



# An EU budget that supports ambitious climate action around the world

Briefing Paper & Policy Recommendations

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**The forthcoming EU budget post-2020 must serve higher climate ambition and be a purposeful tool to help deliver the EU's objectives as an international partner to third countries, in particular developing countries.**

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## Introduction

The EU's long-term budget, the so called Multiannual Financial Framework (MFF), currently defines the spending priorities of the EU for a multi-year period. The next MFF can deliver multiple and transformative benefits for the EU, its people and its partners. The EU has asserted its leadership in providing international development assistance and climate finance to third countries, highlighting international development cooperation as a core pillar of its role as a global partner. While cooperation goes beyond financing – for example, to partnerships, capacity and enabling environments – the post-2020 MFF will be an instrumental tool to help the EU's partner countries realise the goals set out in Agenda 2030 and the objectives of the Paris Agreement.

Financial support and investments made by the EU now will vastly influence the shape of the European and worldwide economy in 2030 and beyond. Many of the EU's partner countries have extensive and untapped potential to pursue zero-carbon development pathways that can foster both decent job creation and more innovative and longer term economic gains. Renewable energy, including decentralised and small-scale projects and energy efficiency measures are just some examples of the sectors that can bring about multiple benefits across communities.

The necessity to invest in protection and resilience in the EU's partner countries against the impacts of climate change will become increasingly important in the coming years, as we see the increasingly damaging effects of climate change around the world. In addition, these investments will help minimise the risk of climate impacts in third countries spilling into the EU. Preventive action is an essential element of a new Europe that protects people and safeguards economic stability and prosperity, both within and beyond EU external borders.

This briefing **provides a number of overarching recommendations on how the EU's external financing can be a purposeful tool to help deliver the EU's objectives as an international partner to third countries**, in particular developing countries which face the most destructive impacts of climate change.

## Instruments and regions where the EU provides public support and financial instruments

Currently, the EU has a number of funds and financial instruments that seek to support external action of the EU, towards a wide range of international and country-driven objectives. This pillar of EU funding is under Heading Four of the MFF, 'Global Europe'.

The European Development Fund (EDF) is also regarded as an External Financial Instrument (EFI) though it is not funded by the MFF. For the purpose of this paper, we apply the same principles and recommendations to the EDF.

The EFIs covered in the current MFF are:

- [Development Cooperation Instrument \(DCI\)](#) which has the primary objective of poverty reduction, in line with the Treaty of Lisbon and the EU's Agenda for Change of EU development policy.
- [European Instrument for Democracy and Human Rights \(EIDHR\)](#) which focuses specifically on projects that promote human rights and democracy – including civil society groups – in countries outside the EU.
- [European Neighbourhood and Partnership Instrument \(ENPI\)](#) which addresses EU relations with neighbouring countries outside the EU, including Eastern European and Mediterranean countries, targeting various sectors such as trade, energy and transport.
- [Greenland Decision](#) is a funding instrument specifically supporting Greenland's public sector and services – particularly in the education sector – following its withdrawal from the EU in 1982.
- [Instrument contributing to Stability and Peace \(IcSP\)](#) which was established at the beginning of the current MFF sets out to promote security and peace-building in EU partner countries. It addresses immediate and short-term crises as well as longer term threats.
- [Instrument for Nuclear Safety Co-operation](#) which supports safety, protection and regulation in relation to the use of nuclear. Though the instrument applies to all of the EU's partner countries, there is specific focus on neighbouring countries.
- [Instrument for Pre-accession Assistance \(IPA\)](#) which targets efforts towards so-called enlargement countries that are seeking accession to the EU. The support focuses on building capacity and policy reform in countries that are seeking membership in the EU.<sup>1</sup>
- [Overseas Countries and Territories Decision](#) focuses on working with territories that have close political and historical ties with EU Member States.<sup>2</sup> The programme addresses OCT's competitiveness, trade, economic and social development as well as environmental protection.
- [Partnership Instrument for cooperation with third countries \(PI\)](#) was also introduced in the current budget and it covers the EU's interests and diplomacy efforts with third countries, particularly in the areas of research and innovation, energy, climate change and security.

