GREEN RECOVERY TRACKER

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HOW TO GO ABOUT MEASURING ALIGNMENT OF FUNDING WITH CLIMATE TARGETS?

Two urgent and all-encompassing political challenges unfolded simultaneously in 2020 and 2021: the need to respond to and recover from the COVID-19 crisis, and the need to accelerate and implement the European Green Deal. Politicians and policy experts alike quickly agreed that an effective allocation of economic recovery spending would require the pursuit of a **"green recovery"**: addressing the economic crisis at the same time as the climate and biodiversity crises.

In Europe, national governments and the European Union were deploying large recovery packages to bring their economies back on track. This included a ground-breaking €750bn recovery package for the entire EU ("Next Generation EU"), with the €672.5bn Recovery and Resilience Facility (RRF) as its central element. The RRF was set up to enable recovery measures in all EU member states, based on Recovery and Resilience Plans (RRPs) prepared by national governments. European leaders agreed that the EU's recovery must be aligned with the green and digital transition. Thus, the RRF regulation demanded that **at least 37% of the spending in National Recovery Plans support the green transition**, with the remainder of the funding doing no harm to the transition. The 37% target led to intense negotiations and discussions between EU member states and the Task Force created by the European Commission to assess the RRPs. The process of drafting and revising RRPs in coordination with the European Commission **significantly improved the quantity and quality of climate-spending** in a number of member state plans.

The Green Recovery Tracker assessed the effects of individual measures contained in national recovery plans and packages on the transition to a climate neutral economy taking into account **the contribution of activities to climate change mitigation efforts.** In doing so, our independent assessment methodology built on the EU taxonomy as well as, with regards to climate mitigation, on the climate tracking methodology outlined in **Annex VI**[I] of the RRF Regulation.

If we compare retrospectively our results with national assessments and the assessments by the European Commission, it becomes apparent that we often deviated from it[1]: While all endorsed plans by the EU meet or exceed the 37% target, we find only 4 countries fulfilled the climate spending target.

[1] Find more on this in the box at the bottom of the report.

THE GREEN RECOVERY TRACKER - ASSESSING UNCERTAIN INFORMATION

The Green Recovery Tracker has been a struggle with **uncertainty**, with preliminary and incomplete data. The idea for the Tracker was born in spring 2020 when governments started making announcements on economic Corona recovery measures. We started developing our methodology in early fall 2020 - at a time when the EU RRF was just being set up. So we were developing our methodology of assessing the climate impact of recovery measures in parallel to the EC developing the formal methodology of the RRF. Obviously, we had a close look at this process and tried to align our approach to the EU Taxonomy and official RRF methodology wherever this was possible and in our view made sense. But there are differences - partly because we came to different conclusions on what can be considered green i.e. be in line with the target of becoming climate neutral by mid century (e.g. concerning the use of natural gas) - partly we had to make decisions before the official methodologies were formally agreed upon.
The struggle with uncertainty continued when it came to assessing the national recovery plans. The Tracker was never meant to be an academic exercise - but a tool, which supports policy makers and civil society in comparing recovery plans across the EU, while they are in the making and still can be altered. So we engaged with national experts to assess draft recovery plans (often informal or leaked drafts) with a common methodology. Needless to say, our assessments were outdated as soon as a new draft appeared. And for many countries we had to make updates of our assessments.

Why do we spend a whole box on describing this process?
Because we think it is important to understand this process, to adequately value the learnings from the Green Recovery Tracker. The great strength of the Tracker was that it provided orientation within an ongoing, within an extremely fast political process - in a few months decisions were taken on how to spend hundreds of billions of Euros. A few months later a more valid assessment, based on a rigid scientific methodology would not have been helpful to support the political decision making process anymore. Especially between February and May 2021 the Green Recovery Tracker was shedding light into a process, which many considered a black or at most dimly lit box. For us as a team it was amazing to see who took note of our assessment, who called for more detailed information, how it stimulated discussions across institutions in various member states - who had a hard time assessing the recovery plans in their own country, but now could draw comparisons to good and bad practice in other EU member states.
Now, in 2022 the speed of development has eased off. Now it is time to look at the learnings and identify those which could be helpful for the long-term process. Because aligning public funding and investments with climate objectives will be a challenge for years, even for decades to come.

