclusion has been below expectations. Developments regarding employment and poverty reduction are showing negative trends, moving away from, rather than towards, the targets.

Such a dire state of affairs requires resolute measures if we are to avoid a vicious trap and sustained stagnation for at least a generation. The new President of the Commission acknowledged indeed that bold and urgent action is required to revitalise the EU economy and has announced a EU investment plan of 300bn EUR over the next three years. No details have been provided yet on the modalities of the plan but little room seem to be left so far for reorienting the fundamentals of our economy and the objective seems rather to preserve the status quo.

From a green point of view, going back to "business as usual" is, however, not a viable option. When the bubble was inflated by the combination of financial deregulation, low interest rates, the result was that social and fiscal dumping, inequalities and regional asymmetries accumulated and generated unsustainable debt bubbles which fed unproductive and environmentally damaging projects all over the EU, especially in the periphery. A genuine and far reaching investment plan needs, therefore, to project a new path towards a more equal and more sustainable society and put in motion a set of concrete measures for tackling holistically the crisis's causes as well as the errors in crisis management. The following position paper outlines the main elements of a Green Investment plan for Europe which aims at providing responses to the abovementioned challenges.

2. *Objectives and main features of the plan*

With the Green Investment Plan for Europe, the Greens propose an alternative to austerity policies: **a roadmap for launching a new economic dynamic as well as creating prosperity and a decent life for everyone**, based on the principles of equality and democracy and **respecting the ecological limits of our planet**.

Such an investment plan is urgently required in order to avoid a long period of economic stagnation, social decline and continued dependence on an ecologically destructive economic model. However, growth in itself can be detrimental to our planet, as well as to private and state budgets. Short-term GDP growth e.g. through 'money for roads', could rather generate new bubbles similar to the housing bubbles that contributed to the current crisis. Therefore, the investment we argue for is defined in terms of its green quality to benefit the whole of European societies, also in the mid- and long-term, and in such a way as to avoid harm the environment**.** This Green investment plan rapidly addresses the chronic deficit in Europe in terms of public and private investment, as the window of opportunity for doing so is short,[3] and counteracts the deflationary tendencies in a rising number of Member States. This is a necessary condition for mobilizing the very large economic capacities that have been left untapped since the crisis and deploying them towards an economic model which addresses the major challenges of our time: the fight against climate change and overall environmental degradation, as well as the fight against poverty and inequalities within and beyond the EU. In this way, the plan also contributes to the rebuilding of Europe's industrial strength based on green technologies and activities and to an increase in competitiveness.

[3] According to Eurostat figures overall investment in the EU has experienced a secular downward trend in relative terms well before the crisis (see graph below). Aggregate investment in 2014 represents a lower relative number than in 1980. Such trend deteriorated further over the crisis as nowadays there is 18% less aggregate investment in real terms in the EU than in 2008. The decline is evenly shared between the public and private sector as overall public investment has also declined by 18% over the same period. The secular and the subsequent cyclical decline of aggregate investments all over the EU and across productive sectors constitute an extremely worrying trend as reductions in expenditure on infrastructure and means of production generate a decline in replacement rates of tangible and intangible production capacities.

Urgent actions and a mid- to long-term component

First, the Green Investment Plan comprises a series of **rapid actions that can be swiftly implemented within the next three years, starting as soon as possible**. This responds to the urgent need to remedy to the current economic, social and environmental crisis. Addressing the investment gap in the form of urgent actions over the next three years requires bold action. Therefore, the widely discussed investment of 300 Bn Euro can only be a start. The lack of investment between present and pre-crisis levels (the so-called 'output gap') as well as the investment needed to save our planet from heating up more than the critical threshold of 2 degrees Celsius would, in fact, require a minimum **of 750Bn EUR of net and fresh public and private investments**.

According to the baselines estimations and macroeconomic assumptions referred to in the Annex, 250Bn EUR of public stimulus would help to trigger and mobilise additional private investments of around 167Bn EUR on average per year in each of the next three years on top of the overall private investment expenditures flows as estimated for 2014 (2065bn EUR). Such stimulus would be required for closing the gap between potential output and current economic activity. According to mainstream economic theory, a negative output gap generates a slowdown in inflation which must be borne in mind in the current context of inflation rates that are already extremely low (0.4% yearly rate in October) and in any case well below the ECB explicit target which is below but close to 2%. Getting out of the current trap of very low inflation and tackling the significant risk of deflation (estimated at 30% by the IMF) is urgently required as the current very low inflation rates are actually aggravating the public and private debt burden in several Member States and threaten the EU with a long period of stagnation and mass unemployment.

Moreover, the overall amount of 750Bn EUR is consistent with the range of additional investments estimated in a study commissioned by the Greens-EFA group in the European Parliament. According to that study, 1.5 to 2% of EU GDP of yearly investments would be required in order to finance an energy transition scenario consistent with a 2% reduction of greenhouse gas emissions by 2030[4].

This amount cannot result from a reshuffling of funds already allocated under the EU or national budgets. It is the minimum amount required for mobilising and deploying unused capacities and creating the positive feedback loop required to trigger additional investments in the medium to long term.

4 See Annex I for more detail on the rationale for a 750BN EUR plan.

In addition to that, the plan proposes, as a second part, **a mid- to long-term component running from 2018**. This long-term horizon ensures that citizens and stakeholders involved are faced with predictable and reliable conditions [8] and have sufficient time to actively participate in the design and implementation of programs and projects. The second part of the plan involves additional money resulting from re-programming and reforms in the context of the Multiannual Financial Framework's (MFF) post-electoral revision in 2016, the performance review of the European Structural and Investment Funds (ESIF) in 2019 as well as, from 2020 onwards, new funding opportunities under the new 2020+ MFF.

Public and private funds needed

Of the financial resources needed for financing the plan, around **one third will be funded with public money, and two thirds with private funds**.[5] This broadly corresponds to the current shares of both sectors in economic activity and would therefore reflect a balanced burden sharing.[6]

Even though the Green Investment Plan, in the first three years, involves costs, the ultimate net cost of the projects financed within the plan will be much smaller, or an even negative, resulting in a surplus, as the plan will stimulate new activities, job creation, etc. The Plan will also bring about new fiscal income that will, at least partly, pay back the costs incurred after several years. For instance, additional public revenue will be generated over the course of the Plan by decreasing imports of fossil energy due to increased use of renewable energies and energy savings. The difference in primary energy imports between a scenario of renewable energy expansion and ambitious energy efficiency policies and a reference "business as usual" scenario represents an economic value of around € 130 bn in 2020, € 260 bn in 2030 and. € 455 bn in 2050.[7]

[5] The new investments required for rebalancing and redeploying the economic capacities will have to be provided by both the public and the private sector. It would be indeed illusory and fallacious claiming that the only public policies required for closing the investment gap would be an improvement of the regulatory environment while leaving most of the financing to the private sector. If such claim was founded the current system would not require more that 200bn EUR of hidden public subsidies per year only for the banking sector for avoiding a systemic crisis and paying lump-sum rents to 'too or too interconnected to fail' entities which hold hostage the society given their disproportionate weight

[6] Reducing or internalizing negative externalities and creating positive ones means financing new and existing pubic goods. Such target will require a proportionate amount of public resources commensurate to the amounts historically provided for financing public goods.

[7] Greens/EFA and Oekoinstitut 2011, The Vision Scenario for the European Union 2011 Update for the EU-27, http://www.greens-efa.eu/fileadmin/dam/Documents/Studies/Öko-Institut (2010) - Vision Scenario EU-27 Report (final).pdf

Quality investment for sustainable development

This Green investment plan does not just call for more investment, no matter in which kind of output. In the past, there has been unsustainable overinvestment in specific areas, especially in the construction sector. Furthermore, in the transport sector, the misguided use of public funds for socially and environmentally unsustainable projects (e.g. Stuttgart21, Lyon-Turin tunnel project, regional airports) has led to inefficient allocation of resources for decades. We should not repeat these mistakes. Merely "spending more money" is not an answer to the current crisis. The money must be spent wisely, and this is what we propose.

Quality investments which will be the focus of the plan are investments which fulfil, to the maximum extent possible, four overarching requirements. Firstly, the investments under this plan will reduce or avoid the very large environmental and social costs and externalities generated by our current economic model**.** Secondly, investment will be geared towards generating societal benefits such as sustainable quality jobs, quality education, innovation to promote the green transition and an increased quality of public health, and will focus on areas with positive labour market impact with the aim of creating quality jobs to combat unemployment. Thirdly the plan will focus on priority sectors which generate large multiplier effects. Finally, the projects financed shall contribute to the fulfilment of updated and strengthened EU2020 objectives in a measurable way.

3. A governance framework & criteria for quality investment

Member States will be responsible for the implementation and monitoring of the plan. Performance and the achievement of the desired results will be monitored as part of the EU Semester. [8]

This plan will be implemented **in partnership with European citizens** and regional and local stakeholders and authorities. The participation of civil society and social partners in the design of projects and investment decisions is crucial to promote integrated, sustainable development at local and regional levels, and also to ensure citizens' ownership in and acceptance of investment decisions on the ground, and hence is a prerequisite for effective spending and the achievement of the desired results. [9]

[8] For more detail on the implementation of the plan and on monitoring of performance and results, see Annex II.