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<sup>1</sup> Countries in the IPA instrument are: Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Kosovo, Montenegro, Serbia, and Turkey.

<sup>2</sup> The OCTs comprise 25 islands which are spread around the Atlantic, Antarctic, Arctic, Indian and Pacific Oceans and the Caribbean.

In addition, the EU has in place the Common Implementing Regulation (CIR) which lays down the rules applied to most of the EFIs in order to better harmonise them with the rules and guidelines of the EDF. From the above list of instruments the CIR oversees the DCI, EIDHR, ENI, IcSP, IPA-II and the PI.

The EU has also established or supported a number of flagship initiatives which seek to address climate action needs in developing countries; for example, the Global Climate Change Alliance, the Global Energy Efficiency and Renewable Energy Fund (GEEREF), the Africa-EU Renewable Energy Cooperation Programme (RECP), the ACP-EU Energy Facility and more recently, the Electrification Financing initiative (ElectriFI) and the Africa Renewable Energy Initiative (AREI). It is also important to note that some of the above-mentioned EFIs are used to ensure the functioning of the EU Blending Facilities, in which EU grants are mainly combined with loans of financial institutions.

### Concerns regarding the EU's current international financing

Many of the EU's current initiatives have demonstrated the importance of scaling up support for climate change and sustainable energy solutions. However, a number of shortfalls continue to persist in relation to the EU's international development and climate support.

- **The gap between what is provided and mobilised and what is needed** remains very wide, particularly in light of the EU's commitments made under the Paris Agreement and Agenda 2030. We appreciate that the current 20% climate spending target of the EU set the bar for increasing overall support to climate action in the EU's budget and elevated the issue of both inside and outside the EU. However, we underline that under the current MFF, development funding has not been specifically channelled to climate, environment and energy sectors if the recipient country did not request it during the national programming. In the post-Paris world, this can no longer be the status quo of cooperation and support. The EU can have an exemplary role in ensuring that development funding addresses climate change commitments and needs to fully mainstream climate action into development funding.
- **We also note with concern the methodological problems in counting climate financing** support which potentially undermines the political commitment to earmark 20% of EU funding for climate related actions. The European Commission has made some progress by adopting a coherent methodology for EU-level monitoring, tracking and reporting climate finance across EU external action programmes. However, inconsistencies remain in the approaches used by individual EU Member State donors, which are often self-determined. A harmonized approach is needed to avoid cases where **the genuine climate-relevance of reported projects may be non-existent or grossly over-estimated**. This is of particular relevance with regard to jointly funded projects where European Commission and Member State funding is used.
- **Monitoring of actual spending on the ground remains problematic**, as some host countries are marred with corruption and other malpractice across the project implementation cycle. Further safeguards need to be introduced to improve accountability and spending efficiency in the new MFF.

- **Gaps in adaptation spending** still remain a major barrier to protecting the most vulnerable people and areas from climate impacts. This is even more worrying as many of the regions supported through EU development cooperation are already facing the adverse impacts of climate change which has been identified as a root cause of poverty, displacement, and massive economic losses. The devastation left by an unusually active and severe hurricane season is a blatant example of the vulnerability of many countries with which the EU cooperates. In an increasingly interconnected world, climate change impacts will not be felt in isolation, and will have ramifications for economies all over the world.
- **Increased reliance on leveraged private finance and blending facilities brings about a number of risks to future European development cooperation.** In particular, there is poor evidence on impacts from the type of investments using blending, including data on financial, development and value additionality, as well as poor monitoring and evaluation<sup>3</sup> for current blending facilities. Blending mechanisms reduce the likelihood of delivering essential and life-changing services and meeting the needs of people in climate vulnerable and least developed countries, while reducing net benefits for overall sustainable development.
- Despite being a treaty obligation, **policy coherence for sustainable development is not followed through effectively**, and policies and actions in Europe continue to undermine the achievement of sustainable development in partner countries and efforts to combat climate change. For example, the EU budget is still used to finance operations detrimental to the achievement of the Paris Agreement, especially in the fossil fuel sectors.
- The **external dimension of the EU's Energy Union emphasizes European 'energy security' concerns over partner countries' sustainable development** issues which the EU could address in its external relations. Pursuing internal energy security goals sometimes goes as far as to undermine other EU's own priorities and funding, such as promotion of human rights and democracy.

