BRIEFING | 23 NOVEMBER 2023

Social Climate Fund – unlocking the potential for a socially just transition

Photo: Andy Dean via Canva

For more information

Joanna Jakubowska
Just Transition Policy Officer
CEE Bankwatch Network
joanna.jakubowska@bankwatch.org

Introduction

The European Green Deal, approved in 2020, is a set of policy initiatives by the European Commission with the aim of achieving climate neutrality and leaving no one behind in this process. The Fit for 55 package is the legislative driving force that aims to revise climate and energy policies to support the objective of net zero greenhouse gas (GHG) emissions by 2050.

One of the key initiatives of the package is the expansion of the Emissions Trading System (ETS) to cover previously unregulated sectors, including building and transport. To mitigate potential adverse effects on vulnerable households and businesses, the package also introduces the new Social Climate Fund (SCF), which should serve as a compensatory mechanism.

Since 2020, the European Union has made visible progress in revising existing legislative files and introducing new ones that are crucial to the EU's climate goals. Yet, a fully successful decarbonisation cannot be achieved without a strong social dimension. If the societal consequences of the transition are not considered and proactively addressed, we risk perpetuating or even deepening pre-existing inequalities and excluding the most vulnerable members of society from the transition.

Learn more: bankwatch.org

This briefing aims to summarise the most important aspects of the regulation establishing the SCF. It will demonstrate how EU Member States can use it effectively to support the most vulnerable low-income groups and to mitigate any possible negative impacts of new climate policies. Lastly, it will look at potential synergies with the already existing funds, e.g. the Cohesion Fund and the Recovery and Resilience Facility.

What did the legislative process look like?

The European Union's energy-related GHG emissions are predominantly attributed to the building sector, contributing to 36 per cent of the total. In the past three decades, GHG emissions from road transport have shown significant growth and now account for approximately 25 per cent of total EU emissions.[1]

In the context of climate neutrality, the Commission decided to tackle the emissions coming from those two sectors by creating a separate Emissions Trading System (ETS 2) through the amendment of the EU ETS Directive adopted in 2018.

Emissions stemming from the road transport and building sectors will be subject to limits starting in 2026, which will gradually decrease over time to eventually achieve a 43 per cent GHG reduction by 2030 compared to the levels in 2005.[2] This will act as an incentive for both companies and consumers to shift towards low-carbon alternatives while generating extra funds to support this transition. Unlike with the EU ETS, there will be no free allocation of allowances, but rather they will be auctioned.

The discussion has remained heated ever since the Commission first unveiled the proposal to implement the new ETS. Both the EU and national policy makers, as well as some NGOs, have criticised it for its potential negative social impacts through increased living costs for low-income households.[3] French MEP Pascal Canfin warned in 2021 that the introduction of the ETS 2 would be 'politically suicidal' and could lead to social unrest similar to the Yellow Vests movement in France.[4]

The Commission acknowledged that 'the increase in the price of fossil fuels will have significant social and distributional impacts that may disproportionally affect vulnerable households, vulnerable micro-enterprises and vulnerable transport users'.[5] This is especially relevant in the context of the already existing high energy poverty across the EU. In 2022, over 41 million Europeans were unable to keep their homes adequately warm, which constitutes of almost 10 per cent of the total population of the EU.[6]

For this reason, the SCF was proposed to compensate for any possible adverse effects of the new ETS. The previous Executive Vice-President of the European Commission, Frans Timmermans, underlined that channelling carbon revenues back to citizens could help them switch to green alternatives such as zero-

[1] Energy Policy Group, The impact of the proposed EU ETS 2 and the Social Climate Fund on emissions and welfare, *Energy Policy Group,* December 2022; European Environment Agency, Transport and mobility, *European Environment Agency*, 25 October 2023.

[2] European Parliament, Revision of the EU emission trading system (ETS) in "A European Green Deal", *Legislative Train Schedule*, 20 October 2023.

[3] Euractiv events, What will be the cost of including transport and buildings in the EU ETS?, *Euractiv events*, 25 June 2021.

[4] Clara Bauer-Babef and Kira Taylor, Planned EU carbon market reform is 'politically suicidal', warns French MEP, *Euractiv,* 8 July 2021.

[5] European Commission, Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union: COM/2021/551 final, *EUR-lex*, 14 July 2021.