This partnership with European citizens requires the assessment of innovative models of funding inspired from cooperative methods and approaches. For example, such models envisaged in the energy sector could involve the consumers themselves contributing to the financing of decentralised energy production units.

The plan needs to be implementable within the legal constraints of the Stability and Growth Pact (SGP) and the Fiscal Compact which are binding in the short to medium-term. Without prejudice to the need to reform such constraints, as the Greens have advocated over the last years, and even before the adoption of the six-pack, such legal constraints will remain in place in the medium term as any legal revision of these legal constraints will at the very best take a couple of years.[10] This means in practice that any short to medium term response to the current challenge needs to be designed to fit within the limits of the current legal framework.[11]

For the **first three-year period of the plan**, EU investment guidelines annexed to the Annual Growth Survey (published by the end of 2014) will contain criteria for quality investment to steer the national implementation. These should include criteria for time effective and decentralised resource allocation as well as active bottom-up involvement by EU citizens. In addition, the guidelines should include the following elements: Investment programs should aim at an integrated approach, building synergies with already existing funding schemes and promoting coordination across policies. Supported activities shall not carry adverse environmental and social impacts and shall consider future trends such as

[9] The lack of ownership was pinpointed on numerous occasions as one of the mains reasons behind the failure of the Lisbon Strategy, for instance. Also in this context, programmes as for instance 'Europe for citizens', developing civic debates on EU priorities, are essential to support the development of a common feeling of shared responsibility for the European project.

[10] Both the six-pack and the two-pack contain review clauses that require the Commission to report back to the European Parliament and the Council by end of 2014. However, the Commission and several Member States are extremely reluctant to launch a review of the legal framework. The probabilities are therefore high that the legal constraints will not change in the foreseeable future. The economic governance legal framework foresees a certain amount of discretionary flexibility regarding budgetary objectives in case of 'exceptional circumstances' such as a severe economic downturn. The Greens have criticized the framing of such flexibilities over the negotiations of the six-pack and the two-pack as being too discretionary as the Commission and ultimately the Council have a large margin of discretion on whether to allow Member States to slow down or defer fiscal consolidation so as to facilitate a counter-cyclical deficit reduction. As the past experience illustrates it, such margin of discretion was not used when it was most needed and as a result it ended being implemented when previous fast-track consolidation measures made them de facto unavoidable as previously agreed consolidation target were not feasible in a context of GDP contraction. The outcome is that in spite of such theoretical flexibilities the way they are framed was in practice translated into a pro-cyclical implementation of the rules given the current political and ideological balance in the EU.

[11] Investments that would fulfil the quality criteria outlined in the Commission's guidelines would receive a qualified treatment that would allow for instance to spread investment expenditure over time, particularly when there is a negative investment gap. See annex on the rationale for the 750bn plan for further explanations.

demographic change or climate change. The horizontal principles of gender equality and non-discrimination need to be respected. Importantly, the same quality requirements shall apply for any kind of public support, be it in the form of a grant or a financial instrument.

National implementation plans should in particular aim at improving substantially and in measurable terms the access to finance for small and medium-sized projects, including projects involving SMEs, preferably set up at regional and local levels with the involvement of local and regional stakeholders, which can be realised in the medium term and aim at producing societal benefits such as stable local job creation. SMEs show significantly higher labour market potential than large companies, having contributed to 85% of the net employment growth between 2002 and 2010.[12]

Furthermore, a significant part of the resources under the plan will be channelled through services of general interest, for instance in the field of energy, transport or water, which are to a large extent controlled by public authorities and hence subject to democratic accountability. As a recent IMF report has highlighted, public utilities are not only providers of services which generate large societal benefits, but are also sectors where investment expenditure trigger very large multiplier effects (up to three times the invested amount) which are self-financing[13].

For the second part of the plan (post 2018), **binding criteria** for quality investment, reflecting the criteria referred to above, will have to be gradually adopted at EU level. The part of the plan financed by public resources should be channelled through the EU legal framework, such as the EU budget, in order to strengthen EU-wide democratic accountability and control, as this ensures that the plan is monitored by the European Parliament and Council, and controlled by the European Court of Auditors. The institutional framework for the implementation of the mid-to long-term component of the plan at national, regional and local levels should be compatible with the implementation and monitoring framework under the European Structural and Investment Funds (ESIF), as these represent a significant share of the public resources used. The ESIF framework should be further geared towards sustainable development in the context of the MFF review in 2016, in order to support the objectives of this plan.

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[12] EIM Business & Policy Research, 2011. Do SMEs create more and better jobs?, http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2012/do-smes-create-more-and-better-jobs_en.pdf

[13] See http://www.imf.org/external/pubs/ft/weo/2014/02/pdf/c3.pdf

4. How to mobilise the money?

Frontloading resources and using flexibilities of the Growth and Stability Pact

Public resources must target the most deprived households, which have been disproportionately hit by the crisis, in particular in Member States experiencing or threatened with financial difficulties. A key priority shall be given to energy savings and a deep renovation of the existing building stock as advocated in the Green position paper on a Green Energy Union. More specifically, public funding should prioritize thorough renovation of social housing, hospitals and schools as such public utilities fulfil the four criteria for quality investment referred to above. The funding amounts should be linked to commitments to reduce environmentally harmful subsidies by equivalent amounts. Furthermore, low income households should receive support for replacing energy intensive household appliances with more energy efficient alternatives according to the approach laid down in the Ecodesign directive.

Direct and indirect public subsidies and outright transfers to providers managing such public utilities could be financed by means of a system of tradable Green Certificates which would provide deferred tax credits to be redeemed after a period of 5 years after issuance under condition of using the funds within a range of specific priorities.[14] Such certificates, which constitute quasi-monetary instruments, are to be allocated under strict conditions to be framed at the EU level in the Guidelines for the Investment Plan and implemented nationally under the subsidiarity principle.

Such certificates would be designed to frontload and (re)distribute the discounted value of financial resources that would feed national energy savings funds and ultimately an EU energy savings fund described in the Energy Union Paper proposal (the tax benefits and revenues from abolished tax advantages for fossil fuels) so as to provide a fiscal stimulus which is fiscally neutral in the medium term and therefore does not add deficits and public debt.[15] The Guidelines for Tax Credit Certificates should entail that tax deferrals granted must be conditional on equal revenues to offset the tax credit in the year it is redeemed. Such revenues could primarily consist of binding commitments for equal decreases of direct and indirect

[14] Such certificates would be easily converted in cash as their value equates the value of a zero-coupon bond with a five year maturity.

[15] If some fiscal pro-investment stimulus with tangible effects in the short term on aggregate demand is to be provided when there is a negative output gap and then overcompensated by further fiscal consolidation once the gap is closed, then a good engineering of fiscal multipliers need to be clearly foreseen ex ante. In practice, a smart long-term consolidation strategy can be implemented by frontloading and discounting the value of resources that would be divested in future from tax incentives an subsidies actually provided to fossil energies and more generally to activities generating negative externalities.

subsidies, especially for nuclear energy and fossil fuels. An alternative offset could be through the projected decrease of energy-costs through the renovations undertaken. However, the latter should only be allowed if the savings from such renovations are directly measurable and quantifiable in monetary terms and therefore produce actual long-term relief for national budgets. The additional benefits generated by the deep renovation of the housing stock in terms of declining energy imports (which according to the position paper on the Energy Union are estimated at 130bn EUR per year in 2020, 260bn EUR in 2030 and 455bn EUR in 2050) would provide additional space for financing the medium to long term part of the programme focus on the new technologies and explorative innovation required for the ecologic transformation of the EU economy.

First and foremost, the amount of additional public investment needed should be identified for each Member State and the Member States should then reorganize their budgets accordingly. A fiscally neutral stimulus by means of deferred tax credits would be particularly suitable for financing energy efficiency related projects in public utilities referred to above in the Member States that have little fiscal room for manoeuvre. Also, such Member States should increase their tax revenue, possibly in a demand neutral manner. In a small minority of Member States there is however some fiscal space within national legal constraints that should be used if the identified additional investment cannot be financed solely by reshuffling the budget. Moreover, the flexibility clause of the Stability and Growth Pact should be fully used in 2015 as the current macroeconomic context of nearly zero growth and inflation qualifies as a severe economic downturn carrying serious risks for the stability of the Economic and Monetary Union. Under such circumstances the Commission should therefore put forward an updated recommendation for a time-frame for convergence towards budgetary medium term objectives which would imply no aggravation of the structural deficit for 2015. Such flexibility and the trickle-down effects of the Investment plan on activity would subsequently allow for a reduction of deficit towards reaching the respective medium term objectives by 2019[16].

Whereas such measures could free at least some fiscal space, it must be acknowledged that this space will remain limited for a significant amount of countries, in particular those countries that are affected most strongly. Consequently, there must be enhanced efforts to increase public revenues on the national and the European levels in the short- and long-term. One particular stream of revenue that could support investment is a stricter enforcement of fair corporate

[16] For the subsequent years after 2015 and assuming the GDP growth estimations used in the annex on the rationale for a 750Bn EUR plan a convergence towards medium term budgetary objectives would be within reach while respecting the requirement of an structural budgetary adjustment of at least 0.5% of GDP per year provided that expenditure outside frontloaded resources is frozen unless fully offset with additional taxes.

taxation. Although, in the long-term a common corporate tax-base is needed in order to close all existing tax avoidance loopholes, a common coordinated effort aimed at closing the most pressing national loopholes could already free up significant amounts of tax-revenues in the short- and medium-term.