### Overarching principles and recommendations

Going forward, **we lay out some key recommendations for how the EU's post-2020 external financing can improve its support for higher climate ambition, increased resilience and safety of its partner countries.**

#### Increasing the EU's climate spending target and climate proofing all external financing in line with the Paris Agreement

While significant progress has been noted in the area of climate change and environment mainstreaming, more remains to be done to systematically and effectively integrate these themes across all sectors of EU co-operation, particularly in light of the Paris Agreement.

Building on the current 20% climate relevant financing, we believe that an increase in targeted funding is necessary to speed up European and international climate action, decarbonisation and climate resilience. The UN's most recent Emission Gap Report clearly states that if the emissions gap is not closed by 2030, it is extremely unlikely that the goal of holding global warming to well below 2°C can still be reached, while limiting temperature rise to 1.5°C will be impossible. Exceeding these global temperature objectives will have devastating impacts on the EU's developing country partners.

**We therefore recommend increasing the EU's external financing target to 50% direct climate relevant, to ensure that projects with climate co-benefits are prioritised across sectors.<sup>4</sup>**

Additionally, whereas quantitative climate action targets within financing instruments represent a step in the right direction, the Paris Agreement requires all financial flows to be made consistent with zero carbon and clean energy development. This requires **the EU to not only meet its climate specific spending target, but also that the whole EU budget has to be 100% climate proof.** This will ensure that the target is not undermined through expenditure or actions in other fields of EU policy and implementation, whilst also improving the resilience of sectors that are likely to experience exponential impacts due to climate change; for example, health, water and sanitation, agriculture and the entire food production cycle.

In order to realise the objective set out in Article 2.1c of the Paris Agreement and to contribute to the global adaptation goal, **EU EFIs and related financing agencies must build on their evaluations and assessments to inform on how they can contribute to the global shift away from carbon intensive and environmentally harmful practices.**

As committed to in the Development Consensus, EU EFIs should ensure that climate and environment considerations are embedded in all levels of decision-making and action. Such a requirement should be included in the future Common Implementing Regulation and existing guidance and tools on mainstreaming climate change and environment should be widely disseminated both at headquarters and EU delegation level. This should include capacity building of staff and the development of a monitoring framework to assess how guidance is being used and operationalized.

#### Exclusion list for all fossil fuels

It is clear that a number of operations and activities which will not bring about net sustainable development gains for people, communities and the environment should be explicitly excluded from EU international financing. For example, fossil fuel activities and infrastructure, large construction and transport networks that pose numerous risks such as the displacement of communities, environmental degradation and lock-in of economies into untenable fossil fuel dependence.

**We recommend the EU to establish and agree on “negative list” which explicitly indicates projects that are incompatible with the Paris Agreement and Agenda 2030.**

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<sup>4</sup> CAN Europe's position on climate earmarking in the post-2020 MFF is to have at least 40% climate-related funding across the whole budget which we envisage will result in varied climate spending in the different EU programmes and policies. Our position paper can be found [here](#).

Such a list should be **informed by clear performance benchmarks and auditable criteria** on the basis of international agreements and multilateral environmental agreements. These criteria could for example, identify the absolute emissions (upstream and downstream), lifecycle, impact on ecosystems and the level of climate-related risk associated with projects. They should thus inform policy-makers, financing agencies and practitioners on the feasibility of projects, including whether certain types of projects need to be explicitly excluded.

#### Improved methodology to assess the net climate benefit of earmarked funding and UNFCCC commitments

Robust methodology not only helps to avoid double-counting but also provides European taxpayers with a clearer and more exact overview of how, when and where financial support is being deployed, and if that support is or is not additional to pre-defined aid budgets. Going forward, it is important that all EU international development finance is climate-sensitive. However, future reporting of climate specific finance in the EU's Financing for Development reports and towards the UNFCCC biennial **reports should transparently differentiate between funds specifically targeted at climate action versus funds where climate considerations have been taken into account** but where climate is not the main objective. This will allow for more accurate reporting of climate specific support whilst also acknowledging the development cooperation that has multiple and varying climate co-benefits.