[6] European Parliament, Energy poverty in the EU, *European Parliament Think Tank*, 18 September 2023.

emission home heating systems or electric vehicles that will become cheaper to run over the years.[7] In the recent recommendations on energy poverty, the Commission underlined that the SCF is 'an opportunity for Member States to reflect not only the higher ambition of the Union's legal framework in terms of energy and climate objectives, but also to foster fairness and to provide a stable framework for reducing energy poverty'.[8]

The difficult 18-month-long negotiations resulted in the adoption of Regulation (EU) 2023/955, which officially established the SCF on 10 May 2023.[9]

Where do we currently stand with the Social Climate Fund?

The main objective of the SCF is to support the most vulnerable low-income groups and to mitigate any potential negative impacts of new climate policies. It aims to support households in energy poverty, micro-enterprises, and transport users in remote or rural areas without access to public transport.

The fund will be financed by the revenue generated from the auctioning of the allowances under the ETS 2. The total budget for the period 2026-2032 is up to EUR 65 billion (depending on the carbon price), with an additional 25 per cent co-financing by the Member States.[10]

As per the SCF regulation, each Member State is eligible to receive a specific allocation determined by a formula that considers several factors such as total population, population living in rural areas at risk of poverty, the percentage of households at risk of poverty with overdue utility bills, the gross national income (GNI) per capita measured by the purchasing power standard, overall GHG emissions, and carbon dioxide (CO_2) emissions from fuel combustion by households.

Based on this formula, the primary recipients of SCF funding will be Poland, receiving the largest share at 17.60 per cent, followed by France (11.19 per cent), Italy (10.81 per cent), Spain (10.52 per cent), and Romania (9.25 per cent). It's worth noting that, despite their smaller populations, other central and eastern European countries, including the Czech Republic (2.4 per cent), Hungary (4.33 per cent), and Slovakia (2.35 per cent) will also benefit significantly from this funding.[11]

To receive the funds, Member States should draft social climate plans and submit them to the Commission by 30 June 2025.[12] The plans should consist of a comprehensive set of measures and green investments in:

- the increased energy efficiency of buildings,
- the decarbonisation of the heating and cooling of buildings,

---

[7] Frédéric Simon, EU plans 'climate action social fund' to shield citizens from rising carbon prices, *Euractiv,* 10 June 2021.

[8] European Union, Commission Recommendation (EU) 2023/2407 on energy poverty, *Official Journal of the European Union*, 23 October 2023.

[9] European Union, Regulation (EU) 2023/955 establishing a Social Climate Fund and amending Regulation (EU) 2021/1060, *EUR-lex*, 10 May 2023.

[10] Ibidem.

[11] Eden et al., 'Putting the ETS 2 and Social Climate Fund to Work: Impacts, Considerations, and Opportunities for European Member States', *EUKI*, 2023.

[12] European Union, Regulation (EU) 2023/955 establishing a Social Climate Fund and amending Regulation (EU) 2021/1060.

- the inclusion of the integration of energy from renewable sources,
- granting improved access to zero- and low-emission mobility and transport.

To assist Member States in the preparation of their plans, the Commission is offering a dedicated call under the Technical Support Instrument. The aim is to enhance stakeholder engagement and consultation activities, identify vulnerable households, micro-enterprises, and transport users, identify specific measures and investments, and suggest effective arrangements for monitoring and implementing the proposed actions.[13]

The plans should be submitted after a 'public consultation with local and regional authorities, representatives from economic and social partners, civil society groups, youth organisations, and other stakeholders, as implemented in accordance with the national legal framework, for the preparation and, where available, implementation of the plan, covering the scope, type, and timing of consultation activities, as well as how the views of the stakeholders are reflected in the plan'.[14]

In the estimation of the plan's overall expenses, Member States may include the total costs of measures providing temporary direct income support to vulnerable households and vulnerable transport users that are also recipients of green investments. This support should be complementary, and it will be gradually reduced. Such temporary support cannot represent more than 37.5 per cent of the estimated total expenses of the plan.

Once or twice per year, Member States may be able to request a payment under the fund; the request should be accompanied by evidence of the relevant milestones and targets achieved. The fund should support activities that fully respect the climate and environmental standards of the European Union and the principle of 'do no significant harm'.

