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The second and third pillars of the Just Transition Mechanism

Wind turbines near a highway in Poland. Photo: Shaiith, Getty Images via Canva

For more information

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Introduction

The Just Transition Mechanism is a regional development programme announced by the European Commission in January 2020. Its aim is to provide funding to countries and regions expected to be particularly negatively affected by the transition away from fossil fuels as part of the European Green Deal.[1] The Just Transition Mechanism consists of three separate pillars. The first is the Just Transition Fund, the second is the InvestEU Just Transition Scheme and the third is a new public sector loan facility operated by the European Investment Bank (EIB).[2]

This briefing takes stock of all three pillars, with a focus on the second and third, aiming to identify key differences between the pillars and their strengths and weaknesses. The first section of the briefing will outline the legal basis and institutional framework of the second and third pillars. It will provide information on the operators and key actors involved in managing the pillars and how they link to the management of the Just Transition Fund. The second section of the briefing will identify possible threats and issues related to the

[1] The European Commission, Financing the green transition: The European Green Deal Investment Plan and Just Transition Mechanism, *European Commission*, accessed 8 February 2023.

[2] The European Commission, The Just Transition Mechanism: making sure no one is left behind, *European Commission*, accessed 8 February 2023.

management of the two pillars. Special attention will be paid to two potential issues: the transparency of the management of the pillars and the degree to which relevant stakeholders are consulted in project selection, and the legal and political possibility for national governments to use the second and third pillars of the Just Transition Mechanism to fund projects that may run contrary to the EU's emissions reductions targets as set out in the European Climate Law, which aims for a 55 per cent reduction compared to 1990 levels by 2030 and net zero by 2050.[3]

The third and final section of the briefing will summarise key findings and provide policy recommendations.

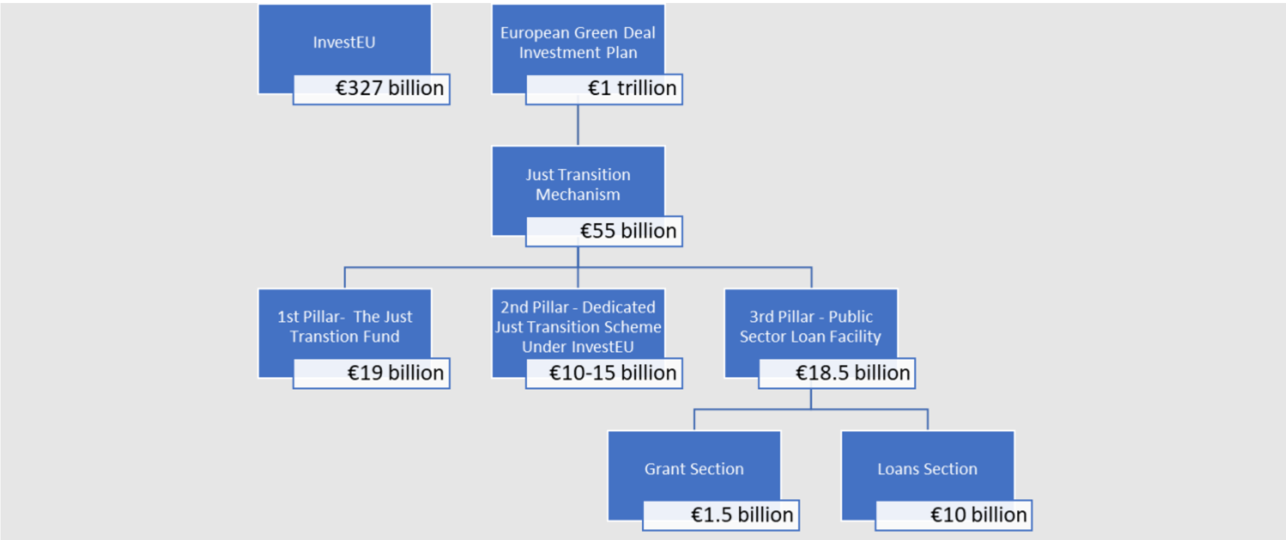

Figure 1: Overview of funding allocations across the pillars

Legal and institutional framework of the second and third pillars of the Just Transition Mechanism

The legal and institutional frameworks of the three pillars of the Just Transition Mechanism are separate from each other. Whereas the first pillar (the Just Transition Fund) finds its legal basis in the Just Transition Fund regulation, the two other pillars are grounded in other legal documents. This has several important implications for their functioning and governance. This briefing will discuss four of these implications in depth: (1) the main funding sources of projects supported under the different mechanisms; (2) the scope of support of each mechanism, i.e. the categories of projects that are eligible; (3) the geographical scope of support; and (4) the governance of the pillars.