#### Guaranteed public support for adaptation and resilience, especially in vulnerable developing countries

Despite the scale and force of climate change impacts, adaptation efforts and climate resilience continue to be severely under-resourced, both in Europe and internationally. The Global Goal on Adaptation established in the Paris Agreement provides a useful baseline for the EU to plan actions and frameworks that increases support measures for the EU's partner countries. Bearing in mind that options for co-financing with private capital mobilisation and leverage will continue to be explored and applied, we emphasise that there are numerous limitations to attracting private financing and investments towards smaller scale adaptation and resilience efforts of developing countries. It is unlikely that this sort of investments will show the expected returns in terms of financial profit; and consistent public support is becoming more and more essential for these countries and stakeholders. Therefore, we **recommend the EU to commit to ring-fencing and providing at least half of all public climate finance support to adaptation measures**, and guarantee that support provided will target and reach the most vulnerable people and areas facing climate impacts. In order to make that happen, the EU needs to produce clear guidelines for targeted adaptation support in future external financing; including how adaptation can be supported as a co-benefit within overall development plans.

#### Ex-ante & ex-post climate impact assessments

While social, environmental and human rights safeguards are essential to the effectiveness and positive impact of EU financing, effective monitoring processes and impact assessments must also be in place. Bearing in mind the potentially damaging operations that can be the result of EU financing facilities and mechanisms, we emphasise the need to scale up evaluations and monitoring to ensure that the 'do no harm' principle is duly respected. **To this end, we**

**recommend that existing impact assessments incorporate the adaptation objectives and temperature goals identified in the Paris Agreement.** Any adjustments made on this basis are included in an overarching common standard of planning/programming and reporting on the EU's external funds and financial instruments.<sup>5</sup>

#### Capacity support for strengthening NDCs in third countries

In order to efficiently meet the objectives of the Paris Agreement, all countries will need to scale up their national contributions or climate action plans. There is great potential for the EU and its partner countries to pursue deeper decarbonisation measures in a just and equitable way and in light of updated real economy trends.

Towards this goal, **the EU should identify together with its partner countries how EU financial support, further capacity-building and technology transfer can contribute to scaled up NDCs;** particularly conditional NDCs where developing countries have identified what more can be done with additional support. Deeper cooperation on NDCs can include for example efficient use of renewable sources that can help to transition away from fossil fuels and how meet national development and climate goals. Other areas for coverage may include addressing adaptation and financial support needs identified in partners' NDCs.

#### Sustainable infrastructure

Many of the EU's partner countries are undergoing extensive development and major economic transformations. In particular, these trends present great opportunities to alleviate poverty and inequality as well as build safe, zero-carbon and climate resilient infrastructure to support economic development, resource efficiency and human well-being. However, there is still a long way to go and it should not be taken for granted that infrastructure investments will reach those areas and people who need them most.

Looking forward, it will be crucial that European policy on the provision and mobilisation of finance in sustainable infrastructure addresses a number of key requirements. For example, it must **meet stringent environmental, social and governance (ESG) criteria, building on the work done by the Task Force on Climate-related Financial Disclosures and the European Commission's High-Level Expert Group on Sustainable Finance, and proactively engages with Multilateral Development Banks for stringent ESG criteria.** Future policies must also take steps to increase access and affordability of infrastructure services prioritizing financing for clean, pro-poor infrastructure development; and ensure robust, fit-for-purpose evaluation of infrastructure investments through stakeholder engagement for transparency provisions.

