Brussels, 1 October 2021

Dear Finance Minister,

CAN Europe recommendations on ECOFIN Council Conclusions on Climate Finance

On Tuesday 5 October 2021 you will adopt Council Conclusions on climate finance at Economic and Financial Affairs Council. The EU and each of its Member States should get behind a political outcome at COP26 that advances a fair approach to 1.5°C (Fair for 1.5°C). Finance is a key component of this. Delivery on the $100 billion climate finance goal, new finance commitments and fair negotiation outcomes on finance are needed to unlock global action to keep 1.5°C within reach, to support developing countries deliver their climate plans and adapt to increasing impacts, and to progress the negotiations. With women and low income communities in developing countries hardest hit by climate impacts, finance must also be targeted and responsive to their needs.

Recent IPCC reports and the UNFCCC NDC Synthesis report have outlined the urgency for action. Climate finance commitments should aim to address the clear emissions, adaptation and finance gaps to limiting temperature rise, adapting, and addressing losses and damages, and put an end to financing that undermines Paris Agreement goals. Taking timely action on finance and investments now will reduce economic and non-economic costs from the increasing impacts of climate change, reduce the risk of stranded assets and economic shocks, and support sustainable development: benefits of early action clearly outweigh the costs of inaction.

Moreover developing countries are facing debt distress which has been exacerbated by the COVID-19 and the climate crises. Strong action on debt is necessary to enable a global green recovery. The EU should aim to support the achievement of the $100 billion in a manner that is sensitive to this, commit to substantially increase grant financing and commit to only using highly concessional loans, as well as take action on debt relief.

To address these issues we would like to call on the EU and its Member States to:

- Support a clear and reliable climate finance delivery plan underpinned by commitments including from the EU and its Member States which ensures delivery of at least USD 600bn of climate finance over the 2020-2025 period, with at least 50% going to adaptation; the plan must spell out a clear commitment to reaching $50 billion for adaptation finance annually; and ensure that finance is delivered exclusively on concessional terms, with a majority provided as grants

- To rebuild trust EU Member States should commit to further increases in climate finance to ensure they deliver their fair share by 2025, setting out increases in finance that are new and additional, including a timebound commitment to achieve at least 50% adaptation finance, and with improvements to gender-responsiveness

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- On loss and damage, the EU should advance a timely and full operationalisation of the Santiago Network through a COP decision on loss and damage and in the framework of the UNFCCC, and support a mandate to pursue work on sources for new and additional finance
- Learning lessons on the $100 billion goal to inform deliberations on the new post-2025 climate finance goal, the EU should support a proper assessment of how to reflect, and respond to, the different needs, including in scope and nature, by setting up specific sub-goals of adaptation, mitigation, and loss and damage finance
- EU Member States and public financial institutions should immediately rule out any new direct and indirect international public finance, to coal, oil and gas projects across the entire value chain (extraction, transport, distribution and power generation and associated infrastructure), including through export credit agencies.

More details of CAN Europe's specific recommendations are provided in an annex to this letter.

We also call on the EU to explicitly welcome and support the recent V20 Climate Vulnerables' Finance Summit outcomes, and to support the COP 26: A Five Point Plan for Solidarity, Prosperity and Fairness.

We hope that you can take these recommendations into consideration,

Yours sincerely,

Wendel Trio

Director, CAN Europe

Annex: CAN Europe recommendations to the EU on climate finance for COP26

The $100 billion climate finance commitment

For the COP to deliver credible progress on climate action it will be important to see clear commitments by all developed countries, including the EU, to demonstrate when the USD $100bn goal will be met, going beyond the Article 9.5 reports, and that the goal will be met and exceeded through to 2025, and how developed countries will compensate for the money they haven't delivered.

A recent OECD Report indicated climate finance provided and mobilised in 2019 at $79.6 billion and adaptation at 25% of this showing that contributor countries are off-track to deliver on the USD $100 billion by 2020. The "delivery plan" worked on by ministers from Germany and Canada will therefore be essential in terms of re-building trust in developed countries' commitments and should be delivered well before COP26.