Member States should report to the Commission on the progress made on the implementation of the measures and investments under their social climate plans in the biennial reporting, combined with updates on their national energy and climate plans (NECPs).

How can national decision-makers use this fund effectively to unlock its full potential?

With the final approval of the SCF, national authorities should already be preparing and thinking ahead about how to utilise the Fund. Based on experience from the drafting and implementation process of already existing EU funding spending plans, CEE Bankwatch Network is offering a set of practical recommendations that should serve as a guide for national decision-makers on how to properly use the SCF to address societal inequalities and develop successful strategies for a transition that effectively tackles energy poverty and transport poverty.

---

[13] European Commission, Support to the Social Climate Fund and the revised EU Emissions Trading System, *European Commission*, 10 November 2023.

[14] European Union, Regulation (EU) 2023/955 establishing a Social Climate Fund and amending Regulation (EU) 2021/1060.

1. Open public consultation process

Public participation should be at the very centre of the drafting process of social climate plans to ensure meaningful engagement, inclusivity and transparency. Social partners such as civil society organisations (CSOs), youth organisations and other local stakeholders must be properly involved both in the design and in the implementation of the plans through social dialogues and open consultations. This will foster a sense of ownership and ensure that the Fund's initiatives align with the real needs and concerns of the people who will benefit from it.

Alongside formal consultations, we strongly recommend creating a dedicated working group with the participation of relevant stakeholders, including CSOs, to facilitate the drafting of the plan. When executed efficiently, this can have a great impact on the success of the consultation process. We also suggest conducting regional and local consultations and including public hearings as an integral part of the process. Feedback from diverse local stakeholders will be essential in ensuring that the Fund's potential is used effectively in tackling energy poverty. We recommend clear communication regarding the commenting process of social climate plans. Additionally, it should start early and last for several weeks so that stakeholders can prepare in advance and have enough time to add their contributions.

Based on Bankwatch's experience, decision-making within the EU too often takes place behind closed doors without any public scrutiny – even with the partnership principle, regulated by the European Code of Conduct on Partnership,[15] which currently applies solely to the Cohesion Policy. Despite the existence of these partnership provisions, there was still a failure to properly consult with civil society regarding cohesion policy funds during the preparation of partnership agreements and operational programmes[16] in the 2021-2027 programming period. This absence of transparency and inclusivity may result in greenwashing and in the inappropriate use of these funds in the long run.

In light of the forthcoming revision of the Code of Conduct on Partnership, we recommend extending the binding application of the partnership principle to cover all financial streams and EU policies, including the SCF.

An analysis conducted by Climate Action Network (CAN) Europe on the ongoing NECP updates also shows that during the round of revision, public participation ranged from poor to non-existent.[17] The draft NECPs were often not shared during the consultation, there was a short timeframe for providing comments, and several countries did not even organise any form of public consultation to specifically address the NECP update. Based on this flawed consultation process, we urge Member States to learn from it and enhance their transparency and collaboration with the general public. In the realm of energy and transportation poverty, civil society, local NGOs, think tanks, academics and other local stakeholders have the most valuable on-the-ground expertise and capabilities with regards to identifying and assisting the most marginalised members of society.

[15] European Commission, Commission Delegated Regulation (EU) No 240/2014 of 7 January 2014 on the European code of conduct on partnership in the framework of the European Structural and Investment Funds, *EUR-lex*, 14 March 2014.

[16] Francesca Canali, Public participation at stake in participatory processes in the EU, *CEE Bankwatch Network*, 16 December 2022.

[17] CAN Europe, Time to step up national climate action, *CAN Europe*, October 2023.

2. Synergies with already existing EU funding plans

Based on the recommendations from the plenary meeting of the European Community of Practice on Partnership, the complementarity of funds is crucial in ensuring trust, true dialogue and cooperation across stakeholders, ministries and levels of government.[18] Aligning the initiatives and schemes funded by the SCF with existing programmes will be essential, especially the ones deriving from EU funding spending plans, e.g. National Recovery and Resilience Plans (NRRPs) and cohesion programmes (including Territorial Just Transition Plans [TJTPs]). The measures enshrined in future social climate plans will have to be coherent with existing ones in order to promote synergy and coherence across different funding streams, maximising the impact of investments and ensuring the efficiency and consistency of EU policies both nationwide and at the local level. Furthermore, it is essential to establish clear and coherent linkages between the NECPs and the social climate plans. As NECPs are being updated now, this is an opportunity to delineate a specific role for the SCF in addressing investment needs, while social climate plans should align with the reforms and commitments outlined in the NECPs. In the context of energy poverty, the Commission has published a set of recommendations in which it has underlined that Member States should 'take advantage of the holistic framework established by the National Energy and Climate Plans to analyse and update the issue of energy poverty in their territory and to reflect on ways to address it. In doing so, Member States should take the first steps in the preparation of their social climate plans'.[19]