#### Energy Access in partner countries

Business as usual financing by the EU will not deliver SDG 7. According to the IEA's recent *Energy Access Outlook* (2017), access to electricity in sub-Saharan Africa is not keeping up with population growth while 'the projections are gloomy' for clean cooking. Of the current 3.04 billion living in cooking poverty, the IEA predicts 2.3 billion will remain so in 2030 – 1.2 billion of these in Asia, and 80% in rural areas.<sup>6</sup>

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<sup>5</sup> The impact assessments to which we refer are:

<https://europa.eu/capacity4dev/public-environment-climate/discussions/environmental-and-climate-risk-assessment-guidance-documents-now-available>

Guidance on how to integrate climate change and biodiversity in SEAs

<http://ec.europa.eu/environment/eia/pdf/SEA%20Guidance.pdf>

EIAs <http://ec.europa.eu/environment/eia/pdf/EIA%20Guidance.pdf>

<sup>6</sup> According to the IEA (2017), of the 900 million who do gain access, the main success comes from a switch to LPG in

While renewable energy sources power over 60% of new access, and off-grid and mini-grid systems provide the means for almost half of new access, recent research by Sustainable Energy for All (SEforAll) shows that current financial flows committed to deliver energy access globally are not sufficient nor fit for purpose. Overall, access financing is substantially lower than what is needed.<sup>7</sup>

**There is a need for a new and scaled-up approach by the EU towards supporting energy access in developing countries;** aimed at a step change in supporting clean cooking access, as well as recognising the crucial role that distributed electricity solutions, mostly powered by renewable sources (DRE), play in connecting remote poor communities.

As is recommended by both the IEA and SeforAll, the EU must develop an integrated or ‘holistic approach’ to support delivery of SDG 7. Such an **approach includes the provision of customised finance, including much greater support for DRE, grant finance to connect the poorest and most vulnerable** and patient capital for energy businesses working in the last mile, as well as appropriate enabling environment support to build inclusive energy markets.

**Technical, human and institutional capacity building support for energy ministries is also crucial for enhanced collaboration across line ministries** to ensure that energy access is integrated in other development policies, including in NDCs. EU support must also look beyond its current supply side support mainly for the private sector, to the demand side. It is crucial that EU support addresses affordability issues as well as considering socio-cultural factors and supports inclusive design and delivery of energy services that provide reliable, affordable, sustainable and safe energy not just for household needs but also higher levels of power for community services and productive sectors, to lift people out of poverty and leave no-one behind.

### Blending facilities and climate mainstreaming

With the creation of the European Fund for Sustainable Development (EFSD) which will co-exist with other EU Blending facilities, blending is becoming a larger part of EU’s external assistance. In this context, both the EFSD and the **EU blending facilities should be subject to all of the other recommendations listed in this paper** (50% climate target, exclusion for fossil fuels, etc). While the external lending mandates of the EIB and EBRD (the main recipients of EU blending facilities) contain climate targets, their portfolios still contain massive amounts of fossil fuel lending which pose serious environmental and economic risks to recipient countries. For example, a recent report by Oil Change International finds that six major multilateral development banks (including the EIB and the EBRD) provided over \$7 billion in public financing for fossil fuels in 2015, and over \$83 billion in financing for fossil fuels from 2008 to 2015.<sup>8</sup>

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Urban areas. In India, the country with the largest population without clean cooking access, government promotion of LPG and improved biomass cookstoves means that over 300 million people gain access to clean cooking facilities by 2030, but more than one person in three remains without.

<sup>7</sup> In 2013-14, public and private, international and domestic finance commitments for electricity in the 20 High Impact Countries (HICs) for energy access averaged \$19.4 billion a year - under half the US\$45 billion annually needed according to SEforAll estimates. Only a quarter of development finance commitments for electricity access, or 28%, reached the 20 high-impact countries over 2011-15. *Only 1% went to DRE – the most optimal solution to connect most energy poor people who are living in rural areas, with even less going to clean cooking solutions.*

<sup>8</sup> <http://priceofoil.org/content/uploads/2017/05/MDBs-Finance-Briefing-2017.pdf>



Noting the growing role of private sector activity and prominence of blending facilities in the field of international development cooperation and climate action, **it is paramount that blending activities remain supplementary to public support.** Private finance tends to be much less transparent and accountable than public concessional funding.