This means that countries with more fiscal flexibility such as Ireland, the Netherlands, Luxemburg and Austria must refrain from offering particular tax-incentives especially in the field of taxation of licenses and patents for corporations and in the field of capital gains of private persons. Reforming tax legislation and implementing adequate tax levels in European tax-havens through European cooperation would increase the total tax-revenues available for investment. This would entail higher tax-revenues in the respective countries that are currently attracting international corporations through tax-incentives but even more so in the medium-term in countries with stricter tax-legislation that have been faced with corporations paying inadequate tax-rates by transferring taxable revenues to legal entities in other countries.

Moreover, the European Commission should increase oversight and investigation in the field of tax-benefits that may constitute illegal state-aid. The recent cases of Apple in Ireland and Fiat in Luxemburg show that there is a considerable amount of money that is granted to corporations through tax reductions which constitutes a form of illegal state-aid. Investigating and reclaiming illegally foregone tax-revenues through the Commission means both recuperating past illegal subsidies as well as preventing future subsidies.

Furthermore, advantages of some member states in the form of a lower cost of interest payments on their state bonds since the beginning of the crisis can be shared among all euro zone countries. A share, e.g. a third of what a country paid less in comparison to what it had paid at pre-crises average levels, should be paid into a European investment fund to finance the measures laid out in this plan. The overall advantage in interest payments since the beginning of the crisis amountsto some 130 billion euro, for Germany alone.

Turbocharge private investment through clear and simple green rules of an ambitious Energy Union

The other part of the public resources will be used to leverage private investments within reasonable and time effective ratios (1 to 5) and could increase private finance demand and supply by up to 500bn EUR if targeted public subsidies are constructed, and by clear and simple rules incentivising energy efficiency and energy savings as well as the substitution of fossil energies by renewable energies. The private investment thus unleashed should be supported by incentives to build equity and some careful facilitation of leveraging.[17] Any leveraging needs to be implemented without relaxing financial regulation that serves the long term stability of the financial sector. The required improvement of financing for the real economy should therefore not come at the expense of lowering the safeguards against systemic risks in the financial system.

Financial instruments and fiscal incentives for SMEs

The plan will mobilize a certain number of instruments aimed at facilitating credit demand and supply for SMEs, including:

- complementary Green Certificates allocated to SMEs conditional on obtaining loans or equity financing for investing in resource efficiency related projects;
- enhancing and scaling-up EU related financial instruments such as those under COSME and Horizon 2020 and ESIF, with the aim of:
    - providing loans, guarantees, counter-guarantees to SMEs in projects oriented towards resource efficiency and environmental sustainability;
    - developing mezzanine finance and equity instruments, including seed and early stage financing, business incubators and technology transfer, for supporting innovative start-ups and SMEs as an alternative to loans, for clean-tech and sustainable new businesses;
    - establishing an EIB guaranteed vehicle for transparent and simple securitization of SME related loans.

The plan will also mobilise innovative non-financial instruments for the benefit of SMEs. For example, "green innovation vouchers" should be supported by the plan in order to facilitate SMEs' access to technical and/or business expertise necessary to transform their eco-innovative ideas into a market success. This would help to bridge the "innovation gap" between demonstration and commercialisation of a new technology.

To ensure the uptake of the financial instruments, services (information, skills, legal and business advice) for SMEs that strengthen their non-financial capacity to innovate have to be supported.
Those financial instruments must be demand-driven and market-based, however criteria to ensure that investment goes into innovation and sustainability must be introduced. Of the total allocation of financial instruments, a third could be addressed to renewable and energy efficiency technologies, a third to eco-innovation in SMEs and another third for activities going towards the fulfilment of societal challenges such as health, education, food, mobility, culture.

[17] According to the ECB and the Commission Access to Finance surveys around 15% of SMEs have seen the credit requests being totally or partially refused. By extrapolating the total amount of credit flows and stocks provided to SMEs a significant increase of credit supply could be generated if well designed loan related subsidies and guarantees are targeted to SMEs.

Making ECB loans to banks more targeted

The record-low interest policy of the ECB has not succeeded in providing enough oxygen for the real economy. Its 400bn targeted longer-term refinancing operations (TLTROs) which have been structured after the Bank of England's Funding for Lending Scheme need to be much more targeted. These loans should be tied to stricter conditions. Under the current scheme, banks will still be able to reduce their lending to SMEs while simultaneously enjoying cheap ECB financing. JP Morgan estimates that just 5 per cent of an earlier injection of cheap money in 2011 and 2012 went to the real economy.[18] According to Deutsche Bank, there are currently no restrictions preventing banks from accessing TLTROs to buy more bonds.[19]We want to change this and put more conditionality into the cheap financing to ensure that the money ends up in the real economy.

A careful revival of the asset-backed securities market & adding conditionality to purchases

We support a careful revival of the asset-backed securities (ABS) market and purchases by the European Central Bank of the most senior tranches of simple and transparently structured securities, provided that certain conditions are met. Lending targets for banks and an issuer retention rate of at least 20% of the original risks are such conditions. For example, the ABS programme could be designed in a way where only debt packages with a certain percentage of new loans to SMEs would be eligible for sale to the ECB. According to Bruegel, improving the regulatory environment for simple and transparent ABS products could revive a market estimated at 3 trillion with ECB purchases leading to a sizeable intervention of up to 500bn. .[20]

Creating new private-private partnerships in the banking sector

We want to promote new innovative partnership models between different actors that increase access to finance for the real economy. This includes, for example, the establishment of private-private lending partnerships that bring together banks and investors such as insurance companies. Such partnerships can provide mutual benefits. Currently, the banking sector is predominantly looking at providing short-term loans. Life insurance companies, however, require long-term returns to match their long term liabilities. In addition, they take in more than 1 trillion in premiums each year. With the bulk being invested in bonds, SME lending would offer them more diversification and higher returns. In this context, a lending partnership

[18] "TLTRO to boost banks more than economy", Reuters, 13 June 2014, http://in.reuters.com/article/2014/06/13/tltro-banks-idINL5N0OU2LK20140613

[19] "Breaking down the TLTRO", Alphaville, Financial Times, 6 June 2014, http://ftalphaville.ft.com/2014/06/06/1871152/breaking-down-the-tltro/

[20] Altomonte, Carlo and Bussoli, Patrizia, 2014. Asset-backed securities: the key to unlocking Europe's credit markets?, Bruegel, July 2014.

between the two could lead to a mix of short- and long-term loans that provides an interesting and secure rate of return for both while at the same time bringing more private investment into the real economy.[21]

In addition to these policies, the Green Investment Plan for Europe aims to strengthen the development of capital market financing. This would not only provide a greater variety of financing avenues but also address the overreliance of Europe's industry on bank lending. In the United States, for example, capital markets provide almost 75 per cent of all corporate funding with bank lending playing a rather marginal role while in Europe it is the reverse. The Green Investment Plan would promote the establishment of new capital financing platforms. This includes the following policies:

Enhancing crowdfunding

This up-and-coming sector is witnessing particularly high growth rates. Between 2009-2013 funding volumes increased by an estimated 76 per cent reaching $5.1 billion in 2013. Currently, Europe holds about 35 per cent of the market volume while on the other hand it is the leader when it comes to equity crowdfunding. Already a number of highly new innovative firms have tapped crowdfunding as a means to finance their business. In 2012 alone roughly half a million projects received financing via crowdfunding. This form of financing is particularly interesting for start-ups with seed and early-stage equity finance but also for small enterprises. As noted by the European Commission, one study has estimated that in Spain 7.500 direct jobs were created via 2.800 successful crowdfunding projects.[22] We want to capitalise on this new development and create a common European regulatory standard and framework for crowdfunding that protects investors while at the same time stimulating a vibrant new financing market. In this context, the current patchwork of national regulatory frameworks needs to be addressed in order to harmonise policies and create a truly European crowdfunding market.

SME stock exchanges

SME stock exchanges have developed into crucial markets for small and medium-sized enterprises to access financing. In Germany, five stock exchanges have carried out over 50 bond issuances for midcaps. Local bond markets are also being established in other EU Member States such as France and Sweden. According to Deutsche Bank, corporate bond markets have been able to cushion about a third of the impact of the credit squeeze thereby increasing financial resilience. We want to increase opportunities for such financing to SMEs.

[21] "Don't bank on the banks", The Economist, 16 August 2014.

[22] Ramos & Gonzalez, 2013. Crowd-Funding as a new economic instrument for economic growth and employment. Paper presented in the seminar "Alternative ways of finance in the digital era". Ateneu Barcelonès May 2013.