3. Prioritisation of the most vulnerable beneficiaries

Social climate plans should clearly delineate the primary beneficiaries of the Fund, giving priority to those most severely affected by the costs of the transition, especially in the context of the new EU ETS. This includes individuals and families facing unemployment, low-income households struggling with energy and transport poverty, people with disabilities, women, and those residing in remote areas. The plans should be tailored to address their challenges and ensure that the Fund's benefits reach those who need them most. In the context of energy transformation, there is a relationship between energy poverty and the regions still heavily dependent on fossil-fuel extraction, which are eligible for the Just Transition Fund. Households in these areas still use coal for home heating purposes. Therefore, heating expenses in these regions represent the most substantial portion of household energy costs, frequently pushing low-income households into energy poverty. That is why the SCF can be a great complementary component to the Just Transition Fund. With the support of the above-mentioned beneficiaries, it could have a significant impact on the reduction of energy poverty and on tackling socioeconomic disparities within the EU.

4. Focus on transformative measures

The Fund should concentrate on support for projects that can bring substantial and lasting socially just transformations. This includes initiatives such as deep house renovation projects, the expansion of renewable energy sources directly benefiting households (e.g. photovoltaic installations, heat pumps), the development of sustainable mobility solutions like cycling infrastructure and public transport, and other energy efficiency and sufficiency enhancements. There should be a clear exclusion of fossil fuel investments,

[18] European Community of Practice on Partnership, Second plenary meeting of the European Community of Practice on Partnership, Complementarity of funding, *European Community of Practice on Partnership*, accessed 13 November 2023.

[19] European Union, Commission Recommendation (EU) 2023/2407 on energy poverty, *Official Journal of the European Union*, 23 October 2023.

including fossil-fuel-based technology, e.g. hybrid vehicles and gas boilers, which would only tie users to an infrastructure that is financially unviable and detrimental to the climate and the environment. Bankwatch published a comprehensive list of selection criteria and project types that public authorities can use as guidelines when selecting projects leading to socially just transformation.[20]

5. Alignment with climate targets

The national authorities should ensure that all funded projects lead to the overall goal of achieving climate neutrality by 2050. The SCF should harmonise EU and national climate targets envisaged in their NECPs, given that they are ambitious enough and contain clear decarbonisation pathways. While the measures and investments under the SCF focus mainly on the social dimension of the transition, they should still be evaluated based on their potential to reduce carbon emissions and advance climate goals. The regulation underlines that 'the fund should also support measures and investments that fully respect climate and environmental standards and the priorities of the Union and comply with the principle of "do no significant harm"'.[21] We urge Member States to rigorously apply this rule, and we call on the Commission to strongly enforce it in order to prevent any potential environmentally harmful activities.

By doing so, the decision-makers can guarantee not only the Fund's effectiveness in alleviating energy poverty and other socioeconomic disparities, but also foster climate ambition on both the national and the EU level.

Supported by:

Federal Ministry for Economic Affairs and Climate Action

on the basis of a decision by the German Bundestag

European Climate Initiative EUKI

This project is part of the European Climate Initiative (EUKI) of the German Federal Ministry for Economic Affairs and Climate Action (BMWK).
The opinions put forward in this briefing are the sole responsibility of the author(s) and do not necessarily reflect the views of the Federal Ministry for Economic Affairs and Climate Action (BMWK).

Funded by the European Union. Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union or CINEA. Neither the European Union nor the granting authority can be held responsible for them.

[20] Miłosława Stępień and Pippa Gallop, Guidelines for selecting just transition projects, *CEE Bankwatch Network,* 10 October 2023.

[21] European Union, Regulation (EU) 2023/955 establishing a Social Climate Fund and amending Regulation (EU) 2021/1060.