Main funding sources

The second and third pillars of the Just Transition Mechanism are complementary to the first pillar. Project funding under the second and third pillars is contingent on the approval of Territorial Just Transition Plans in just transition regions.[4] Moreover, the governance of the second and third pillars is centred on the

[3] European Parliament and Council of the European Union, Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law'), *EUR-Lex,* 9 July 2021.

[4] EU Monitor, Explanatory Memorandum to COM(2020)22 - Just Transition Fund, *EU Monitor*, accessed 14 February 2023.

strategy and commitments set out in the Territorial Just Transition Plans.[5] Whereas the Just Transition Fund operates within the cohesion policy framework, meaning that it falls under the shared management of EU beneficiary Member States and the European Commission and supports projects with funds from the EU budget, the other two pillars draw from different funding sources. Specifically, the second pillar aims to stimulate increased private investments through providing preferential loans and other financial instruments, and the third pillar aims to encourage local and regional authorities to invest in large projects by providing grants from the EU budget and preferential loans through the EIB.[6]

The second pillar – the dedicated Just Transition scheme under InvestEU

The second pillar of the Just Transition Mechanism operates under InvestEU. InvestEU (formerly known as the European Fund for Strategic Investments) is an EU programme established in 2015. Its legal basis is the InvestEU regulation.[7] The InvestEU programme aims to support sustainable investment, innovation and job creation in Europe by triggering EUR 372 billion worth of investments over the 2021 to 2027 funding cycle. This is done by using an EU budgetary guarantee of EUR 26.2 billion to back the investments of implementing partners, including the EIB Group, national development banks and others.[8] InvestEU supports investments in four different ‘policy windows’: sustainable infrastructure; research, innovation and digitalisation; small and medium-sized enterprises; and social investment and skills.[9]

The objectives of the European Green Deal are closely linked with the objectives of InvestEU. At least 30 per cent of the InvestEU programme is earmarked for investments contributing to EU climate objectives and 60 per cent of the sustainable infrastructure policy window is earmarked for EU climate and environment objectives. Of the EUR 372 billion expected to be mobilised in total by InvestEU, about EUR 10 to 15 billion is expected to be mobilised through the second pillar of the Just Transition Mechanism.[10] These investments will be financial products proposed by InvestEU‘s implementing partners (mainly the EIB Group). The aim is to support economically viable investments made by public and private entities across all four policy windows. The InvestEU advisory hub aims to assist potential investors in developing a robust project pipeline by providing technical assistance and expert advice.[11]

The third pillar – the public sector loan facility leveraged by the EIB

Whereas the first pillar funds projects with resources from the EU budget and the second pillars uses resources from implementing partners guaranteed by an EU budget guarantee, the third pillar uses resources from both the EU budget and the EIB Group. More specifically, the third pillar of the Just Transition Mechanism is made up of EUR 1.5 billion in grants from the EU budget and EUR 10 billion in loans from the EIB Group.[12] The third pillar is a blending instrument, meaning that the loan and grant sections

[5] EU Monitor, Explanatory Memorandum to COM(2020)22 - Just Transition Fund.

[6] Ibid.

[7] European Parliament and Council of the European Union, Regulation (EU) 2021/523 of the European Parliament and of the Council of 24 March 2021 establishing the InvestEU Programme and amending Regulation (EU) 2015/1017, *EUR-Lex,* 26 March 2021.

[8] European Commission, About InvestEU, *European Commission*, accessed 14 February 2023.

[9] European Commission, What is the InvestEU Programme?, *European Commission*, accessed 14 February 2023.