CAN supports an approach where developed countries commit to a multi-year pledge of $500bn over 2020-24, as the V20 has suggested, and $600bn over 6 years when the year 2025 is included. The plan must provide clear articulation of how the aggregate will be met by achieving well beyond $100bn a year between 2022-2025 to make up for earlier gaps.

As the UNSG has rightfully pointed out, 50% of all climate finance must go to adaptation, which is also agreed in the Paris Agreement where countries commit to balancing climate finance for adaptation and mitigation. This means that the delivery plan must spell out a clear commitment to reaching $50 billion for adaptation finance annually, ensuring that this is delivered exclusively on concessional terms, with a majority provided as grants.e

The plan should also include a special focus on delivering finance to Least Developed Countries (LDCs), Small Island Developing States (SIDSs) and strengthening gender responsiveness.

New climate finance commitments from EU Member States and institutions

The Commission President's announcement of a further €4 billion from 2021-27 for international climate finance was an important signal, and she rightly called for more international action. Coming from the EU budget this finance is not new and additional. The EU should ensure that this extra money goes to support adaptation, which can offer multiple development co-benefits and prevent costs from future climate impacts. All contributors now need to do their bit. EU Member States should announce, before COP26, new pledges for increasing climate finance levels in line with their fairshare. All climate finance must be new and additional (ie. on top of ODA commitments), include increased proportions of adaptation finance to address the adaptation finance gap, and strengthen their gender responsiveness. We welcome the commitments of a number of EU Member States via the Champions Group on Adaptation Finance, and call on more countries to make specific time-bound commitments to achieve at least 50% of their overall reported climate finance as adaptation, and to increase grants-based public finance. This should also inform the creation of the new branch of the EIB focused on development finance, which should commit to achieving 50% adaptation finance in order to become a ‘development climate bank’.

New sources of international climate finance from the EU should include revenues from environmental, carbon and other forms of taxation, which have a huge role to play in incentivising polluters to reduce emissions. Revenues from carbon pricing and taxation in the ‘Fit for 55%’ package, including from the Carbon Border Adjustment Mechanism, the Energy Taxation Directive, and the Emissions Trading System should be earmarked to provide new and additional sources of climate finance to scale up climate finance to developing countries as well as support a just transition towards a climate-neutral society in Europe. Direct or indirect fuel subsidies in all sectors including, energy generation, maritime transport, aviation and fisheries should also be eliminated and the finance channeled into climate finance.[1]

Deliberations on the Post-2025 goal

CAN Europe looks forward to the initiation of deliberations on setting the new post-2025 collective quantified goal on climate finance. In our view this should allow for proper assessment of how to reflect, and respond to, the different needs, including in scope and nature, by setting up specific subgoals of adaptation, mitigation, and loss and damage finance. The process should also lead to clear definitions of climate finance and to strict reporting rules so as to ensure that the goal is not undermined by over-reporting. The EU should play a progressive role in generating a procedural decision on the process around the post-2025 goal at COP26 that will in its scope, structure and components answer to the specific and different financing needs for adaptation, mitigation and loss and damage in different contexts, including by:

- designing a goal matrix rather than a single number, with sub-targets for specific purposes (including a sub-target on adaptation, loss and damage, financial instruments and other elements)
- considering qualitative elements or sub-goals
- allocations are determined on a science- and developing country needs-basis
- Ensure that the room for creative accounting is minimized - fossil fuels should never again count as climate finance, only grant element of loans, guarantees etc. should count, over-reporting by donors should be eliminated, and transparency ensured.
- Adding provisions to ensure regular adjustment of the goal to reflect changing circumstances, needs and lessons learnt, e.g. in conjunction with the Global Stocktake or the regular NDC enhancements.

