

NGO Briefing Paper

Climate Finance in the Multiannual Financial Framework

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The MFF and the Copenhagen climate finance commitment

The proposals for the EU Multiannual Financial Framework (MFF) for 2014-2020 (i.e. the EU's Budget) foresee a significant increase in Heading 4 – the global dimension - as well as the European Development Fund. This proposal must be maintained. The EU can and should play a key role in delivering on its international commitments including those of poverty eradication and climate change. Development with poverty eradication, human rights and environmental sustainability at its heart is an investment in the future.

As discussions on the Multiannual Financial Framework intensify in the coming months, the EU's commitment to deliver its fair share of international climate finance will be in the spotlight in the international climate negotiations. Fast-Start climate funds will end at the start of 2013, and there is currently no clarity on how developed countries will meet their obligations to deliver new and additional climate finance to developing countries, including how they will start scaling up climate finance to meet the Copenhagen commitment to reach USD 100 billion (EUR 73.43 billion based on 2009 prices) per year by 2020.

The timeframe of the MFF matches exactly the period in which funds for climate action should be ramped up, so it provides a critical opportunity for the EU to start meeting the challenge of delivering climate finance comprehensively and transparently. Debates on climate finance continue in the international arena. The EU could help move forward the negotiations by improving standards for the delivery and reporting of climate finance in its own budget, and thereby set the example for other developed countries.

Three areas of climate finance where the MFF can make a difference

The following three elements need to be addressed in upcoming regulations of the MFF:

1. Contributing to the EU's fair share of the international commitment to deliver new and additional climate finance, particularly for adaptation and including through the Green Climate Fund

Climate finance will have to increase over the coming years, and that will also have to be reflected in provisions for climate finance in the EU budget. The EU's fair share of the annual USD 100 billion commitment in climate finance by 2020 is estimated to be around one third¹. This would require that total EU climate finance would reach EUR 24.23 billion per year in 2020 (2009 prices). Since climate finance is to be new and additional, this would have to come on top of finance which was already committed to mitigation and adaptation actions before the commitment was made. The EC had proposed the 2007-2009 average (3.9bn Euros) as a possible baseline. If the EU's central funds would contribute, in 2020, the same

¹ The European Commission Staff Working Paper on Long Term Climate Finance (2011) proposes a method to agree shares of the overall climate finance commitment weighted between GDP and Greenhouse Gas emissions. We have used here the weighting where GDP and GHG emissions are equally important (50/50), which results in EU responsibility of 33% of the overall climate finance commitment http://ec.europa.eu/economy_finance/articles/financial_operations/pdf/sec_2011_487_final_en.pdf

share of climate finance that they contributed over 2007-2009², then EU institutions should in principle increase their current contribution to climate finance to around **4.5 billion Euros annually by 2020**, or **23.35 billion Euros over the 2014-2020 period** (see annex 2).

It is clear that scaling up climate finance of the EU institutions from on average of around 600 million in 2007-2009 to 4.5 bn Euros a year by 2020 would entail the actual displacement of existing aid if overall aid levels are not dramatically increased. In the immediate future, difficult economic circumstances and stagnating aid levels warrant against a rapid increase of climate finance **if no extra measures are taken to increase ODA and new and innovative sources are mobilised**.

It is crucial therefore that in the current EU budget negotiations, Heading 4 (Global Europe) is substantially increased to help meet aid and climate finance obligations. EU Member States have a stake in this, as the EU budget helps them meet their own targets as well. Furthermore, to help boost the aid and climate budgets, the EU and its member states should step up its investment in the mobilisation of innovative sources of finance, such as using revenues from a Financial Transaction Tax for development and climate, guaranteeing the use of revenue from EU ETS allowance auctioning to support climate action domestically and abroad, and agree on ways to raise climate finance from applying a carbon price on global shipping emissions directly to the Green Climate Fund.

Finally, a substantial share of the EU climate finance budgets should be transferred to the Green Climate Fund, and adaptation should be prioritised to ensure that those on the frontline of climate change receive the support they need.

2. Apply, as a minimum interim measure, an objective definition of additionality of climate finance in the MFF in line with the Commissions' proposal

At an operational level, all development spending should be climate proofed, and specific climate and development activities should be integrated as far as possible to increase effectiveness. However, at the level of accounting, the Copenhagen climate finance commitment should be additional to the commitment to deliver 0.7% of GNI as aid to ensure that climate finance does not compromise existing aid for example for health or education. Developed countries should not double count the same funding: towards the pledge to deliver 0.7% of GNI as aid by 2015 as well as towards the commitments they have at the UNFCCC to deliver **new and additional** climate finance. Annex 1 illustrates that for climate finance to be truly additional to the 0.7% commitment, overall ODA levels should be substantially higher than currently is the case. If ODA levels up to 2015 as projected by the EUs development ministers³ are correct, this means there will be a shortfall of over 17 bn Euros in 2012, increasing to 50bn Euros, or close to half of current ODA projections for 2015.

