Utilisation of EU funds for the transformation of the transport sector

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AUTHORS
Márton Vargha [CAAG], Andrzej Anycgier [Climate Analytics].

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Consortium partners:
Introduction

Decarbonisation of passenger transport and implementation of key best practice measures such as urban road charging, developing railway infrastructure or improving cycling infrastructure often requires leveraging financial resources that implementing parties may not have direct access to. Key sources of financing to transform mobility in Lithuania, Romania, Poland and Hungary include several funds from the European Union and loans, guarantees and other financial instruments from the European Investment Bank (EIB).

In this paper we investigate potential financing sources from two viewpoints. Firstly, we assess the applicability of funding mechanisms to transport-specific projects, and the ways in which these projects are selected. Secondly, we investigate how transport decarbonisation projects may be at a systemic disadvantage in the selection process.

Possible sources of EU funding

There are several key sources to fund the transformation of the transport sector. While each is focusing on a different aspect of EU policy, all of them may be partly applicable to transport projects:

- The EU’s cohesion funds dedicate a significant part of the budget to reducing disparities between Member States, which can be leveraged to reduce transport disparities.
- The Connecting Europe Facility (CEF), is the channel through which the European Commission directly supports transport projects.
- Interreg aims to develop European Territorial Cooperation.
- The Recovery and Resilience Fund (RRF) is a recent mechanism intended to reduce the burden of the economic crisis caused by the Covid-19 pandemic, and which includes significant funding.
- The European Investment Bank (EIB) gives direct loans and has other financial services, also for transport infrastructure projects.
- NetZeroCities supports European cities to drastically cut down greenhouse gas emissions.

Table 1 (below) provides a brief overview of 2021-2027 allocated funding to the four countries represented under this project: Poland, Hungary, Lithuania and Romania.
Table 1 2021-2027 Allocated Funding (billion EUR)\(^1\)-\(^2\)

<table>
<thead>
<tr>
<th>Cohesion Policy</th>
<th>Hungary</th>
<th>Lithuania</th>
<th>Poland</th>
<th>Romania</th>
<th>EU</th>
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<td>8.73</td>
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<td>Not listed</td>
<td>Not listed</td>
<td>25.8</td>
</tr>
</tbody>
</table>

Cohesion Policy

The Cohesion Policy is the EU’s main investment policy and critical funding source.\(^3\) For the 2021-2027 cycle, the EU cohesion policy has set a Joint Action Plan\(^4\) which has five policy objectives:

- PO1: a more competitive and smarter Europe
- PO2: a greener, low carbon transitioning towards a net zero carbon economy

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\(^3\) European Commission (2023). “The EU’s Main Investment Policy”

• PO3: a more connected Europe by enhancing mobility
• PO4: a more social and inclusive Europe
• PO5: Europe closer to citizens by fostering the sustainable and integrated
development of all types of territories.

PO1, PO2, PO3, and PO5 include transport aims and are of particular importance to
transport projects seeking funding. Under the framework of the Cohesion Policy,
member states are responsible for the budget allocated to them under the Partnership
Agreement, selecting the projects to be funded and managing tenders. Each member
state’s share of each fund is allocated to different thematic operational programmes,
and this allocation is agreed between the Member States and the European
Commission.

The relative importance and funding of transport decarbonisation projects is
determined by how important transport decarbonisation is to operational programmes’
objectives. Member States invite applications under particular objectives, however if
project owners can present reasonable justification for their project under a variety of
objectives, it is often irrelevant whether the source of funding is:

• the European Regional Development Fund (ERDF), which invests the social and
economic development of all EU regions and cities, focussing on PO1 and PO2.5
• The Cohesion Fund (CF), which invests in environment and transport in the less
prosperous EU countries, with main priorities PO2 and PO3.6
• The European Social Fund Plus (ESF+), which supports jobs and create a fair and
socially inclusive society in EU countries, focussing on PO4.7
• The Just Transition Fund (JTF), which supports the regions most affected by the
transition towards climate neutrality. It has dedicated specific objectives.8

According to the Regulation (EU) 2021/1060,9 the Funds should support activities that
would respect the climate and environmental standards and priorities of the Union and
would do no significant harm to environmental objectives within the meaning of
Article 17 of Regulation (EU) 2020/85210 of the European Parliament and of the Council,
which establishes a framework for sustainable investments.

