

# SUPPORTING THE EXIT FROM THE CRISIS AND THE TRANSITION TO A CLIMATE-NEUTRAL ECONOMY

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**Abstract:** *The article has as a starting point the fact that Europe must face both the current unprecedented environmental and climate challenges and the recovery from the economic and social impact of the COVID-19 pandemic. These challenges require coherent policies, while also underlining the need to mobilize private financial and capital flows towards green investments. We maintain that the measures prove the ambitions of the European Union and the European countries, by establishing long-term objectives with concrete targets and by creating new financial instruments that reflect the scale of the challenge we face. At the same time, the goal is to lead to the achievement of a sustainable, healthy, strong and egalitarian economy, which requires taking into account all the measures that define the future of the European economy and society.*

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## 1. Introduction

In the current conditions, of the challenges caused by the coronavirus, it was necessary to support the EU member states for a long-term sustainable growth, as the Covid-19 pandemic has affected in a particularly serious way, Europe and the whole world – the health and protection systems social, economies, societies and the way we live. Supporting those affected by the crisis emerged as a common necessity, as well as investing in common European priorities as a primary orientation. The European Union needs action to create a better future for future generations.

Coherent support at the EU level, which ensures a faster pace of the double transition - green and digital, will boost the strengthening of resistance to shocks, competitiveness, as well as Europe's position as a world leader. Therefore, Europe must face both the current unprecedented environmental and climate challenges and the recovery from the economic and social impact of the COVID-19 pandemic.

These challenges call for the need to mobilize private financial and capital flows towards green investments. The measures taken prove the ambitions of the European Union and the European countries, by establishing long-term objectives with concrete targets and by creating new financial instruments that reflect the scale of the challenge we face.

The picture presented demonstrates the need for massive investment and funding, even if at this stage, definitive figures on investment needs cannot be presented. Efforts are being made to keep investments on the upward trajectory. The investment at EU level will be a common good for our future and thus attests to the real value that the countries belonging to the Union have.

At the same time, the aim is to lead to the achievement of a sustainable, healthy, strong and egalitarian economy, which requires taking into account all the measures that define the future of the European economy and society.

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## 2. The current situation

Given that the COVID-19 pandemic has drastically changed the context of international/European/national funding for climate change, it is a moment when in order to understand how to act correctly and concretely, it is necessary to have a clear and real picture of the situation in which we are positioned.

We need to look at the COVID-19 crisis and the climate crisis simultaneously. - the climate changes of recent years, which are of an unprecedented magnitude in the context of the entire history of mankind, and climate risks are now appearing more rapidly and becoming more and more accentuated.

We are in a critical decade for decisions, investments, and ways to substantially limit future damage, risk, and loss in the face of irreversible climate change, and to enable multiple options for adaptation, given the limited time frame in which we can act.

The current imperative in the recovery is to "build back better", placing the EU on a sustainable, inclusive and resilient growth path. The European Commission has collaborated intensively with the European Parliament and the European Council in order to finalize the Agreement on the future framework and the related sectoral programs.

In order to mobilize the necessary instruments, the European Commission proposed:

- the Next Generation EU (NGEU) - instrument, aimed at stimulating the EU budget through new financing collected from the financial markets in the period 2021-2024;
- the consolidation of the long-term budget of the European Union for the period 2021-2027.

NextGenerationEU, together with the long-term EU budget, formed the largest stimulus package funded in Europe, supporting Europe's reconstruction in the post-Covid-19 pandemic. (Table 1)

**Table 1**

### **Multiannual Financial Framework 2021-2027 and NextGenerationEU**

(billion euro\*)

<b>Areas</b>	<b>MFF</b> -billion euro-	<b>NextGenerationEU</b> -billion euro-
Single market, innovation and digital	149.5	11.5
Cohesion, resilience and values	426.7	776.5
Natural resources and environment	401	18.9
Migration and border management	25.7	
Security and defence	14.9	
Neighborhood and the world	110.6	
European public administration	82.5	
	<b>1 210.9</b>	<b>806.9</b>

Source: European Commission

Note: \*at 2022 prices

Although the crisis represented a threat at the global level, it can also be considered a unique opportunity to restructure economies at the pace and scale that the climate crisis requires, by integrating climate actions into the economic recovery due to COVID-19.