A European Private Placement System

Some SMEs are simply not big enough to secure formal credit ratings necessary to issue publicly trade debt. Private placement offers another financing opportunity. In the United States, for example, pension funds, insurers and other investors have put almost $50bn into private placements. France established a private placement market several years back, which raised over €7bn almost exclusively for French companies. A central register with a standardised system of documentation and disclosure at the Banque de France has allowed private lenders to assess the creditworthiness of companies making it easier for them to invest in individual firms great and small. We support the European Central Bank in building a cross-border database for similar purposes and helping to launch an EU-wide private placement system.

The role of the EU budget

Already ahead of the post-electoral revision of the MFF in 2016, it would be possible to mobilise between 1 to 4 bn EUR, depending on the size of the margins left below the MFF ceilings in the executed budget. Although a rather small amount, this would be fresh money, not yet programmed. Its mobilisation would require a qualified majority vote in Council. In addition to that, it could be investigated whether/to what extent the Green investment program mobilises EU money by reducing budget lines which are not yet fully used for by existing unsustainable and/or underperforming programs, which could be done without reprogramming with a qualified majority vote in Council. For instance, in the case nuclear-related programs such as ITER, the amount available can be estimated at approx. 1-4 bn EUR by 2016. Moreover, it could be investigated whether /to what extent the Green investment program mobilises additional EU budget by changing the rules/practice for unspent EU money. According to current practice, this money goes back to Member States. It could be assessed whether to change the rules for the money to remain in the EU budget and make it available for the Green Investment Plan. The European Commission, the European Parliament and the Council should jointly screen the existing budget for possibilities for redirecting appropriations to the Green Investment Plan.

The 2016 post-electoral revision of the EU's Multiannual Financial Framework (MFF) presents the opportunity to make available more EU money for the second part of the Investment Plan. In this context, the EU budget could be refocused to help channel investments into European public goods such as renewable energy infrastructure, energy efficiency improvements, and skills developments to enable workers to take up green quality jobs or the care sector. The review should ensure that at least 30% of the EU budget is used on the investment priorities defined in the plan. Moreover, EU funds-specific rules could be modified to further catalyse investment in more sustainable and equal societies, for instance in order to increase the leverage effect for R&D funding under Horizon2020, ensuring social return for public investment and strengthening the capacity of SMEs to innovate. In addition to that, the EU's own resources must be strengthened The High Level Group on EU Own Resources should make proposals in this regard, including revenues from an ambitious, EU- wide Financial Transaction Tax (FTT), as well other "pigouvian" taxes. Furthermore, EU money could possibly be mobilised in the context of the performance review of the European Structural and Investment Funds (ESIF) in 2019. In any case, the flexibility foreseen in the Growth and Stability Pact, according to which EU con-financing should not be added when assessing whether sufficient progress is made towards medium term budgetary objectives, should be fully implemented. Beyond 2020, new funding opportunities under the new 2020+ MFF and the follow-up strategy to EU2020 can be used. In line with the focus of the Green Investment Plan on *quality* investment, the consistent application of performance audits on the supported projects and programmes, based on indicators, must be ensured.

The role of EU joint undertakings and Public-Private Partnerships

Today the EU funds' dedicated to Joint Undertakings (JU) and Public Private Partnerships (PPPs) for investment in innovation in the industrial sectors divert an important share of EU public research funds into exclusively private driven innovation agendas (11bn€ for the JU). The use of those public funds are not sufficiently conditional on public interest objectives and priorities, and do not provide enough means to ensure technology transfers and delivery of sustainable innovations. The increasing amount of PPPs led to the systematisation of abusive and exorbitant clauses in favour of private entities and to the detriment of public interest and public spending.

As a general principle, PPPs and JUs need to be designed in a way so as to maximise the social return for public investment, through the better setting of objectives, mechanisms leveraging additional funds and mechanisms for diffusion and uptake of results. The rules for the establishment of PPPs/JU should be radically changed and improved based on existing best practices. It needs to be ensured that public money leverages real private investments, and not in kind contributions; that researchers, universities, SMEs, national and regional public sector bodies and civil society organisations are better involved, including in the agenda-setting, governance and financing; that the terms of the partnership are transparent ad made public; that the mechanisms to access to results are fair for all participants and that the undertakings are subject to improved monitoring and evaluation of deliverables and results. Not all sectors of research should be subject to PPPs, as an independent public investment needs to be preserved.

The role of the EIB

The EIB capacity for lending at concessional rates must be gradually and substantially increased up to 400Bn from current levels (200bn) over the next 5 years in order to finance green infrastructure projects. In order to preserve the EIB capital base, a combination of public guarantees provided by those Member States having the fiscal space to do so and additional subscriptions of capital provided by all Member States. The recapitalisation must be financed inter alia by commitments made to transfer a proportion (30%) of the funding advantage that a few Member States have benefited for financing their sovereign debt issuances over the last few years given their status of 'safe harbours' allowing them to attract massive capital inflows from the rest of the euro area. As a complement the recapitalisation and guarantees could also be financed by mutualising the proceedings of additional tax revenues generated by an EU common consolidated tax basis for undertakings with a minimum rate and by enhanced EU legal instruments aiming at tackling aggressive tax planning and eliminating tax evasion. Such mutualised resources could also be used to finance zero-interest loans dedicated to energy renovation investments.

An increase in the lending capacity of the European Investment Bank could further leverage greater private investments. Moreover, the European Investment Bank could finance investments in infrastructure such as electricity grids and cross-border rail links by issuing bonds, which the European Central Bank could buy in the secondary market.

5. Creating an appropriate EU regulatory framework for the Green Investment plan

Money is not everything. Injecting a massive amount of money will not help to revive the economy if, at the same time, the regulatory framework remains inadequate. We want to create new markets and steer investments into them via the right set of regulations and incentives. There are a number of prime examples in this field. The renewables feed-in tariff in Germany for instance not only boosted the uptake of renewable energies but also created a whole new class of energy entrepreneurs with individuals investing in renewables and renewables cooperatives being established. Therefore an ambitious agenda for a regulatory strengthening should be adopted so as to steer investments into sustainable markets:

- *A revision of the economic governance framework*

The economic governance framework should be reviewed so as to be adapted and made consistent with a quality investment framework and more generally with the challenges of the second phase of the plan (from 2018). A forthcoming position paper will outline the Green priorities with that respect. The annex on monitoring and implementation already identifies some benchmarks for integrating elements into the EU economic governance framework. Specifically these include some benchmarks for creating a legal framework, within the preventive arm of the Growth and Stability Pact, for promoting and monitoring quality investments, including a qualified treatment of public investments linked to green energy transition, such as an amortized accounting of such investments expenditures (by analogy to common practices regarding capital budgeting in private undertakings). As a revision of the economic governance framework will take time, the Commission should release an interim interpretative communication providing explicit benchmarks on the qualified treatment of public investments.

- *Towards a genuine Economic and Monetary Union (EMU) and a Treaty revision*

The Green Investment Plan could also be an opportunity to put money aside to prepare the establishment of euro area budgetary capacity as well as an asymmetric shock absorption instrument. These mechanisms would act as counter-cyclical automatic stabilisers that would be triggered in a future crisis. In parallel, additional steps for deepening the EMU must be taken over the next five years such as the gradual mutualisation of government debt towards fully fledged Eurobonds; the completion of the Banking Union, including the setting of a common deposit guarantee scheme and the creation of a fully independent financial supervisor. The whole deepening of the EMU will require a substantial enhancement of democratic accountability of the EU decision-making process and a reinforcement of the community method. Several of these reforms will require a Treaty change by means of a Convention for which a roadmap should be established by an inter-institutional agreement.

- *Structural Reform of the Banking Sector*

Diversifying the funding sources for the real economy (e.g. through the Capital Markets Union) means that bank credit will necessarily play less of a role in funding the real economy. However, a banking system dominated by a small number of "too big to fail" banks that combine trading in capital markets with core services to the real economy is a system that is still able to transform a crisis in capital markets into a credit crisis for the real economy. It is essential to separate these two fundamentally different banking activities to prevent such contagion. Core activities such as safekeeping of cash and securities, payment services and prudent lending that must be maintained throughout the cycle should therefore be separated legally from trading activities and prohibited from lending to or investing to such entities.

- *An EU framework to curb social/wage dumping*

The efficiency of the Plan could be jeopardised by continuing social and wage dumping. Indeed, since the arrival of the EMU, Member States have engaged in competitive wage deflation that has weakened domestic demand and disincentivised them from moving up the value chain. Therefore, we suggest that the country-specific recommendations ensure that real wage developments be at least positive and follow productivity gains. If this equality is not respected, working conditions should be improved by an equivalent amount corresponding to the gap.

- *Reform of the EU state aid framework*

The State aid framework has to be expanded and adapted to support the dynamic that the Plan intends to generate. We advocate the creation of a general block exemptions for all energy efficiency and resource efficiency schemes as well as making state aid compatible with renewable energy support incentives. State aid guidelines should actively encourage the creation of vibrant new markets in electricity demand reduction, renewables and resource efficiency. State aid rules should focus on reducing the power of incumbent fossil fuel dependent businesses rather than seeking to impose arbitrary disciplines on technology support mechanisms for renewable energy. We oppose the decision of the European Commission to grant state aid to nuclear in this context.