[10] European Commission, The Just Transition Mechanism: making sure no one is left behind, *European Commission,* accessed 14 February 2023.

[11] The European Commission, Contribution to the Green Deal and the Just Transition Scheme, *The European Commission*, accessed 14 February 2023.

[12] European Commission, The Just Transition Mechanism: making sure no one is left behind.

must be used together. Projects looking to receive support under the third pillar must receive approval from both the European Commission and EIB. In practice, this blending means that the grant section covers 15 per cent of costs (25 per cent in designated less-developed regions), 50 per cent is covered by EIB loans and the rest is covered either by the investor or by other sources. No projects can be supported exclusively by grants or loans alone.[13]

Scope of support

The second pillar – the dedicated Just Transition Scheme under InvestEU

The three pillars of the Just Transition Mechanism differ not only in their sources of funding, but also in their scopes of support. The Just Transition Fund's main emphasis is on counteracting negative economic impacts of the green transition in carbon-intensive regions – like unemployment, brain drain and social issues – through economic diversification, reskilling workers and actively including workers and jobseekers. The second pillar will finance a broader range of projects, including renewable energy sources, energy efficiency schemes, energy and transport infrastructure, gas projects, district heating, decarbonisation, social infrastructure and economic diversification.[14]

The third pillar – the public sector loan facility leveraged by the EIB

The third pillar, like the second pillar, has a broader scope than the Just Transition Fund. Because the third pillar exclusively supports projects carried out by public authorities, it will primarily finance large infrastructure investments with insufficient revenue streams for commercial financing. Typical projects supported under the third pillar fall under categories like energy and transport, district heating, energy efficiency (including building renovation) and social infrastructure.[15] One important difference between the scopes of support of the second and third pillar is that fossil-fuel-related investments are excluded in the third pillar but permitted in the second.

What types of projects can be supported under each pillar?

Pillar 1: The Just Transition Fund	Pillar 2: The dedicated Just Transition Scheme under InvestEU	Pillar 3: The public sector loan facility
Economic diversification	Energy and transport infrastructure	Measures to facilitate the transformation to climate neutrality
Reskilling and inclusion of workers	Gas projects	Energy and transport infrastructure
Green transition and social inclusion	District heating	District heating
	Decarbonisation	Energy efficiency (including building renovation)

Figure 2: Overview of the scope of support for the three pillars

[13] Joanna Ryłko and Damien Delfosse, communication with the author, 8 March 2023.

[14] EU Monitor, Explanatory Memorandum to COM(2020)22 - Just Transition Fund.

[15] European Commission, The Just Transition Mechanism: making sure no one is left behind.

Geographical scope of support

The first pillar of the Just Transition Mechanism is based on territoriality. In practice, this means that projects can only be supported by the Just Transition Fund in selected territories that have been identified as particularly at risk of suffering negative consequences from the green transition. This is different from other comparative funding sources, which tend to provide funding anywhere in the EU or in the least developed parts of the EU.

The second and third pillars have a broader geographical scope than the first pillar but are still based on territoriality. Specifically, the second and third pillars can support investments outside regions with approved Territorial Just Transition Plans, but only in cases where the projects are key to the transition *within* the approved regions. Examples of this can be large energy or infrastructure projects that are outside the regions themselves but still contribute to reduced emissions or improved living conditions inside the designated just transition regions.[16]

Governance

The first pillar operates under shared management, while the second and third pillars operate under direct management. This means that the Just Transition Fund is jointly managed by the European Commission and beneficiary Member States, while the two other pillars are managed without the involvement of Member States.[17] One of the most important ramifications of this is that the first pillar operates in accordance with the legal provisions of the Common Provisions Regulation. Article 8 of the regulation clarifies that Member States shall organise comprehensive partnerships with relevant stakeholders (including civil society organisations) in the preparation, implementation and evaluation of programmes.[18]

The second pillar – the dedicated Just Transition scheme under InvestEU

The governance of the second pillar comprises three separate bodies: the investment committee, the steering committee and the advisory board.