However, there are currently several definitions of 'additionality' of climate finance. This is muddling the debate, hinders joint reporting and does not build the trust needed to move the international climate negotiations forward. At the same time, developed countries, including many in the EU, are freezing or even reducing their existing aid budgets. A recent report (July 2012) on 'Climate finance additionality and the Development Cooperation Instrument', prepared for the European Parliament⁴, highlights that due to current budgetary constraints an interim approach to additionality may be needed (e.g. until 2015 or 2020). The European Commission itself has proposed a definition of additionality against a baseline of 'net ODA spending' (total ODA less climate related ODA) in 2007-2009, the years preceding the Copenhagen commitment to deliver USD 100 billion in additional climate finance⁵. While this definition does not take into

² From own calculations based on OECD-DAC data, on average around 16% of overall EU climate finance was channelled through the EU institutions between 2007 and 2009. If overall EU climate finance as reported in the EU Monterrey Accountability report (2012) was 3.9bn for 2007-2009, this means that the EU institutions share was around 624 million Euros on average. Note that these figures are not exact, and only give an indication of magnitude.

³ The European Development Ministers Council Conclusions, May 2012 - http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/EN/foraff/130239.pdf

⁴ EP briefing: Climate change Financing: the concept of additionality, July 2012 <http://www.europarl.europa.eu/committees/en/studiesdownload.html?languageDocument=EN&file=75399>

⁵ Applying a climate finance additionality criteria linked to the 0.7% aid commitment on climate finance in EU central funds (i.e. funding going through EU institutions) is not easy, because ODA commitments apply at a national level and to the EU as a whole, not to EU institutions - the central EU funds

account that ODA levels need to grow much faster than currently is the case to meet the 0.7% commitment, it is currently one of the better definitions put forward by an official institution. *At a very minimum, the EU budget should apply this definition on an interim basis to assess what portion of climate finance within the EU budget can be considered as additional*⁶.

3. Setting standards for EU member states and other developed countries in reporting transparently on climate finance to taxpayers, recipients and the UNFCCC

A recent report on the state of climate finance reporting in the EU⁷ highlighted the lack of common reporting guidelines in the EU. This situation leads all Member States to follow their own reporting methods, each with their own methodologies to assess and measure climate finance and level of detail.

The MFF provides a clear opportunity to set the standard for a common reporting format for the European Union as a whole, using a format and approach that can also be applied in all EU member states. A new regulation, the Mechanism for Monitoring and Reporting (MMR), which will include guidelines for reporting on climate finance, has entered negotiations between the European Council, European Parliament, and the European Commission. It is important that the negotiations on the MFF help lead to greater ambition and standards in the MMR (which will be applicable to all EU member states).

The EU budget should include the following guidelines for monitoring and reporting:

- Using the *interim* definition outlined above to assess as the additionality of climate finance. Net ODA (ODA minus climate finance) and climate finance (above the baseline of 2007-2009) should be reported in two separate columns to ensure net ODA increases over the years. Detailing the use of OECD Rio markers, including how policy markers are translated into quantifying climate finance.
- Specifying distribution of finance provided between adaptation, mitigation and REDD+ activities.
- Providing detailed information on geographical allocation, sectoral funding and alignment with national plans.
- Detailing sources and recipient institutions as well as the channels used.
- Making all climate finance information accessible to third parties as soon as it is available.
- Clarifying whether loans or grants were used, and specifying the grant equivalent of loans used, counting only those against the USD 100bn promise.