- *Putting a price on carbon*

While a number of barriers inhibit more green investment, by far the most important one is that GHG emissions are under-priced compared to the negative externalities they impose on society. Almost all estimates suggest that the current price is too low. Many low carbon technologies become viable at prices of €30-70 a ton. We want to reform the EU-ETS system beyond backloading to ensure that it steers investments into efficiency and renewable energies. In the short-term, we want to retire at least 2 billion CO_2 allowances and decrease the total cap on emissions for it to be close to zero by 2050. An EU-wide CO_2 tax of Euro 20 on the nearly 50% emissions not covered by the EU Emissions Trading Scheme should be introduced and all allowances under the EU ETS from 2015 should be fully auctioned. To stimulate green investments and reduce their perceived riskiness, the EU should also issue an official version of its expected GHG forward price curve which should preferably be supported, at least on the minimum price, either by a carbon tax or by a commitment to withdraw emissions quotas.

For those energy-intensive sectors that are really suffering from international competition, sector-specific measures should be taken in order to maintain an equal level-playing field for the European industry vis-a-vis their international competitors who are not required to pay for their carbon emissions. For some of these sectors a carbon tax at the EU's borders would be the best solution. This new financial resource could go to an innovation fund that helps energy-intensive industry to reduce carbon emissions substantially.

- *Phasing out fossil fuel subsidies*

Member States and regions should be more ambitious when it comes to phasing out environmentally-harmful subsidies by 2020. Indeed, the overall level of global subsidies remains substantial. Phasing out fossil fuel subsidies would not only decrease the attractiveness of fossil markets but would also provide greater government revenue.

- *Divesting from fossil fuels*

Institutional investors, many of whom have universal portfolios (i.e. they are exposed to most asset classes) face significant climate risks. Not only are their investments physically threatened by climate change but they are also heavily exposed to the policy responses such as an increase in the price of GHG emissions that the EU may impose to help tackle climate change. They may also face legal risks for not fulfilling their fiduciary duty as well as serious reputational risks. All financial institutions (banks, fiduciary institutions such as pension funds and other financial institutions such as mutual funds) in the EU should have to subject their existing portfolios as well as new investments to carbon stress tests to measure and publish the effects of future higher prices of emissions on their investments. This mandatory requirement to evaluate the carbon exposures of their investment and lending portfolios would be a very prudent policy that would also help divert hundreds of billions of Euros of investments from dirty investments towards green ones.

Some private banks and development banks – including the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) – are leading the way by developing procedures for assessing the climate risk related to their own activities. These banks should team up with other larger institutional investors to develop a common methodology for risk assessment. A tax break according to the share of green assets in a bank's balance sheet could further incentivise banks to reduce the climate impact of their investment activities. For example, the European Commission's proposed bank levy proposal could have green exemptions.

The EU should consider introducing the consideration of climate risk, which is also a form of systemic risk into its capital requirement directives that govern how much capital banks and other credit institutions have to hold against their assets.

- *Promoting renewable energies and markets for energy and resource efficiency*

We want to promote a transformation to a high-energy and resource efficient, 100% renewable European energy system. This would not only reduce our imports of fossil fuels and costly natural resources thereby increasing our security but it would also reduce our energy and raw materials import bills while simultaneously reducing our greenhouse gases. This is why we call for ambitious and binding targets for renewable energy (45%), energy efficiency (40%), and emission reductions (60%) by 2030. In order to promote the circular economy, a binding resource efficiency target which limits consumption in absolute terms and a corresponding lead indicator should be included both in the European Semester in the framework of the scoreboard for macroeconomic imbalances and the review of the Europe 2020 strategy. as well as resource efficiency targets. We want to boost the demand for green energy and innovative and sustainable goods and services. To this end, eco-labelling should be promoted and environmental criteria and efficiency benchmarks should be set for products in order to align incentives with certain criteria. Public procurement should also be used as an innovation driver promoting the uptake of more efficient and sustainable solutions. In addition, the regulatory framework should also establish proper incentives to promote a faster retrofitting of the existing building stock, including public buildings, complying with the highest energy efficiency performance standards. At the EU level, a special program to fund Energy Service Companies could be framed and the hitherto fragmented European standards on the verification of energy savings unified. A legal imposition of energy efficiency obligations on utility firms and a better provision of information would also be very useful. In order to address the stigma attached to securitisation and to develop standards on how such securitisations should work, the European Investment Bank should take the lead in organizing benchmark deals so as to help develop this market. Indeed, many green investments, particularly those in energy efficiency measures and in local generation, are quite small compared to the 'normal' market size for transactions so green securitization provides a perfect technique to help mobilize funds for these.

- *Ensuring a role of Services of General Interest*

A significant part of the resources of the Green investment plan will be channelled through services of general economic interest. These sectors (energy, transport, water, post, health, social, education, cultural, etc.) are cornerstones of sustainable development. Furthermore, they are controlled to a large extent by public authorities, hence the use of the money attributed to them can subjected to democratic accountability. There are different organizational modalities of such services of general economic interest: direct administration by public authorities; bodies fully controlled by public authorities; mixed bodies combining public and private participation; private bodies with public service obligations; private non-profit organizations. Whichever of these organisational forms is used, it will be essential to clarify that their financing is governed by the principle of free administration of public authorities, i.e. they are subject to internal market and competition rules only insofar these rules do not contradict their public missions (according to the Treaty). It may be necessary to clarify this principle in secondary EU legislation, in conformity with the new article 14 of the Treaty and of its new protocol 26.

- *Effective guidance for public procurement*

A significant part of the resources of the Green investment plan will inevitably be channelled through public procurement. It is essential to ensure that these resources fully respect and implement the new provisions of the revised legislation on public procurement, which include strong sustainability award criteria, instead of cost-only criteria. Effective guidance tools will need to be provided to contracting authorities in order to maximize the use of these criteria. Similarly, it will be essential to ensure that the new rules facilitating SMEs' access to public procurement are fully used.

- *Access to results of innovation investments, commercialisation and intellectual property*

Today's main model of innovation funding consists of socialising the risks of investment while privatising the profits through the granting of exclusive rights over knowledge, which too often constitute an obstacle to further innovation efforts and technology transfers. As part of the investment plan, the Commission should look into the problems that the current models of granting exclusive exploitation rights create for innovation, and start to implement models that ensure that the public receives an appropriate return on its investment. This should include

  - Assessing intellectual property rights practices and their impact on the European capacity of innovation in particular its economic impact on SMEs and develop guidance on innovative models promoting knowledge transfer and diffusion. Such assessment should also cover the impact of copyright regulation on access to protected content by users throughout Member States, as well as on the development of innovative technologies and services.

- Developing more efficient and reliable indicators to evaluate the outputs of investment in innovation rather than just counting the number of registered patents;
- In areas of societal challenges such as health, climate, environment and where the public investment is important, supporting the greater use of prizes and pre-commercial procurement as a reward for innovation, rather than the rating of exclusive rights.
- Associate publicly funded research with conditions of non-exclusive licensing and of open publishing of results. Moreover, make tax credits and other fiscal incentives for research and development predominantly available to investments leading to open innovation and non-exclusive licensing.
- Encouraging clearing houses between users and providers of information and technologies, promoting the establishment of patent pools and patent platforms to allow the sharing of patented scientific data, the increase collaborative efforts and innovation cooperation on specific technological needs, and avoidance of "patent thicket" situations and the compartmentalization of research.

Finally, there must be transparency and traceability of the public investments throughout the process leading towards innovation (destination of funds, purpose of funding, share of public vs. private funds).

6. *Priority areas of investment*

The Green European Investment Plan **focuses investment on three priority areas** in order to achieve European added value for a transition towards more equal and more sustainable societies. All three priorities comprise job-rich, future-oriented sectors which have the potential to thrive, and target actors that are committed to the creation of quality jobs and the promotion of more sustainable and equal societies.[23].

The three areas of priority investment are:

[23] In order to ensure the quality of supported projects, technical assistance and support for capacity building, especially to SMEs, small actors and small projects as preferential target needs to be foreseen.

► Investment priority 1: A Green Energy Union

The first priority is investment towards achieving a Green Energy Union[24], which means investment into promoting a transformation to a high-energy efficiency 100% renewable European energy system. With this transformation, we can not only reduce our imports of fossil fuels, thereby increasing our energy security, but also reduce our energy bills while simultaneously reducing our greenhouse gases.

One focus of investment under this priority, especially during the first period of the plan, will be in **energy savings in the building stock of public utilities. The ownership structure of these utilities provides clear incentives for triggering energy savings from efficiency gains, and hence creates clear incentives for avoiding rebound effects.** The European building stock is in need of a serious investment programme. Roughly 40 per cent of EU energy demand comes from buildings, and Europe could save up to €270 billion a year in energy costs through retrofitting buildings. Such a retrofitting programme could create over 530.000 local stable jobs in Europe. Under the Green Investment Plan, this program will be tailored so as to address the urgent social need of **combatting energy poverty.** In this context, a significant part of public resources will be directed as outright transfers to providers of social housing and public authorities providing social services such as schools, universities or hospitals, in particular in Member States most affected by the crisis.

