

Financing EU climate action – reinforcing climate spending and mainstreaming in the next Multiannual Financial Framework (MFF)¹

EU climate finance, alongside Member State and private finance, plays a significant role **in achieving** the 2030 climate and energy targets and the long-term goals defined in the Paris Agreement. Besides a very robust and solid legal framework to implement these targets, a relative increase of climate-friendly investments in the public and private sector is urgently needed. It has been estimated that the yearly investments gap for achieving the EU's climate and energy targets is almost 180 bn. EUR between 2021-2030². It is clear that **an ambitious climate and energy policy requires a coherent funding structure**. Without prejudicing upcoming negotiations, the **next MFF** will have an **important role** to make the EU funding structures coherent with the EU mid- and long-term climate and energy targets.

Setting the right example: Public funding as role model

The allocation of public funding is important to set the right example in this regard and **transform public budgets into sources for green and future-oriented investments**. Therefore, the EU budget needs to address future challenges including catalysing the required greenhouse gas emission (GHG) reduction in our economies and societies.

The agreement of the EU to spend at least 20% of its total funding resources between 2014-2020 on climate action and to mainstream climate funding across all spending areas has been an important and necessary step in the right direction. It corresponds to a sum of **at least 180 bn. EUR** throughout the whole period of the current MFF.

While the target has driven integration of climate across the budget programmes, current analysis by the Commission and the European Court of Auditors (ECA) show that the climate spending target for the current MFF is very likely to be missed, with an average between 2014-2016 of 17,6%³ and a forecast for the whole MFF period of 18,9%⁴. The potential improvements in the implementation of the climate spending target need to be addressed to make sure that the next target will be achieved.

At the same time, it is clear that the transition to a low greenhouse gas emission economy and society will require suitable and appropriate EU funding instruments in the next funding period. Thereupon, necessary climate-related investments can be put in place for a timely transition.

It is also important that the EU contributes to the objective of mobilizing \$100bn per year of public and private climate finance to developing countries from 2020.

Points to be taken into account for the next MFF

In order to make climate spending and mainstreaming more effective we therefore urge the Commission to reflect these findings in their proposal for the next MFF, and to:

¹ The statement of the Green Growth Group is without prejudice to the powers of the budget authority.

² <https://publications.europa.eu/en/publication-detail/-/publication/1df19257-ae9-11e7-837e-01aa75ed71a1>

³ <https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=39853>

⁴ http://ec.europa.eu/budget/biblio/documents/2018/2018_en.cfm#draft_budget01

- **Maintain the commitment to climate spending: continue with a climate quota of at least 20% of the EU's total funding resources and to allow for inter alia** the necessary reinforcing of investments in climate research and innovation as well as in projects in the field of sustainable infrastructure (e.g. in energy, buildings and transport), also in agriculture, regional development and cohesion funds to drive the transition towards a low greenhouse gas emission economy. LIFE with its unique character of funding exclusively climate action and environmental projects should be maintained and improved in the next MFF.
- **Focus on results:** To create a higher degree of transparency around EU funding, it would be desirable to verify the impact of relevant projects and investments, including those under the climate spending target, through respective **monitoring and/or reporting**. For this purpose, the National Energy and Climate Plans (NECPs) could provide a framework to help define and target climate-related investments more effectively.

One indicator to verify the impact of investments and projects in terms of climate is the amount by which they reduced GHG emissions and the associated cost-effectiveness of these reductions. The key in this context is monitoring the impact of large-scale projects on the climate in the EU budget in general, for instance in the field of infrastructure. The results indicators for climate impacts will differ between types of activities and GHG emissions might not be the only appropriate indicators for more long-term or knowledge-centred activities.

- **Avoid detrimental impacts of EU funding:** It is important to make sure that the part of the EU funding (currently 80%) which is not labelled as climate-related does not have detrimental impacts on the ability of the EU to reach its medium- and long-term climate targets or deliver in line with the Paris Agreement. New investments should be compatible with a transition to the required GHG emission reduction in our economy in order to avoid stranded assets in the long term. In this context, it is also important to emphasize that subsidies that are not in line with the Paris Agreement, such as for carbon-intensive projects, should be phased out as quickly as possible and have no place in the EU budget. EU development funding should be consistent with our long-term goals as defined by the Paris Agreement.
- **Improve transparency by reporting:** The Commission should, in a separate report on the implementation of climate action, give information on the implementation of the climate quota, the results of overall spending, and how the EU budget supports our medium-and long-term climate and energy targets and the goals of the Paris agreement. Additionally, the reporting on private climate financing mobilized by public intervention should be enhanced.
- **Improve the EU climate marker-methodology:** The climate markers are a suitable methodology to apply to the climate spending target in the EU budget with little administrative effort. In order to improve the effect of the Markers the following measures – which are also partly mentioned in the ECOFIN Conclusions of March 2017 – should be implemented in the next MFF:

- Where possible and practicable, differentiate between mitigation and adaptation measures, while recognising that some measures are for both mitigation and adaptation.
- Enhance coherence and consistency across spending programmes through aligning the number of areas of intervention more closely and standardise the application of the markers across the whole budget.
- Limit the possibility of over- and underestimation by applying the conservativeness principle⁵ systematically.

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⁵ The conservativeness principle developed by the World Bank for tracking climate finance shall prevent overestimation of climate action expenditure. Uncertainties will be removed through the application of the conservativeness principle that implies that the lower amount of climate contribution should be taken into account if no data is available.

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The above listed Ministers are part of the Green Growth Group. The Green Growth Group consists of 16 EU Member States plus Norway that have been collaborating over the last four years to make EU climate policy more ambitious and sustainable.