**We emphasise that the existing standards and development criteria of the EU budget should inform on the role of private sector engagement in sustainable development.** We note in particular the Busan development effectiveness principles, the 'do-no-harm' principle, and Environmental, Social and Governance (ESG) criteria for leveraged private finance. Post-2020, the EU must also consider how it will work with actors such as the OECD and private investors to assess and manage climate risk associated with blending activities, as part of wider ESG risk.

### [EU Neighbourhood - highlighting the importance of energy funding phasing out fossil fuel support](#)

Accession and Eastern Partnership countries have particularly strong cooperation with the EU through regional mechanisms such as the Energy Community Treaty. In these countries, the EU has additional leverage and responsibility to ensure coherence with EU climate and energy objectives. EU is striving to have a joint energy market with most of these countries, hence a level playing field in terms of environmental and climate standards need to be ensured and emissions leakage avoided. In addition, climate impacts stemming from ill-targeted adaptation measures have the potential to spill over to the EU, putting European citizens at risk. These regions are also a showcase for lack of coherence among different EU internal priorities (energy security, human rights, climate change mitigation and adaptation). Improved coherence will lead to better consistency, complementarity and synergies between the EU and its neighbours. This should also lead to better delivery on EU internal and external commitments, such as enhanced climate mainstreaming; for example, in the Instrument for Pre-Accession II, only 14% of funding has been allocated towards climate action. This needs to be improved.

One of the approaches suggested in the IPA II evaluation report - that could improve both operational and strategic criteria - is the use of the Multi Annual Programming (MAP). When it comes to sectors such as energy, environment and climate change, we welcome this proposal, given the complexity and impact of implemented measures. Coordination such as Western Balkans Investment Framework and Centre of Thematic Excellences – both based at DG NEAR – should be well-resourced and assume responsibility for cross-sectoral coordination and quality assurance of MAPs, in close cooperation with EU Delegations and national governments. All of the above recommendations should strongly apply to IPA and ENP. Also, a portion of the financial support should be allocated to the just transition plans in these regions, as set out below.

### [Support for Just Transition in partner countries](#)

The transition to a low-carbon economy in Europe and across the world is no longer a distant possibility. After the adoption of the Paris agreement, it has become a necessity and is already well under way. For the EU and many countries, the key challenge is to help workers and communities in affected regions to benefit from this transformation. At the very least, they have to be given the opportunity to contribute with their skills to global sustainable development through social and educational support, otherwise they will be left without a safety net to shoulder the cost of the transformation into a sustainable economy.



Not all high-carbon industries are affected in the same way. Coal mining and power generation, however, are simply the least compatible with the market forces that move towards a low-carbon and climate-resilient world and thus they will suffer the consequences first. Without concrete policies and mechanisms to support them, a Just Transition will not become a reality for many affected workers and regions.

Through **external financing instruments the EU can also support efforts in partner countries to develop low-carbon development transition plans in carbon-intensive regions together with local stakeholders.** There is also a need for increased EU funding for transformative projects that stimulate long term quality job creation, particularly in carbon-intensive regions.

#### Maintain and expand support to civil society organizations and participation

Civil Society organizations play multiple roles in society, such as advocates, innovators, watchdogs, partners in dialogue, implementers of programmes, and actively contribute to the achievement of sustainable development and tackle global challenges such as climate change. With presence and actions at different levels (local, national, regional and global) and with the ability of working cross-sectors, **CSOs play an important role in linking the local to global and create innovative solutions that can influence policy development, scale up ambition, mobilize actions and thus contribute achieving the objectives of the Paris Agreement.**

Some pilot community based climate adaptation activities, for example, have informed the development of national level adaptation plans. CSOs have also been supporting and promoting decentralised renewable energy solutions which ensure energy access to the poorest and most remote populations.

In order to maintain effective civil society engagement and participation, it is essential that CSOs have access to information and regular consultation on EU funded projects abroad. Full transparency around the meetings and decisions regarding EU funded programmes – for example, the EFSD – will be essential to help assess the potential of projects ex-ante and their impacts ex-post.

The more support provided to civil society, the greater the likelihood that programmes will reach those most likely to be left behind and the greater the foundation for a thriving and active civil society. The post-2020 MFF should guarantee support for civil society throughout all instruments and programmes (thematic and geographic).

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