The investment committee

The investment committee is an independent expert body that meets once a month. It is made up of experts from academia, the business sector and other relevant fields. Its main responsibility is to approve the use of the EU budget guarantee for projects proposed for funding by the implementing partners. The committee meets in four different configurations corresponding to the four policy windows (sustainable infrastructure, research, innovation and digitalisation, small and medium-sized enterprises and social investment and skills).[19]

[16] EU Monitor, Explanatory Memorandum to COM(2020)22 - Just Transition Fund.

[17] European Commission, Funding by Management Mode, *European Commission,* accessed 23 February 2023.

[18] European Parliament and Council of the European Union, Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy, *Eur-Lex*, accessed 23 February 2023.

[19] InvestEU, Investment Committee, *InvestEU,* accessed 14 February 2023.

The steering board

The steering board oversees the implementation of the InvestEU programme and determines overall strategic and operational guidance for the implementing partners. Its membership is made up of four representatives from the European Commission, three representatives from the EIB Group and one non-voting expert appointed by the European Parliament.[20]

The advisory board

The advisory board provides recommendations on the implementation of the InvestEU-programme to be considered by the steering board. It comprises one representative from each EU Member State, one representative from each implementing partner, one representative from the Committee of the Regions, one representative from the European Economic and Social Committee, one chair from the European Commission and one vice-chair from the EIB Group.[21]

The third pillar – the public sector loan facility leveraged by the EIB

The governance of the third pillar is further divided into two separate governance structures for the grant and loan sections of the pillar. The grant section, worth EUR 1.5 billion, is managed by the European Climate, Infrastructure and Environment Executive Agency (CINEA) on behalf of the European Commission. CINEA's management is responsible for making investment decisions for the grant section of the third pillar. The loan section of the pillar is managed by the EIB in accordance with regular EIB governance. This means that investment decisions concerning the loan section of the third pillar are made by the EIB's board of directors.[22] Because the third pillar is a blending instrument, meaning that no projects can receive funding from only one of the two sections of the third pillar, CINEA's and the EIB's governance will be very closely interlinked. The third pillar, like the second pillar, is directly managed, meaning there are no monitoring committees or any formal inclusion of stakeholders in the management of the pillar.

Table 1: Summary of the Just Transition Mechanism

	Main funding source	**Main scope of funding**	**Geographical scope**	**Governance**
Pillar 1 (the JTF)	Grants from the EU budget	Economic diversification Reskilling and inclusion of workers Green transition and social inclusion	Only projects in regions with approved Territorial Just Transition Plans are eligible for funding.	Shared management. Commission responsible for approving Territorial Just Transition Plans. Member States responsible for investment decisions for projects.

[20] InvestEU, Steering Board, *InvestEU,* accessed 14 February 2023.

[21] InvestEU, Advisory Board, *InvestEU,* accessed 14 February 2023.

[22] Hakan Lucius and Juan Manuel Sterlin Balenciaga, email to the author, 28 September 2022.

Pillar 2 (dedicated scheme under InvestEU)	Mainly private investments supported by financial products from implementing partners (EIB, European Bank for Regional Development (EBRD), national development banks etc.). Supported by a budgetary guarantee from the European Commission.	Energy and transport infrastructure Gas projects District heating Decarbonisation	Projects can be eligible anywhere in the EU provided they are key to the transition of regions with approved Territorial Just Transition Plans.	Direct management in accordance with InvestEU rules of procedure. Investment committee approves the use of EU guarantee. Investment decisions are made according to rules of procedure of the implementing partners.
Pillar 3: (public sector loan facility)	Grants from the EU budget and loans from the EIB.	Measures to facilitate the transition to climate neutrality Energy and transport infrastructure District heating Energy efficiency (including building renovation)	Projects can be eligible anywhere in the EU provided they are key to the transition of the regions with approved Territorial Just Transition Plans.	Direct management. Grant section managed and investment decisions made by CINEA. Loan section managed and investment decisions made by the EIB's board of directors.