Adequate mechanisms should be an integral part of programming and implementation
of the Funds to ensure climate-proofing of supported investments in infrastructure. The
Regulation (EU) 2021/1058 on the European Regional Development Fund and on the
Cohesion Fund also provides that the supported activities must ensure the transition
towards a low-carbon economy in the pathway to achieve climate neutrality by 2050.

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5 European Commission (2023). “European Regional Development Fund.” EU regional and urban
development
9 Regulation (EU) 2021/1060
10 Regulation (EU) 2020/852
Investments under the ERDF must contribute to promoting pollution-free and sustainable multimodal mobility with a focus on public transport, shared mobility, walking and cycling, as a part of the transition to the net-zero carbon economy.

Interreg Europe

Interreg is the European Territorial Cooperation, supports cooperation across borders through project funding. Its aim is to jointly tackle common challenges and find shared solutions in fields such as health, environment, research, education, transport, sustainable energy and more. Interreg is funded by the European Regional Development Fund (ERDF) from which EUR 8 billion has been allocated for the 2021-2027 period. During that period Interreg supports the following actions (referred to as “strands”):

- cross-border cooperation between adjacent regions to promote integrated and harmonious regional development between neighbouring land and maritime border regions (Interreg A; over 72% of total resources),
- transnational cooperation over larger transnational territories or around sea-basins (Interreg B; over 18%),
- interregional cooperation to reinforce the effectiveness of cohesion policy (Interreg C; around 6%),
- outermost regions’ cooperation to facilitate their integration and harmonious development in their region (Interreg D; 3.5%). (The outermost regions are nine regions of the European Union that are geographically very distant from the European continent, so this strand is irrelevant from our viewpoint.)

The Interreg programmes have two additional policy objectives at their disposal: “A better cooperation governance” and “A safer and more secure Europe”. The EU provides a search tool through which project promoters can search and find applicable calls for applications. Interreg additionally offers a Programme Manual to aid applicants in their endeavours.

Recovery and Resilience Facility (RRF)

The aim of the Recovery and Resilience Facility is to mitigate the economic and social impact of the Covid-19 Pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. The Facility is a temporary recovery instrument, with total

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11 Interreg (2023), “Interreg 2021-2027: Fostering Cooperation for a Stronger Europe”
13 Interreg (2020). “New Interreg budget set to be 8 billion euros.”
14 Regulation (EU) 2021/1059
available funding coming to EUR 723.8 billion in loans (EUR 385.8 billion) and grants (EUR 338 billion).\textsuperscript{16}

The RRF helps the EU achieve its target of climate neutrality by 2050 and sets Europe on a path of digital transition, creating jobs and spurring growth in the process. To benefit from the support of the Facility, Member States had to submit their recovery and resilience plans to the European Commission.

Each plan sets out the reforms and investments to be implemented by the end of 2026 and Member States can receive financing up to a previously agreed allocation. Each plan should effectively address challenges identified in the European Semester,\textsuperscript{17} particularly the country-specific recommendations of 2019 and 2020 adopted by the Council.\textsuperscript{18} It should also advance the green and digital transitions and make Member States’ economies and societies more resilient.

The RRF sets out the percentage of the Fund that a Member State can take into account when calculating whether the mandatory 37% climate and 20% digital spendings are reached in their Recovery and Resilience Plan (RRP). The RRF indicates that many infrastructure investments that would reduce carbon emissions from passenger transport are worth including in Member States' RRPs.

Comparing the first and the revised version of Guidance Document on Recovery and Resilience Plans can provide insights on which measures are at the forefront of regulators minds. The revision was made in the context of REPowerEU, highlighting measures that can be supported by the Fund to reduce fossil fuel consumption and ultimately oil imports.

Looking specifically towards the role of transport decarbonisation, The Guidance on Recovery and Resilience Plans in the context of REPowerEU emphasises the electrification of transport.\textsuperscript{19} Zero emission public transport vehicles' effects are mentioned as significant and direct in terms of reduction of demand for fossil fuels.