Climate finance will have a key role to play in supporting a better recovery and transformation towards low-carbon and climate-resilient growth.

Numerous intense discussions took place regarding the need for global actions in the field of development, promoting the need for balance between the three dimensions of sustainable development - economic, social and environmental. These have materialized in documents and programmatic strategies - the Sustainable Development Goals (SDGs) of the 2030 Agenda for

Sustainable Development, adopted by all United Nations Member States, respectively the Paris Agreement - action plan to limit global warming.

As the implementation of the Paris Agreement entered its first five-year cycle, the focus had to shift immediately to securing a major collective boost of climate finance to support strong and green recovery packages and increased ambition for determined contributions at national level (NDCs).

Regarding the European framework, it proposes an intersectoral vision that aims to move from a low-carbon economy to a higher stage, to achieve climate neutrality, which will allow the member states to identify and solve, in a unitary way and in a real time horizon of climate problems. The year 2050 is considered to be the year of reaching climate neutrality at the level of all EU member countries, being an example to be followed by the other States Parties to the Paris Agreement.

Given the complexity of the climate neutrality goal, it requires joint, not just individual, efforts. While the measures and actions included in the Strategy for adaptation to the consequences of climate change of the EU actively contribute to the achievement of the objective of climate neutrality, the member states are supported to continue the efforts to increase the adaptation capacity, limit vulnerabilities and ensure resilience in relation to the effects of climate change .

The 2021 year was a critical year – to maintain trust between developed and developing countries, to create a new consensus on the necessary action on climate change and the ambition to achieve carbon neutrality by mid-century. A significant increase in climate finance is needed in the coming years and will need to be mobilized from all sources.

The foundations are called for for a more robust climate finance architecture in the period leading up to 2025, when a new ambitious collective target must be set.

Mobilizing resources commensurate with needs will effectively require a sustained and coordinated effort for all financial flows, public and private, to be "consistent with a path to low greenhouse gas emissions and climate-resilient development," as is provided for in the Paris Agreement.

The greatest responsibility lies with developed countries to end their own fossil fuel subsidies worldwide, developing countries must also transform their development paths and create the right conditions for public and private finance to invest consistently in sustainable, inclusive, resilient and transformative infrastructure for socio-economic growth in line with the collective long-term goals of the Paris Agreement.

Every financial decision should take climate risk into account and the entire climate finance system needs to be scaled up urgently.

### **3. Climate neutrality financing - vision, plan and decision**

The collective objective must be to scale up finance in the coming period to accelerate the drive towards net zero carbon and climate resilient growth.

Investment at EU level will be a common good for our future. The financing of the objective of climate neutrality is achieved through several instruments both at European and national level.

Funds raised thanks to the Next Generation EU instrument, as well as the new EU budget, are channeled through EU programs, with a view to making every euro invested available for Europe to recover, to intensify the double transition, both the green and the digital, with the ultimate goal of combating climate change, building a fairer and more resilient society. (Table 2)

Table 2

### Breakdown of NextGenerationEU

(billion euro\*)

Recovery and Resilience Facility	723.8 to invest in reforms and projects	
	in loans 385.8	in grants 338.0
<b>REACT-EU</b>	50.6	
<b>Horizon Europe</b>	5.4	
<b>InvestEU Program</b>	6.1	
<b>European Regional Development Fund</b>	8.1	
<b>Just Transition Fund</b>	10.9	
<b>RescEU</b>	2	

Source: Eurostat data; Note: \*at 2022 prices

Recovery and Resilience Facility - use: investments and reforms, including for the green and digital transition until 31 December 2026; - mechanism: grants and loans through the implementation of the national energy and climate plans of the Member States, integrated with the objectives of the European Semester, including in terms of the green transition and the digital transition and the resilience of national economies; made available to all member states, especially the most affected countries. (Table 3)