WHAT CAN WE LEARN FROM OUR EXPERIENCE WITH THE GREEN RECOVERY TRACKER?[2]

An **independent, scientific evaluation of RRPs** (in parallel to the evaluation process of the EC) was good and necessary to create transparency and to give civil society the possibility to critically accompany the design process of the plans. **National recovery plans were largely developed behind closed doors**, with little room for independent scrutiny and public participation. We see this as an explanation for why we received numerous inquiries and positive feedback on our analyses - from NGOs, trade unions, think tanks or institutes from the respective member states. For example, we were requested for workshops (e.g. Austria, Italy, Bulgaria) to discuss the respective RRPs with national stakeholders and share with them our findings from the country analyses. Our assessments, especially of draft RRPs, were a valuable resource to enable comparison between countries and support learning between countries.

Moreover, we **experienced a need to exchange on different methodologies as well as on the communication of scientific assessments** as in the course of the pandemic, several recovery trackers popped up. Though the various trackers differ in methodology, the scope of countries and/ or the dimension of investigation, there was a significant overlap in results. An exchange across several tracker initiatives was initiated by the International Institute for Sustainable Development (IISD)[3]. This group of tracker initiatives, which brought together more than 30 of the world's leading research institutions, developed **a call**[II] to heads of state and government worldwide to use Covid-19 funding for nature and climate-friendly investments. In addition, the World Bank Group initiated a dedicated Working Group on Green Recovery with the participation of the Green Recovery Tracker in order to commonly develop a Theory of Change for green recovery.

WHAT NEEDS TO HAPPEN NEXT?

While the official **Recovery and Resilience Scoreboard**[III] displays EU countries' progress in implementing their recovery and resilience plans and shows common indicators to report on progress and evaluate the Recovery and Resilience Facility and the national plans, we see **the need for continued independent monitoring of the implementation of RRPs on national level** in order to strengthen the climate component and, at the same time, to continue to ensure that the the do-no-significant-harm principle is upheld. The Green Recovery Tracker found 26% (€ 183bn) of all measures are likely to have a climate effect but whether or not that effect would be positive or negative or how impactful it would be was uncertain at the time of assessment, given a lack of clarity or detail in how measures would be implemented. These measures were often assessed

[2]Our lessons learned on what can be learned from the political process of setting up the RRF can be found here: https://www.e3g.org/news/investing-in-the-next-generation-lessons-from-the-eu-recovery-and-resilience-facility/

[3] IISD is co-leading the Energy Policy Tracker

positively by the EU Commission, and will require specific attention and monitoring during the implementation period.
We have observed that many recovery plans contain measures that have a positive effect on climate protection. However, most of the plans do not reveal a vision or holistic strategy in order to achieve climate-neutrality. Moreover, they are not linked to National Energy and Climate Plans (NECPs) - planning and reporting framework, under the Energy Union Governance Regulation- or only linked to outdated plans. Thus, the European Commission needs **to ensure comprehensive legislation and funding for investments in the transition to climate neutrality at EU level in order to avoid lock-in effects of investments.** As part of this, all member states need to revise and update their NECPs.

Our factsheet[IV] takes stock of the recovery efforts in the **energy, industry, building and mobility sectors.** We analyzed the quantity and quality of climate spending and highlighted **opportunities and shortcomings that will be critical for the climate-neutral transition** in each of these sectors in the coming years.