Other eligible investments mentioned include “Newly built or upgraded railways - TEN-T core network” or “Clean urban transport infrastructure”. Annex VII assesses the supported investment opportunities in terms of digital contribution, under the transportation umbrella this includes “digitalisation of transport when dedicated in part to GHG emissions reduction: urban transport.”\textsuperscript{20}

Examples of typical reforms and investments linked to the green transition and funded by the RRF include, but are not limited to:


\textsuperscript{17} European Commission (2023). “The European Semester”

\textsuperscript{18} See for example COM(2020) 517 final, Council recommendations for Hungary

\textsuperscript{19} European Commission (2023). Guidance on Recovery and Resilience Plans in the context of REPowerEU

\textsuperscript{20} Ibid.
• Investments in smart and sustainable mobility, such as the promotion of smart, safe and clean collective transport, development of waterborne and rail infrastructures, including the European rail signalling system (ERTMS).
• Investments in charging infrastructure or other elements for reduction of transport-related emissions, insofar as these are cost effective and/or of strategic importance.
• Investment in smart and sustainable mobility projects, in the whole battery value chain (from material to recycling), in renewable hydrogen technology, in sustainable alternative transport fuels.

Member States should indicate if reforms or investments contribute to any cross-border and multi-country projects. Such projects are essential for the recovery and strengthening Europe's resilience and are of a particular relevance for the flagship initiatives, including:

• infrastructure projects implementing the Trans-European Transport and Energy Networks,
• fast-tracking long distance recharging/refuelling infrastructure for zero- and low-emissions propulsion,
• Single European Sky and a European Rail Traffic Management System, and
• 5G corridors on roads and railways in the context of EU's Digital Strategy.

Connecting Europe Facility CEF

The Connecting Europe Facility (CEF) supports the development of high performing, sustainable and efficiently interconnected trans-European networks in the fields of transport, energy and digital services. The budget for CEF Transport is EUR 25.81 billion (including EUR 11.29 billion for cohesion countries). That budget is managed by the European Climate, Infrastructure and Environment Executive Agency (CINEA). According to the Regulation (EU) 2021/1153 establishing the CEF, 60% of the overall financial envelope of the Facility must contribute to climate objectives.

On the project level, 40% or 60% of a project's funding can be counted as a contribution to climate objectives, depending on what the project aims to achieve. For example, 100% of expenditure relating to railway infrastructure, charging infrastructure, alternative and sustainable fuels, clean urban transport, electricity transmission, electricity storage, smart grids, CO₂ transport and renewable energy may be counted, whereas only 40% for inland waterways and multimodal transport, and gas

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23 Regulation (EU) 2021/1153
infrastructure may be counted, provided that it enables the use of renewable hydrogen or bio-methane.

**NetZeroCities**

NetZeroCities stream of funding aims to provide solutions and resources to help European cities achieve climate neutrality by 2030 through reducing greenhouse gas emissions, particularly in the transportation sector. The initiative is part of the Horizon Europe (2021-2027) Research and Innovation Programme that supports the EU’s Green Deal, with a budget of roughly EUR 53 million.\(^{24}\) There is a one-stop portal for cities to access tools, resources, and expertise, as well as dedicated services and a pilot program for peer-learning.

NetZeroCities has been designed to help cities overcome the current structural, institutional and cultural barriers they face in order to achieve climate neutrality by 2030. A core area of focus is on mobility and transport, providing city authorities with solutions, instruments and strategies to reduce emissions from urban transport. New and existing tools, resources and expertise are being developed and promoted into a one-stop platform accessible to all cities through an online portal. Dedicated services are designed, for example, to support cities that are part of the EU's Mission “100 Climate-Neutral and Smart Cities by 2030.”\(^{25}\)

In addition, NetZeroCities supports a series of pilots to help drive rapid learning about how to achieve climate neutrality at city scale and run a twinning programme to enable peer-learning. Pilots are announced somewhat regularly, and a call for proposals is launched.

**European Investing Bank**

The EIB offers loans, guarantees and other financial instruments, as well as technical assistance. Its instruments build on EU grants on which it can draw to mobilise further resources from the private investment sector. The EIB provided around EUR 9.1 billion in financing to lower carbon transport projects in 2021.\(^{26}\)

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\(^{26}\) European Investment Bank Group (2022). *Climate Action and Environmental Sustainability Overview 2022.*
The InvestEU initiative encompasses a range of financial instruments and strategies aimed at promoting investment in the European Union. One of the key components of this effort is the Climate and Infrastructure Funds (CIFs), which primarily focuses on supporting projects related to climate action and environmental sustainability. By focusing on six targeted areas, these investments provide targeted funding to both project managers and funders and are a critical part of the broader InvestEU equity portfolio.