Table 3

### Recovery and resilience mechanism - allocation of grants at EU level (billion euro\*)

Countries	Allocations of 70% of the available amount	Allocations of 30% of the available amount	Total
Belgium	3.6	2.3	5.9
Bulgaria	4.6	1.6	6.3
Czech Republic	3.5	3.5	7.1
Denmark	1.3	0.2	1.6
Germany	16.3	9.3	25.6
Estonia	0.8	0.2	1.0
Ireland	0.9	0.1	1.0
Greece	13.5	4.3	17.8
Spain	46.6	22.9	69.5
France	24.3	15.0	39.4
Croatia	4.6	1.7	6.3
Italy	47.9	21.0	68.9
Cyprus	0.8	0.2	1.0
Latvia	1.6	0.3	2.0
Lithuania	2.1	0.1	2.2
Luxembourg	0.1	0.0	0.1
Hungary	4.6	2.5	7.2
Malta	0.2	0.1	0.3
Netherlands	3.9	2.0	6.0
Austria	2.2	1.2	3.5
Poland	20.3	3.6	23.9
Portugal	9.8	4.1	13.9
<i>Romania</i>	<i>10.2</i>	<i>4.0</i>	<i>14.2</i>
Slovenia	1.3	0.5	1.8
Slovakia	4.6	1.7	6.3
Finland	1.7	0.4	2.1
Sweden	2.9	0.4	3.3
<b>EU 27</b>	<b>234.5</b>	<b>103.5</b>	<b>338.0</b>

Source: Eurostat data; Note: \*at 2022 prices

To support the transition to climate neutrality, additional financing is provided through the funds from the Next Generation instrument:

- The Just Transition Fund (JTF) (an important component of the European Green Deal) - to mitigate the socioeconomic impact of the transition in the most affected sectors based on fossil fuels/in the industrial processes with high GHG emissions, to ensure the support of a just transition, a low carbon, climate resilient and circular economies. An important aspect to mention is that the JTF is financed from the Multiannual Financial Framework, with an allocation period of 2021-2027.
- The financing offered through the consolidated InvestEU Program is added - the flagship investment program of the EU, made available to all member states; - use: investment in sustainable infrastructure, digitalisation, SMEs and mid-caps, social investment and skills development to help combat climate change. In addition, within InvestEU - the Strategic Investment Mechanism - a new instrument, made available to all member states; - use: to develop independent value chains such as: critical infrastructures - sustainable energy, green and digital technologies such as renewable and energy storage technologies, clean hydrogen, batteries, carbon capture and storage, etc.
- The European Battery Alliance will accelerate the work and the new Clean Hydrogen Strategy and Alliance will guide and drive the rapid development of clean hydrogen production and use in Europe. Proposals will also be made to stimulate the use of energy from offshore renewable sources and better integration of the energy system.
- Agricultural policy is financed through the European Agricultural Fund for Rural Development (EAFRD), which targets an allocation of 95.5 billion euros for the period 2021-2027; in order to support rural areas in carrying out those necessary structural changes, in accordance with the European Green Deal, as well as achieving the ambitious targets of the Biodiversity Strategy and the "Farm to Fork" Strategy.
- The European Regional Development Fund (ERDF) aims to strengthen economic, social and territorial cohesion at the EU level for the period 2021-2027; has for financing the key areas for achieving a smart economy.

In line with the objectives of the European Green Deal, new funding sources have been proposed through the Connecting Europe Facility - the role of supporting the decarbonisation of transport. It will ensure investment in modern, high-performance transport infrastructure to facilitate cross-border connections with an additional €1.5 billion, as well as in alternative fuels.

- The Modernisation Fund – EU Climate Fund targets energy efficiency projects; between 70% and 100% non-reimbursable financing can be attracted for energy sector modernization investments, starting in 2021.
- The Innovation Fund targets investments in innovative equipment and technologies that can generate significant emissions limitations.
- The LIFE Program - the EU's action against climate change, being the only program that deals exclusively with the environment and climate change. For the period 2021-2027, the program provides a budget of 3.5 billion euros for the environment and 1.9 billion euros for combating climate change.