As the recent discussions around the EU Taxonomy on sustainable finance show, the political debate over what counts as "green" or "sustainable" has not yet been resolved. A key challenge continues to be that questions around sustainability get mixed up with other objectives (such as e.g. security of energy supply). No matter where the final debates around the taxonomy end up, we see the **need for an independent tracking platform** which assesses public and private funding for investments **across several dimensions** - one possibility would be to align these with the targets defined in the EU taxonomy: (1) climate change mitigation, (2) climate change adaptation, (3) sustainable use and protection of water and marine resources, (4) transition to a circular economy, (5) pollution prevention and control, and (6) protection and restoration of biodiversity and ecosystems.

GUIDANCE FOR FUTURE FUNDING PROGRAMS AND ACHIEVING CLIMATE TARGETS OVERALL

We developed this guidance based on our lessons learned. It aims to help identify what is important a) for a Green Recovery but also b) in general for economic stimulus programs that address climate change. Some of the points listed were also planned by the EU in the RRF and show what good practice could look like, though some of them were then only poorly applied.

- Definition of a **target** (e.g. share of spending in programs/ plans to climate measures) that is sufficient to meet the defined mid- to long-term climate targets.
- Providing a dedicated **climate tracking methodology.**

- If not implemented yet, a **comprehensive national decarbonization strategy** must be developed which sets out the most strategic investments to guide the drafting process of stimulus programs/ recovery plans.
- Economic stimulus programs must be aligned **with current and up-to-date climate protection plans** (such as NECPs) in order to reach set targets of emissions reductions
- Allow and actively support **public participation** in the development of decarbonization strategies, as well as in the development of specific projects and measures: there is rich expertise available among national civil society organizations and of citizens in decisions that will be key to their future wellbeing
- **Review and close monitoring** of measures with defined milestones as they are implemented.

By their very nature, recovery programs usually need to be set up and implemented quickly, whereas funding programs in general have a longer horizon for planning. This tension between fast implementation and the need for good governance played a critical role in the initial phase around the set-up of the Recovery and Resilience Facility: on the one hand, the money had to be disbursed to the EU member states as quickly as possible, on the other hand, the recovery plans had to be coherent with the defined targets and the regulatory framework. In order for recovery programs to be effective in terms of climate protection, we advocate that defined decarbonization strategies and assessment methodologies are available and continuously updated so that they can be applied to any recovery programs if needed.

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ABOUT OUR DATA

Deviations between our numbers and official assessments by the European Commission can be explained by methodological differences, including the fact that our methodology **only considered climate mitigation** and not adaptation effects.

Moreover, we counted 26% of all measures as having **a likely climate effect but not assessable** due to uncertainties, which were oftentimes assessed positively by the EU Commission. is allocated to measures that will likely have a climate effect that cannot yet be assessed. This includes measures that combine positive (e.g. energy efficiency) investments with harmful (e.g. fossil gas boilers) investments; or measures that appear positive but when considered in the local context could end up being harmful, such as investments into "hydrogen" infrastructure in regions where it is unlikely that the infrastructure will be utilized for anything except fossil gas in the foreseeable future.

The official Climate Tracking Methodology outlined in Annex VI of the RRF Regulation is the necessary construct for a uniform assessment of measures across all countries. And yet it leaves loopholes and uncertainties in the precise evaluation of individual measures. These uncertainties **include designations of climate spending not clearly in line with the official Climate Tracking Methodology** (e.g. generalized investment support without clear climate conditionalities in various RRPs, energy efficiency investments without assurances on the achievement of the required improved energy standards**), measures being designated as green even though their climate contribution is at the very least doubtful** (e.g. investments into new-built housing in Portugal), **and measures that are assessed positively by governments despite them including harmful measures** (e.g. energy efficiency investments including support for fossil gas boilers in Italy, Poland and Czechia). Only the implementation phase will show how green certain measures will be implemented.

REFERENCES

[I] https://www.europarl.europa.eu/doceo/document/TA-9-2021-0038_EN.pdf

[II] https://wupperinst.org/en/a/wi/a/s/ad/7533

[III] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/index.html

[IV] https://assets.website-files.com/602e4a891047f739eaf5dfad/61c1c72f2784e84b32f53998_GRT_2021_FACTSHEET_20211221.pdf