At its core, InvestEU is based on three key elements: the InvestEU Fund, the InvestEU Advisory Hub and the InvestEU Portal. Thanks to its centralised nature, InvestEU is able to deliver on EU policy objectives, minimise overlaps and ensure synergies. With a budget guarantee of EUR 26.2 billion through 2027, the InvestEU fund will be able to attract both public and private financing, ultimately mobilising at least EUR 372 billion in additional investment. Notably, a significant portion of the InvestEU budget (37.8%, or EUR 9.9 billion) is earmarked for sustainable infrastructure, which is one of four key policy windows that the programme is designed to address. Furthermore, a horizontal clause stipulates that at least 30% of all investments made through InvestEU will contribute to the wider EU climate objectives.

To facilitate engagement with InvestEU, the programme has also established the InvestEU Advisory Hub - Central Entry Point. This resource is designed to provide advice on developing project ideas, identifying funding opportunities and other key problems. By leveraging these resources, organisations across the European Union can contribute

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27 EIF (2021). “Climate & Infrastructure Funds”
28 European Investment Bank (2023). “InvestEU Fund”
29 European Investment Bank (2023). “InvestEU Advisory Hub”
to the InvestEU initiative, enabling sustainable growth and development throughout the region.

**Emissions reduction projects are at a competitive disadvantage**

The current funding system of EU funding must change significantly and regulatory change is needed to make the decarbonisation of transport a success.\(^3\)_Ongoing EUKI-funded project Towards a Climate Neutral EU: Efficient Allocation of EU Funds conducted a survey of Civil Society Organizations (CSOs), who identified 14 core regulatory issues which are reflected in the state of funding for emissions reductions projects.\(^3\)_Key issues include:

- In many cases, EU money has been spent on activities that contradict the EU’s declared aims, including investments that directly or indirectly supported the use of fossil fuels and/or destruction of biodiversity.
- EU money is allocated for so-called development, i.e. overwhelmingly physical investments. At the same time, there are often serious deficiencies in the operation and maintenance of important public services (education, public transport etc.). In the long term, the new investments will not be sufficient (even if they are implemented properly) without the efficient operation of important public services. Moreover, it does not make much sense to pour money into new physical developments while important sectors (education, public transport, etc.) are grossly underperforming.
- “Free” EU money in some cases resulted in investments that subsequently proved to be useless.
- Indicators measuring the effects of EU funding, including climate tracking methodology, are often inappropriate. Among others, the monitoring of greenhouse gas emissions from EU funded projects, and nationally funded projects, is practically non-existent.

One major reason why projects that hinder climate goals are often funded is the outdated structure of the application evaluation process. When it comes to investments that will obviously reduce carbon emissions, the decision on whether a project is eligible for EU support is usually made using a cost-benefit analysis (CBA).\(^3\)_The biggest problem is that when CBAs are carried out, the importance of the journey time reduction that a project can achieve is over-weighted. An over emphasis on journey-time reductions often fails to account for the fact that shorter trip times mean

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\(^3\) CEEWeb (2022). “The Current Funding System Of EU Funding To National Governments Must Change Profoundly”

\(^{31}\) CEEWeb (2022). “An EU budget to address the climate crisis”

individuals may take more trips, increasing carbon dioxide emissions unless emissions intensity is also reduced.

Another problem with journey time reduction as a criterion is that it can only be estimated with great error, and it is difficult to detect if an applicant exaggerates its extent in order to obtain funding. As it stands, projects with less ambitious CO$_2$ emissions reduction impacts often win over projects which may have more significant CO$_2$ emissions reduction impacts due to the over-weighting of the journey time-savings metric.

As the most important benefit of a project for us is the reduction of carbon dioxide emissions, it is clear we must redesign the project evaluation process in favour of decarbonisation over the CBA currently in use – especially with regards to the superficial journey time estimates. The main objective must be to reduce CO$_2$ emissions and include relevant associated projects which support investment viability and impact over time.