Overall, investment under this priority will **address the need to drastically scale up the deployment of renewable energies and an increase in energy efficiency across Europe in the area of trans-European energy networks,**. The new "Marshall Plan" for Europe, proposed by the trade unions, has come to the conclusion that €150bn is needed in this area. A green energy transformation would cut our fossil fuel imports saving the EU €350 billion. Being a green leader would also enable the EU to generate further exports worth an additional €25 billion a year.[25] Ambitious and binding targets for renewable energy (45%)[26] energy efficiency (40%) and emission reductions (60%) by 2030 would also create up to 2 million jobs by 2020[27] alone and about an additional 2 million jobs until 2030[28]. We

[24] A Green Energy Union means a common energy policy in the EU based on renewable energy and energy efficiency, enabling us to actively and democratically address the most important challenges of our time. See: Greens/EFA, 2014. A Green Energy Union. Position paper.
[25] European Climate Foundation, 2010. Roadmap 2050:A practical guide to a prosperous, low-carbon Europe.
[26] http://stopclimatechange.net/fileadmin/content/documents/climate%20policy/Feasibility_EFA_Greens_targets_DEF.pdf
[27] COM (2011) 109 final, Energy Efficiency Plan 2011, http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0109:FIN:EN:PDF
[28] The scenario based on 40% GHG reduction, ambitious explicit EE policies and a 30% RES target would generate 1.25 million additional jobs in a 2030 perspective, compared to the Reference scenario." http://ec.europa.eu/energy/doc/2030/20140122_impact_assessment.pdf (please note that this does not model

also want to push forward the integration of a Single European Market for Energy, which could provide benefits of up to €30 billion per year.

Investments for a Green Energy Union should focus on renewable energy sources for electricity generation based on photovoltaic (PV) and wind technologies. Regarding PV, investments should notably target modules/cells production factories in order to ensure European technology leadership and to provide the domestic market with PV products manufactured within the EU. In the case of wind, investments should tap the immense potential of off-shore power generation as an indispensable contribution to achieve a 100% renewable energy system. Investments should also aim to ensure successful integration of electricity produced off-shore into the on-shore electricity grid. This includes, inter alia, investments in storage capacities and the completion of the North Sea Supergrid.

Energy Performance Contracts (EPCs) are one tool which could very likely be adapted to be used to the service of a policy for energy efficiency renovation. The main advantage of EPCs is to enable a quantitative measure of the energy efficiency of a project.

► Investment priority 2: Sustainable and inclusive local development

Investment under this priority area promotes sustainable and inclusive local development, aimed at producing resilient, more equal and greener economies and communities in European regions. This investment follows an integrated approach which builds synergies across social ,employment , rural development, agriculture, fisheries, environmental, cultural and mobility policy areas.

Under this priority, investment in the following areas will be facilitated:

➔ Sustainable mobility

The transport sector accounts for roughly 27 per cent of EU greenhouse gas emissions in addition to other pollutants. In order to decrease the sector's contribution to fuelling climate change and to provide more people with access to mobility, more investments need to go into public transport such as the expansion of European rail networks. This would also be a significant boon to job creation given that public transport investments in Europe have an average job multiplier effect of 2 to 2.5, reaching as high as 4.1 in some cases. In addition, investing in

the 40% energy efficiency target agreed at by the European Parliament (in February 2014), but only a maximum of 34% savings. Adopting a binding target of 40% energy savings would boost higher job creation) electric mobility in all transport modes – e-bikes, tramways, trains and road vehicles – can foster employment and make transport cleaner, provided the entire life-cycle is taken into account.

➔ Fair and coherent sustainable food systems

This includes **investment into agro-ecology, biodiversity and toxin-free food systems**. This is crucial in order to ensure healthy, robust ecosystems and agricultural systems that are resilient to climatic and as well as market volatility and, hence, long- term food security. Agro-ecology helps to free farmers from ever increasing costs of artificial inputs, and to stop the waste of taxpayers' money to cover the externalised costs of pollution due to industrial agriculture. The cost of "no action" is much more than the benefit of investing now in the right way now.

Moreover, this priority includes **investment in sustainable fisheries**. Traditionally, investment from the EU in fisheries has gone to increasing fishing capacity in various forms, either by building or modernising fishing vessels, paying fishermen not to fish or supporting prices on the market. But the fishing industry can only survive without subsidies, if fish stocks are allowed to recover to the point where it is economically viable to catch them. The EMFF (European Maritime and Fisheries Fund) allows Member States to financially help the fishing industry in many ways that would contribute to stock recover, such as improving fishing methods and techniques, supporting efforts to diversify activities, etc. For instance, improving selectivity of fishing so as to catch larger fish allows juveniles to escape in order to grow, which is better for the marine ecosystem and better for the fishermen since larger fish usually get a better price on the market. A study by an NGO[29] found that allowing fish stocks to recover would provide larger catches worth billions in additional revenue and tens of thousands of jobs in the EU. Far too many subsidies are aimed at keeping production going by fishing harder, rather than fishing better so as to put the industry on a firm economic basis and improve the state of our marine ecosystems.

In addition to that, investment needs to be channelled into promoting f**ood sovereignty and short food chains.** Export-dependent food systems which are based on over-producing and dumping surpluses are not the way forward. Investment must go into short food supply chains and local food systems in order to empower small holders - models which have seen a revival in many EU countries over the last decades. Investment in these models will be beneficial for reviving local economies.

[29] New economics foundation, 2012. Jobs lost at sea. Overfishing and the jobs that never were.

➔ Health and care

According to the Commission itself "Health expenditure is recognised as growth-friendly expenditure. Cost-effective and efficient health expenditure can increase the quantity and the productivity of labour by increasing healthy life expectancy. (...) Average levels of health have been improving across the EU for many years. But this hides major inequalities. Poorer and disadvantaged people die younger and suffer more often from disability and disease."[30] For example, differences in life expectancy at age 30 between those in higher education and those with basic secondary education or less exceed 10 years in many Member States.

Across the EU the level of disability, in terms of reported restrictions on daily living activities, is more than twice as high in the lowest income quintile as in the highest income quintile. These health inequalities represent not only a waste of human potential, but also a huge potential economic loss — conservatively estimated at between 1.5 % and 9.5 % of GDP. Therefore, given the ageing of our societies and the expected increase of this expenditure in % of GDP in a baseline scenario, these figures and the expected economic return on public finances justify investing massively in this sector to improve the welfare of all Europeans.

➔ Investing in children and tackling children poverty

Growing up in poverty is known to severely curtail life chances. Across the EU, every fourth child under 18 lives in, or is at risk of, poverty and social exclusion. In just one year, their number has increased by more than half a million. Child poverty is about growing up in families that are income poor and not able to offer appropriate care and protection, not living in adequate or safe housing, not having access to affordable and quality education and health care, not having appropriate support to your needs, and not having equal opportunities to thrive. Also, as inequalities are widening in the knowledge economy, parents' ability to invest in their children's futures is becoming more unequal. Furthermore, a variety of studies show that factors determined before the end of high school contribute to roughly half of lifetime earnings inequality. This is where our blind spot lies: success often attributed to the beneficial effects of education, especially graduating from college, is probably more likely to be a result of factors determined long before children even enter school.

According to a US study, the economic rate of return of investing in early childhood programs is in the range of 6 percent to 10 percent per year per dollar invested, based on greater productivity and savings in expenditures on remediation, criminal justice and social dependency. This compares favourably to the estimated 6.9

[30] European Commission, 2013. Social Investment Package. Commission staff working document. Investing in Health. Towards Social Investment for Growth and Cohesion – including implementing the European Social Fund 2014-2020, SWD(2013) 43 final, 20.2.2013.

percent annual rate of return of the United States stock market from the end of World War II to the 2008 meltdown.

Therefore, a comprehensive child investment strategy with a strong emphasis on early childhood development is imperative. Following a 2008 UNICEF recommendation, the level of public spending on early childhood education and care (for children aged 0 to 6 years) should not be less than 1 per cent of GDP.[31]

➔ Investing in education, training, skills and qualifications

To fully exploit the job potential of the green economy, investment in education, training and skills development is crucial. Quality work based on good qualifications has proven to be the backbone of EU economies and a driver of productivity. Investment under the program should be directed into good quality training measures for entrepreneurs and employees venturing into new challenges linked to the transition to a greener and socially fairer economy.

➔ The Circular Economy

Improving resource efficiency could create between 1.4 and 2.8 million jobs in Europe.[32] Transforming our wasteful economy into one which is based on durability and reparability of products is likely to create jobs along the whole product lifecycle in the areas of maintenance, repair, upgrade and reuse. Compared to 2008, full compliance with the EU waste *acquis* in the coming years could create 400 000 new jobs. Moving towards the objectives of the EU Roadmap on Resource Efficiency could help to create 526.000 jobs.[33] Waste prevention, ecodesign, reuse and similar measures could bring net savings of €600 billion, or 8% of annual turnover, for businesses in the EU, while reducing total annual greenhouse gas emissions by 2-4%.[34]

➔ Safeguarding jobs by helping SMEs

All over Europe, many SMEs are suffering - some of them are even forced to close down - from not being paid on time by public authorities including the EU. This reduces even more the already weak investment capacity of the private sector. And

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[31] UNICEF, 2008. The child care transition. Innocenti Research Centre, Report Card 8.