Key issues – transparency and funding of problematic projects

Funding of problematic projects

Fossil fuel-related investments are explicitly excluded from the scope of support of the first and third pillars, but only partially from the second. Annex V of the InvestEU regulation states that investments related to the mining, extraction, processing, distribution, storage and combustion of solid fossil fuels, oil and gas shall not be supported under the InvestEU fund. However, the same paragraph also provides three exceptions to this rule:

- If there are no viable alternative energy sources;
- If the investment is related to pollution prevention and control;

- If projects are equipped with carbon capture and storage that lead to substantial reductions in greenhouse gas emissions.[23]

The harmful climate effects of fossil gas are well documented[24] and funding gas projects runs directly counter to the stated objective of the European Green Deal, which is to achieve carbon neutrality in the EU by 2050. Moreover, fossil gas has no role as a transitional fuel in the EU. It accelerates climate change and can have a worse environmental impact than coal when accounting for methane leaks. Funding gas projects risks locking gas into the EU energy mix for the next 40 to 50 years and wasting up to EUR 29 billion of EU taxpayers' money.[25] It is therefore highly worrisome that the second pillar of the Just Transition Mechanism can legally provide funding for investments in fossil projects, thereby potentially undermining the positive effects of other projects financed under the Just Transition Mechanism.

Transparency and partnership

The first pillar of the Just Transition Mechanism is established within the cohesion policy framework and administered under shared management and in accordance with rules set out in the Common Provisions Regulation.[26] This means that national operating authorities are legally required to organise comprehensive partnerships with relevant bodies representing civil society –such as environmental partners and non-governmental organisations – during the drafting of operational programmes and during their implementation and evaluation.[27]

This is different from the second and third pillars. The second pillar is managed directly according to rules set out in the InvestEU regulation, and the third pillar is split into two sections managed by CINEA and the EIB respectively. This means that there are no legal requirements to involve stakeholders in the process of selecting and evaluating projects. By not involving local stakeholders in the process, there is a risk of creating a blind spot that could negatively impact the quality and nature of the projects selected.

Summary and recommendations

This briefing has provided a detailed overview of the legal and institutional framework of the Just Transition Mechanism. The key takeaway is that the scope of the Just Transition Mechanism is much larger than only the Just Transition Fund. The second and third pillars expand the mechanism significantly in many ways. They extend the mechanism to new geographical and sectoral areas, introduce new stakeholders and decision-makers and increase the total available funding significantly. This gives the mechanism huge potential, but also increases its risk of failure.

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[23] European Parliament and Council of the European Union, Regulation (EU) 2021/523 of the European Parliament and of the Council of 24 March 2021 establishing the InvestEU Programme and amending Regulation (EU) 2015/1017.

[24] IISD, New Analysis—What IPCC energy pathways tell us about Paris-aligned policies and investments, *IISD,* 8 June 2022.

[25] WWF, 'Unholy alliance' of MEPs must not allow gas in Just Transition fund, *WWF*, 2 July 2020.

[26] EU Monitor, Explanatory Memorandum to COM(2020)22 - Just Transition Fund.

[27] European Parliament and Council of the European Union, Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fun d, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy, EUR-Lex, 30 June 2021.

The key issues regarding the second and third pillars identified in this briefing are primarily the provisions for supporting gas projects under the second pillar and the lack of provisions for involving local stakeholders in project selection, implementation and evaluation under the second and third pillars. The provisions for gas are problematic because there is a risk that EU funding could be used to finance projects that run contrary to the ambitions set out in the European Green Deal. The concerns regarding the involvement of stakeholders are especially salient as there is a risk that the limited involvement of local actors could cause a blind spot that would affect the quality, viability and necessity of selected projects.

Our recommendations are as follows:

- No gas projects should be approved for funding under the second pillar of the Just Transition Mechanism.
- The operators of the second and third pillars should work actively to avoid creating a blind spot in the regions where they approve project proposals by regularly engaging in meetings, seminars and information sessions with local stakeholders.
- Key information regarding the functioning of the second and third pillars of the mechanism should be collected in a single, easily available access point and translated into all relevant national languages.
- Aligning the second and third pillars with Territorial Just Transition Plans is necessary, but specific mechanisms should be created to ensure that this coupling works well in practice. The European Commission, CINEA and relevant implementing partners should arrange for presentations and discussion of pipeline projects seeking support under the second and third pillars in the Just Transition Fund's monitoring committees. Access to information and transparency about the investments and beneficiaries should also be strengthened.

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