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help meet the ODA commitments of Member States. How much climate finance should come from EU central funds has to be derived from a combination of historic climate finance data as well as what part of overall EU climate finance is generally channeled through the EU budget and EDF

⁶ EC 2011 Accountability Report 2011 on Financing for Development, see: http://ec.europa.eu/europeaid/how/accountability/eu-annual-accountability-reports/documents/working-document-vol1_en.pdf

⁷ Monitoring, Reporting and Verifying systems for climate finance in EU and its Member States, Nov 2011. http://ec.europa.eu/clima/policies/finance/international/transparency/docs/mrv_cc_finance_master_en.pdf

ANNEX 1: What additional climate finance really looks like

	2010		2011		2012		2013		2014		2015		2016 (1)	2017	2018	2019	2020
	Billion €	% of GNI	Billion €	% of GNI	Billion €	% of GNI	Billion €	% of GNI	Billion €	% of GNI	Billion €	% of GNI	Billion €				
Commitments:																	
ODA and Climate Finance																	
EU 27 aid budgets in line with 0.7% GNI commitment (2)	53.46	0	53.12	0.42	<u>63.06</u>	<u>0.49</u>	<u>74.32</u>	<u>0.56</u>	<u>86.56</u>	<u>0.63</u>	<u>96.98</u>	<u>0.69</u>	<u>96.98</u>	<u>96.98</u>	<u>96.98</u>	<u>96.98</u>	<u>96.98</u>
Climate finance commitment (3)					<u>8.72</u>		<u>11.14</u>		<u>13.57</u>		<u>16.00</u>		<u>18.42</u>	<u>20.85</u>	<u>23.28</u>	<u>25.70</u>	<u>28.13</u>
Total ODA commitments plus climate Finance					71.77		85.46		100.13		112.98		115.41	117.83	120.26	122.69	125.11
Actual ODA projections (4)																	
EU 27 EUR million	53.46	0.44	53.12	0.42	54.05	0.42	58.39	0.44	60.45	0.44	63.25	0.45					
Shortfall (5)					-17.72		-27.07		-39.67		-49.73						

(1) Beyond 2015 no commitments have been made on the scale of ODA- for the sake of this exercise we are assuming ODA levels remain the same, in nominal terms , as in 2015

(2) Projections of how ODA should look like (in *ITALIC & UNDERLINED*) if the commitment to deliver 0.7% as aid would be met are taken from the European Development Ministers Council Conclusions, May 2012 - http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/EN/foraff/130239.pdf

(3) Climate finance scaling-up (in *ITALIC & UNDERLINED*) is calculated on a linear scale from 2012 to reach the EU's fair share of 24.2bn Euros per year in 2020 plus climate finance already existing in 07-09 (1.3bn)

(4) Actual ODA projections are taken from the European Development Ministers Council Conclusions, May 2012 - http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/EN/foraff/130239.pdf

(5) Only the shortfall could be calculated for 2012 - 2015, where projected ODA figures are available

Annex 2: Projected trajectory of scaling up EU's climate finance, and the EU's institutions share

	Notes	European climate finance : FSF plus non-FSF			Minimum of climate finance going through EU institutions
		FSF	non FSF	Total	16% (in 2007-2009)
average 2007-2009	(1)				
2010	(2)	2.34	3.90	5.16	
2011	(3)	2.33	3.96	6.29	
2012	(4)			8.72	
2013				11.14	
2014				13.57	2.17
2015				16.00	2.56
2016				18.42	2.95
2017				20.85	3.34
2018				23.28	3.72
2019			25.70	4.11	
2020			28.13	4.50	

MFF + EDF
 2014-2020 =
 EUR 23.35bn

1) Numbers taken from EU Monterrey Accountability report 2012

(http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/documents/swp-199-main-report.pdf)

2) From the EU Monterrey Accountability report: "The average EU total ODA for the period 2007 to 2009 in constant 2008 prices is EUR 48.6 billion and the corresponding amount for mitigation-related ODA is EUR 2.5 billion. For the purpose of this illustrative exercise it is assumed that the average total adaptation-related ODA for the period corresponded to the same share – 35% - of total climate-related as the share of adaptation reported for fast-start finance. This would give an estimate of adaptation-related ODA of around EUR 1.4 billion and total climate-related ODA of some EUR 3.9 billion."

3) Non FSF numbers for 2011 (in *Italic*) are estimations only, made in the EU's Monterrey accountability report.

4) Numbers for 2012 FSF and non FSF are not known yet. The numbers used in this table are not an estimation of the likely climate finance figures, but what these should be to be in line with the 100bn USD Copenhagen commitment

Further explanation on EU's total expected contributions in 2020 and scaling up

Description		Euros
2020 Copenhagen goal = EU fair share of 100bn	(1)	24.23
Average climate finance pre-Copenhagen commitment	(2)	3.90
2011 estimated overall climate finance	(3)	6.29
2020 climate finance target = (1)+(2)	(4)	28.13
Difference 2020 target = (4)-(3)		21.84
Increase needed per year (over 9 years)		2.43