[32] GWS, 2011. Macroeconomic modelling of sustainable development and the links between the economy and the environment, Report for the European Commission, DG Environment prepared by Cambridge Econometrics, the Institute of Economic Structures Research, the Sustainable Europe Research Institute and the Wuppertal Institute for Climate, Environment and Energy.

[33] Impact assessment accompanying the proposal for a Directive of the European Parliament and of the Council amending Directives 2008//98/EC on waste, 94/62/EC on packaging and packaging waste, 1999/31/EC on the landfill of waste, 2000/53/EC on end-of-life vehicles, 2006/66/EC on batteries and accumulators and waste batteries and accumulators, and 2012/19/EU on waste electrical and electronic equipment, Brussels, 2.7.2014, COM(2014) 446 final.

[34] AMEC et al., 2013.The opportunities to business of improving resource efficiency.

while stimulating the creation of SMEs and job creation requires both time and continuity, closing a viable enterprise which destroys jobs can be done quickly.

In this context, the Green Investment plan helps enterprises, especially SMEs, which face difficult financial situations, mostly due to cash-flow problems, while their business plans are viable. An amount in the range of 25 to 50Bn of the plan will be dedicated to pay bills to the most vulnerable SMEs, especially the viable ones, in order to recreate confidence between the public and private sector, to lift financial uncertainties and increase the investment capacity of the private sector.

► Investment priority 3: A Green and Social Innovation Union

Investment under this priority aims at promoting innovation that delivers solutions to societal challenges and catalyses the transition to more sustainable and more equal European economies and societies. This includes both technological and non-technological innovation, with organisational, social and business-model innovations playing a prominent role. And it comprises the creation of a borderless digital space in Europe where social, cultural and commercial exchange can thrive.

➔ R&D and innovation

According to Eurostat[35], gross domestic expenditure on R & D (GERD) (public and private) stood at EUR 266,9 bn€ in the EU-28 in 2012, an 2.9 % increase compared to 2011, and 42.9 % higher than 10 years earlier (in 2002)[36]. More than half (54.9 %) of the total expenditure in 2011 within the EU-28 was funded by business enterprises, while one third (33.4 %) was funded by government, and a further 9.2 % from abroad (foreign funds).

Firstly, the share of public R&D funding towards meeting societal challenges must be radically increased. Then, to increase R&D intensity within the constraints of public R&D expenditure, private industry funds must also be leveraged towards delivering wider benefits to society such as sustainability and resource efficiency, better quality of life, social advances, the creation of accessible knowledge and the creation of decent jobs and their retention in Europe. The share of public R&D funding towards meeting societal challenges must be radically be increased (70% of the budget).

Direct public research funds should be targeted primarily towards fundamental research, through support to universities and public research centres, building the

[35] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/R_%26_D_expenditure#Main_tables

[36] Rates of change are in current prices, reflecting price changes as well as real changes in the level of expenditure.

long-term knowledge and capacity on which firms and the public sector can base their innovation in the future.

With regards to support to applied research, not only technological but also non-technological approaches that can equally deliver solutions to societal challenges in a more inclusive, less alienating society, ensuring job preservation and creation and ecological improvements, should be supported. Organisational, social and business-models innovations have to be given an increasing place.

Finally, public funds can help translate research and knowledge into innovation, by providing funding opportunities for innovative start-up and SMEs, that are often the vehicles bringing innovation from the labs to the market. This should be done through grants and financial instruments including debt and equity financing but also through reinforcing learning mechanisms (acquiring information, developing skills, networking, involving users) and addressing “systems failure” that can stifle the abilities of market players to innovate (such as the granting of exclusive exploitation rights).

To make the best of the resources available, cooperation and coordination of investments undertaken at the EU, national and regional level, especially for important EU societal challenges such as energy, climate change, health, must be improved. Under the policy instrument of "open method of coordination", coordination of investments for instance in health sector does not yet exist, while for the research sector its impact has generally remained very weak. More bold action is needed in the EU to pull together available public funds in the priority areas of investment.

Tools such as Joint Programming Initiatives, EU level public-public partnerships and instruments for completing the for example the European Research Area, should be launched and developed in the medium-term. The creation of a specific thematic platform for dialogue between civil society organisation and decision makers on investment priorities (such as European innovation platforms) should be activated.

In the short-term, a key operational target of the plan would be to focus on optimising innovation under known constraints. A key example of such optimizing innovation would be to deploy large economic resources in the field of the renovation of the existing building stock or in the field of resource efficiency and in particular of energy efficiency allowing in the short term “real or potential cost reduction, improved product quality, and wider availability, and movement towards more highly integrated and continuous production processes”. The technologies, the costs and benefits associated with such operations are well known and can be readily integrated in business plans at both micro and macro levels. The focus should then gradually shift towards implementing exploratory innovation.

In a nutshell, in the short to medium term, investments focus would be in doing more and better the things we know yield an appropriate return on investment for redeploying current capacities towards a more sustainable economic system. And in the medium to long term the focus would be in directing gradually more resources towards doing the new things that a sustainable economy requires and that we still do not understand very well or at all, as well as generating the resilience capacities required for coping with uncertainty.

➔ Building a Digital Single Market

In order to achieve a digital single market, we plan to roll-out the deployment of broadband across Europe, including in rural areas. A number of different studies have come to the conclusion that a Digital Single Market could increase GDP by 5 per cent over the next years while creating in the longer-term up to 3.8 million new jobs, [37] even though it must be acknowledged that the automation of processes could also lead to some job replacements.

We want to tap this potential for good-quality jobs and innovation by while setting high data protection standards which could become a "trademark" of the European Union. Building a truly Single Market in the digital age requires further harmonisation of the rules this market is based upon. Such steps should notably consist in the adoption of a European Copyright Code that both supports innovation and consumers as a unitary title. In addition, we want to help drive digitalisation in our industries ("Industry 4.0") to increase efficiencies, innovation and sustainability while taking seriously into account the effect digitalisation could have on employment.

[37] European Commission, 2012. Digital Agenda Review, MEMO, IP/12/1389, 18.12. 2012.

Annex I: The rationale for a 750bn plan Green Investment plan over three years

750bn€ over three years is the range of net fresh resources required under a 'double entry' rationale.
The 'first entry' is an estimation of the amount required for financing a Green New Deal (GND) following a study commissioned by the Greens/EFA in the European Parliament.[38]
The ambitious green investment program associated with the GND is likely to require green investments of close to 1.5 to 2% of EU GDP annually.
Over the next 10 years, the package can be split into:

1. Euro 591 billion in development capital (for research and development and the commercialization of companies developing low carbon technologies);

2. Euro 2,300 billion in procurement capital between now and 2020 (for the purchase and installation of these technologies).

This estimation represents an amount of 200 to 260Bn EUR of net resources per year over the next three years at current prices.
The 'second entry' rationale is based on a conservative estimation of the amounts required in the short term to plug the EU output gap, which is the difference between actual gross domestic product and "potential" GDP. Different official estimations put it at a range between 2.4 to 4.5% of 2014 GDP. However, such estimations assume that the level of structural unemployment in a country like Spain is of around 20%. Other estimations generate more significant gaps of up to 6 to 8%.

The paper assumes most optimistic estimation of the output gap for 2015 (1.8% according to the EU Commission AMECO database[i])
The paper also assumes a range of estimations of multipliers effects for the EU when there is a negative output (between 1.5 to 3)[39] as well as when the output gap is closed or nearly closed (0.5). It is also assumed that multipliers effects are spread over three years as it is usually the case in the literature.

The fiscal component of the stimulus would then be withdrawn in year four after the start of the plan at a time when the second part (from 2018) of the programme

[38] Greens/EFA, Green European Foundation, 2011: Funding the Green New Deal: Building a Green Financial System. A policy-maker report from Re-Define, http://www.gef.eu/fileadmin/user_upload/Publications/GEF-Funding_the_GND_web_final.pdf
[39] The IMF has recently published a detailed research which estimates that multipliers effects of public investments when there is a negative output gap and in the presence of very low interest rates is between 1.5 to 3.

would start providing additional resources by means of additional EU budget related resources, additional EIB financed investments and additional frontloading of resources that would be feed into the energy savings fund (see below). The combination of these additional public expenditure flows would amount to a combined amount of minimum of 60Bn per year after 2018.

The National implementing programmes of the EU Green investment plan should include a strict and clear commitment that the budgetary impact of the Green Certificates to be redeemed in years 5, 6 and 7 of the programme should be fully offset[40] by the discounted resources that would have been gradually accumulated in National **energy savings funds** which could be fed by two main channels:

- The phasing out all kinds of direct and indirect subsidies for fossil fuels and nuclear energy which according to a study Commissioned by the Greens-EFA in the European Parliament[41] would result in aggregate increases in gross domestic product (GDP) in both OECD and non-OECD countries, up to 0,7 per cent each year until 2050. The aggregate amounts accumulated in the funds over the first 5 years and subsequently in years 6, 7 and 8 would be sufficient for offsetting the whole public stimulus provided in the three first years of the programme, assuming (conservatively) that a least a third of these extra resources would contribute to public revenues as taxes (the current level of tax revenues amount to around 45% of GDP)
- The resources generated by an ambitious Green reform of the ETS system that would in particular substantially increase the amount of allowances to be auctioned between 2015 and 2030 and the resources generated by any carbon tax to be introduced at the EU level. By assuming additional annual resources or 0.2% of GDP of 2014 per year due to these reforms, the energy savings fund would have a meaningful buffer that would allow financing extra public investments of at least 150Bn EUR by year 5 of the plan (see comment *****)

The output gap for 2014 and 2015 used in the estimations are taken from the latest Commission forecasts available at the AMECO database.