[1] 59 NGOs and business organisations have called on the EU to use the review of the Energy Taxation Directive to remove public subsidies to fossil fuel consumption https://stopfossilfuelsubsidies.eu/sffs-statement/

Financing for Loss and Damage

The new EU Adaptation Strategy recognises the problem of increasing losses and damages from climate impacts in the EU and internationally. Because of its significance and separate anchoring in Article 8 of the Paris Agreement, loss and damage deserves distinct attention and commitment to distinct outcomes in the EU's positioning at the UNFCCC, and distinct financing that is new and additional to existing commitments. Failing to address loss and damage in developing countries only exacerbates debt distress, and pushes people further into poverty when governments cannot afford to re-build. The EU should advance a timely and full operationalisation of the Santiago Network through a COP decision on loss and damage and in the framework of the UNFCCC, and support the following points:

- COP26 should give a clear mandate to the Warsaw International Mechanism's Executive Committee to undertake work on pursuing sources of finance (such as levies on air and maritime transport, a climate damages tax on fossil fuel exploration) which could raise new and additional finance for loss and damage at a scale addressing the needs of vulnerable developing countries.
- Adequate structure and funding for the Santiago Network on Loss and Damage: establishment of a secretariat/coordinating body that can adequately assist vulnerable developing countries, as well as sufficient funding - both for the network's operational capacity and for catalysing action and support on L&D.
- The agenda balance, including a permanent agenda item on loss and damage from COP26 onwards to operationalise Article 8 under the Paris Agreement, would demonstrate the political will to move forward with solutions and will be a critical deliverable which the EU should support.

Ending international public finance for fossil fuels

Urgent action is needed to ensure 2021 marks the end of international direct or indirect public finance to fossil fuels including sectors such as maritime transport, aviation and fisheries. This would free up significant support for clean energy and a just and equitable transition worldwide. This is why 200+ organizations from over 40 countries have recently released a statement calling on governments worldwide, including the EU, to accelerate action on this agenda.

Ahead of the Glasgow Climate Change Conference, governments and public finance institutions - national and regional development banks, as well as export credit agencies - have a clear task to promote a climate-safe, equitable transition towards clean energy. The EU, building on the EIB's Energy Lending Policy, and intentions in the Foreign Affairs Council Conclusion on Climate and Energy Diplomacy (Jan 2021), should take decisive action to phase out all fossil fuel finance and leverage similar action from other big emitters. The EU must utilise its role on the boards of MDBs and DFIs, and at the G20, to leverage additional commitments to end fossil fuel finance and deliver just transition plans from government coalitions. G20 countries must commit to developing clear national roadmaps to phase out all fossil fuel subsidies (including tax concessions, direct budgetary support, export credits and funds through bilateral and domestic DFIs and MDBs) by 2025 at the latest, and align investments with the long-term goals of the Paris Agreement. The EU must also ensure action on EU budget funds, delivering on 'do no harm' by ensuring no support goes to fossil gas or any other fossil fuel projects and associated infrastructure, in both its external action and domestic programmes. EU Member States and public finance institutions should:

- Immediately rule out any new international public finance, to coal, oil and gas projects across the entire value chain (extraction, transport, distribution and power generation), including through export credit agencies.
- Avoid loopholes that allow indirect public finance for fossil fuels to continue through associated infrastructure, technical assistance, or financial intermediaries.
- Ensure a whole-of-government approach to ending public finance for fossil fuels as part of efforts to align public finance with the Paris goals and improve transparency and reporting standards
- Re-channel international public finance for fossil fuels into international climate finance.

Global Green Recovery

With the EU having agreed its own recovery package with a stronger focus on climate action and 'do no harm', it needs to take further action in multilateral spaces to support a global green recovery. Putting the world on a 1.5 pathway requires meaningful debt relief and cancellation, fixing the fiscal crisis facing developing countries, and enabling them to access capital to facilitate green recovery and to meet climate and Agenda 2030 commitments. The EU should work with the G7, G20, the Paris Club and multilateral development banks to find avenues to achieve this, including Special Drawing Rights to support climate action from the IMF. Action is also needed in these spaces to address barriers to adaptation and resilience investment. Many climate vulnerable countries are also setting out visions and action plans on green recovery and accompanying partnerships for cooperation and support, including the Climate Vulnerable Forums' V20 Summit and Communique, and the African Union's Green Recovery Action Plan, which would benefit from the EU's engagement, and vice versa. The EU should also work through the Coalition of Finance Ministers for Climate Action to foment discussion of new approaches to meeting the needs of climate vulnerable countries.