All these funding sources, along with other initiatives:

- Horizon Europe Programme – the focus on the massive orientation of investments in clean technologies and value chains;
- The Neighbourhood, Development Cooperation and International Cooperation Instrument to better support our global partners;
- EU Humanitarian Aid Instrument for the most affected areas of the world aims to support the transition process towards a fair climate neutrality, including the social dimension of this aspect must be given priority, especially through the implementation of the European Pillar of Social Rights.

At the national level, the following programs are available:

**Table 4**

**The structure of Romania's PNRR**

<b>No. crt.</b>	<b>Pylons</b>	<b>Components</b>
<b>1.</b>	Green transition	Water management -Forests and biodiversity protection - Waste management - Sustainable transport - Renovations - Energy
<b>2.</b>	Digital transformation	Digital transformation
<b>3.</b>	Economic growth, smart, sustainable and inclusive	- Fiscal reform and pension system reform - Support for the private sector, research, development and innovation
<b>4.</b>	Social cohesion and territory	- The local fund - Tourism and culture
<b>5.</b>	Health, and resilience institutional	- Health - Social reforms - Good governance
<b>6.</b>	Policies for the new generation – education and skills	- Education

Source: Ministry of Investments and European Projects

- Just Transition Operational Program (JTOP) - funding national priorities aimed at just transition, ensuring special attention to sectors affected by climate transition; in accordance with the aspects included in the European Semester, The 2021-2030 Integrated National Energy and Climate Plan, Country Specific Recommendations, as well as regional/local development plans and strategies;

- The programs carried out by the Environment Fund Administration, which can contribute to the climate transition, among which we mention: the Rabla Program and the Rabla Plus Program, the Public Water Supply and Sewerage Act 2023- water supply networks, sewage networks, water treatment plants , water distribution networks; also, the Green House Program aims at the purchase of heating systems that use renewable energy; Green Public Lighting Program - the use of more energy efficient technologies; "The program regarding the installation of photovoltaic panel systems - financing is 90% of the total value of the system, the remaining 10% being covered by the beneficiary;

At the end of the investment period, European economies and societies will be better prepared for the challenges and opportunities of green transitions.



## 4. Conclusions

The climate crisis deepened even before the COVID-19 pandemic, so a simultaneous approach to the post-COVID-19 crisis and the climate crisis is required. The underlying causes of both crises overlap, and the ways to address them are also intrinsically linked.

The economic recovery from COVID-19 must “build back better” in a way that can address underlying systems and set a course for long-term transformation to a new form of growth and development that includes climate alignment, recognizing that the dangers posed by climate change are greater than those caused by the systemic shock of the COVID-19 pandemic.

Responses to the two crises must be coherent, coordinated and mutually reinforcing. Initially, the focus was on controlling the pandemic and ameliorating its social impact, then countries established recovery plans that could restart growth and boost employment, with the quality of recovery programs being crucial to the strength and sustainability of the economic recovery, but also for restoring savings to achieve climate and sustainable development objectives.

Improving synergies between different international agendas will promote greater effectiveness and impact in the use of limited financial resources.

Strategies aimed at multiplying benefits must be pursued. In the context of the Decade of Action, improved coordination in the implementation of the Paris Agreement is also needed.

There is only one way forward: to fully integrate climate-aligned structural change – particularly by accelerating the transition to low-carbon and climate-resilient infrastructure – with a strong post-COVID economic recovery. This will require a fundamental change in the entire financial system and a massive increase in funding.

A new climate economy needs to be built – different from that 20th century growth model based on fossil fuel dependence, the degradation of natural capital and ecosystem services. Thus, a large part of the European/global capital stock will have to be redeployed, forgoing investments in coal, for example, by channeling funding to urgent needs. A major investment boost is needed to meet the climate goals set out in the Paris Agreement – to accelerate the replacement of aging and polluting capital, and to adapt to the already evident effects of climate change.

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