[40] Such offset would generate negative multipliers effects. However those negative multiplier effects in a context when the output gap is nearly closed are estimated to be much lower when the output gap is nearly closed.
[41] See : http://greennewdeal.eu/energy/publications/2012/fossil-fuel-subsidies-reform-in-24-oecd-countries.html

Year	Public stimulus due to plan in BN EUR of 2014	Variation of public expenditure due to plan in BN EUR of 2014	GDP increase resulting from gradual implementation of the plan in BN EUR of 2014 *caeteris paribus******	Output gap as (a % of GDP)
2014	0	0	0	-2.4
2015	60	60	within the range of 30 to 60	-1.8 without the plan and within the range of -1.3 to -1.5 with the plan
2016	90	30	within the range of 45 to 90	within the range of -0.6 to -1.2
2017	100	10	within the range of 50 to 100	within the range of +0.1 to -0.9
2018	60	-40	within the range of 10 to 30	Within the range of +0.4 to -0.7
2019	60	0	within the range of +3 to -5	Within the range of +0.4 to -0.7
2020	60	0	0	Within the range of +0.4 to -0.7

**the table assumes multiplier effects of public investments within 1.5 to 3 when there is a negative output gap and of 0.5 spread over three years when the output gap is nearly closed

***numbers are rounded to first decimal

****it is assumed that the second phase of the plan foresee public expenditure of 60BN EUR starting in 2018 by means of additional EU budget related resources, additional EIB financed investments and additional frontloading of resources that would be feed into the energy savings fund

*** the estimations use as a baseline for private investment expenditure growth the latest EU Commission autumn forecasts for 2014 according to which private investment over the next three years should growth by 2.9% in 2014 and 4.5 in 2015. We extrapolate a baseline growth of 4.5 for 2016 and for the 3 years we add 0.5% growth per year as a consequence of the stimulus provided during the three first years. Such addition is consistent with IMF estimations that the share of private investment expenditure in GDP remains constant following a public investment stimulus. Under such assumptions the additional private investments would be of around 167Bn EUR on average per year on each of the next three years (around 500bn in total) on top of the overall private investment expenditures flows of 2065bn EUR for 2014.

*****the estimation assumes that no external or internal shocks worsen or improve the situation. If negative scenarios arise including:

i) smaller positive multiplier effects than the range foreseen for the years 1 to 3 of the plan;
ii) or alternative larger than expected negative multiplier effect from year 5 onwards
iii) Lager output gaps than estimated
iv) External or internal geopolitical shocks

If such negative scenarios materialize the buffer remaining in energy savings funds would allow providing an additional 'medium term fiscally neutral' stimulus by frontloading these resources or future resources that would feed the funds by 2030. In the (less likely) scenario where positive surprises would arise, the ECB has sufficient tools available for avoiding any overheating of the activity.

Annex II: *Implementation and monitoring of the plan*

The Green European Investment Plan shall be underpinned by an institutional set-up to monitor performance and the achievement of the desired results as a part of the EU Semester.

Investment guidelines in the Annual Growth Survey

As a first step, the next Annual Growth Survey (AGS), to be published by the end of 2014, should include a specific section providing general investment guidelines for channelling the public resources involved towards the priority sectors and targets outlined in the Green Investment Plan. The guidelines will ensure that the implementation of the plan moves member states closer to achieving strengthened and updated EU2020 objectives.

These guidelines will also establish an action plan outlining a number of regulatory reforms (including the ones identified in the text) to be performed within the first three years of the plan and to be integrated in the Commission Work Programme so as to establish the tools required for enhancing the effects during the first phase of the plan as well as for creating the legal framework required for the second phase.

Moreover, the guidelines will outline a set of tools for monitoring the national implementing programmes. According to Article 4.1 of Regulation (EU) No 473/2013, the so-called two pack, "[N]ational medium-term fiscal plans and national reform programmes shall include indications on how the reforms and measures set out are expected to contribute to the achievement of the targets and national commitments established within the framework of the Union's strategy for growth and jobs. Furthermore, national medium-term fiscal plans or national reform programmes shall include indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact. National medium- term fiscal plans and stability programmes may be the same document."

National implementing plans & monitoring in the EU semester process

Member States will have to involve national parliaments and civil society organisations in the programming and allocation of funds in their country in order to draft their national implementing programs for the GIP. Moreover, Member States shall draft the programs in close consultation and dialogue with the European Commission and the European Investment Bank. The national implementing programs shall demonstrate how the public share of the national implementing program will be financed, identifying for each of the following channels how much money will be mobilised through it respectively: 1) using the flexibilities in the Stability and Growth Pact, 2) green certificates and 3) credit lines from the European Investment Bank. Moreover, the programs shall contain estimations on how the implementation of their programs will contribute to moving towards the EU2020 strategy objectives. The national implementing programs should be submitted to the EU Commission, together with the national reform programs and stability/convergence programs by April/May 2015.

The country-specific recommendations, which the Commission will propose in May/June 2015 and EU leaders will endorse by July 2015, shall assess the national implementing plans, together with the NRPs and SCPs, in accordance with the investment guidelines, and, if necessary, propose modifications. For the forthcoming year, Member States will, on the basis of the country-specific recommendations, update their stability/convergence programmes, their national reform programmes and, if necessary, their national implementing programs, so as to integrate the country-specific recommendations.

Each year, member states will have to report on the national implementation of the GIP in their national reform programs. Progress will be assessed through the lens of a set of indicators with the EU2020 indicators at the core. Additional indicators, e.g. on resource efficiency, unit capital costs, inequalities and job quality should be adopted in the context of the EU economic governance and EU2020 strategy reviews. Member States will also have to report on public participation in the implementation of the plan at national and regional levels. The Commission and Council will evaluate these reports and consider their assessment in the country-specific recommendations.

The EU semester process provides for yet another option to monitor the implementation of the national programs. According to Article 6.3 of Regulation (EU) No 473/2013 "the draft budgetary plan [to be submitted by October each year as part of the EU semester cycle] shall contain the following information for the forthcoming year: (...) indications on how reforms and measures in the draft budgetary plan, including in particular public investment, address the current recommendations to the Member State concerned in accordance with Articles 121 and 148 TFEU and are instrumental to the achievement of the targets set by the Union's strategy for growth and jobs."

Concretely, public investments will be reflected in the general government expenditure by function. This classification by functions which is fully consistent with the two-pack framework is structured around divisions that describe the broad objectives of government, while groups and classes both define the means by which these broad objectives are achieved.[42] The independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States

[42] According to the OECD classification of general government expenditure by functions and divisions.

established by the EU Directive on requirements for budgetary frameworks of the Member States will monitor the evolution of public expenditure by function and division. Since spending more does obviously not guarantee that it will help closing the gap with the EU2020 objectives, these bodies will be responsible for evaluating if the assumptions and feedback returns with respect to the objectives are at least reasonable. The bodies will report directly to the European Commission. The reports will help the Commission to adjust the country-specific recommendations of the following year.

Moreover, in order to avoid that public money involved in the plan is misspent on projects of poor quality or on activities that beneficiaries would have undertaken anyway, the achievement of results and their quality shall be monitored by the consistent application of performance audits. In order to improve their accountability for the management of EU funds, Member States should issue national declarations, a possibility foreseen in the new EU Financial Regulation, that their responsibilities and obligations have been fulfilled when it comes to managing and controlling EU funds, including on the effectiveness of their respective national control and audit systems.

In line with the requirement of Article 16 of the 'two pack' Regulation (EU) No 473/2013, the Commission shall report on the possibilities offered by the Union's existing fiscal framework to balance productive public investment needs with fiscal discipline objectives in the preventive arm of the SGP, while complying with it fully. Such reporting should take the form of an interpretative Communication which would provide guidelines for establishing a qualified treatment for public investment expenditure in line with common established practices regarding the budgeting of capital expenditure in undertakings which allow amortizing investment expenditure over the life cycle of the fixed capital incorporated. The qualified treatment might also attribute different weights to such qualified treatment according to the economic cycle. Certain categories of social expenditures (as long as they have a substantial and measurable social impact) might also benefit for the same qualified treatment. Such guidelines should be then integrated in the legal framework as a part of the economic governance revision process.

To make the best of the resources available in priority areas of investment, the cooperation and coordination of investments undertaken at the EU, national and regional levels (especially for important EU societal challenges such as energy, climate change, health) must be improved. Under the policy instrument of open method of coordination, so far, investment, for instance in the health sector, has not been coordinated. In other fields such as research its impact has generally remained very weak.

Tools such as Joint Programming Initiatives, public-public partnerships and instruments for completing for example the European Research Area should be launched and developed in the medium-term. The creation of specific thematic platforms for dialogue between civil society organisation and decision maker discussing investment priorities (such as European innovation platforms) should be activated.