26 September 2024

Recommendations for Economic and Financial Affairs Council (ECOFIN) Conclusions on International Climate Finance

Climate Action Network (CAN) Europe is Europe's leading NGO coalition fighting dangerous climate change. With over 185 member organisations active in 38 European countries, representing over 1,700 NGOs and more than 40 million citizens, CAN Europe promotes sustainable climate, energy and development policies throughout Europe.

To: EU Ministers of economy and finance

Copy: EU Commission Executive Vice-President for European Green Deal, Interinstitutional Relations and Foresight; European Commissioners for Climate Action; and International Partnerships

Dear Ministers of economy and finance,

We are writing ahead of the Economic and Financial Affairs (ECOFIN) Council 8 October 2024 in which the Council conclusions on international climate finance will be adopted.

As shown by a growing body of scientific research, including the IPCC, economic assessments and testimonies from civil society, rapid and substantial increases in climate finance are needed to support the transition to low-carbon economies in developing countries and to meet the goal of the Paris Agreement to limit global warming to 1.5°C, prevent worsening impacts and adapt to the changes caused by a rapidly warming climate, and address the devastation to livelihoods, infrastructure, homes and ecosystems. Scaling up public international climate finance is essential to provide and mobilise the trillions of dollars needed annually to combat climate change in developing countries.

Developing countries are often the most affected by climate impacts yet have the least financial capacity to act and adapt. Developed countries, as the largest historical emitters of greenhouse gases into the atmosphere, have a moral and legal obligation under the UNFCCC and Paris Agreement to provide financial support to developing countries.

The **New, Collective, Quantified Goal (NCQG) on international climate finance**, to be decided at **COP29** in November, must respond to the climate emergency by providing developing countries with the finance they require to meet the goals of the Paris Agreement.

As ministers of finance your role is critical in providing the mandate for negotiators to ensure the EU commits to a robust, fit-for-purpose and needs-based NCQG. Your role is central in ensuring that the **EU can be trusted as a provider of international climate finance and as a long-standing partner** for the most climate vulnerable in the joint fight against climate change.

Resilience building requires public finance provision

The new goal must be based on scientific needs assessments and real needs. Based on recent needs assessments, CAN expects the **NCQG to set a public finance provision quantum of a minimum of $1 trillion per year in grants and grant-equivalent terms from developed to developing countries**, with specific sub-goals to orient the support for mitigation, adaptation, and loss and damage action as part of inclusive just transition pathways.[1]

We are disappointed that developed countries including the EU have not yet put a clear financial proposal or quantified options for the NCQG (including sub-elements, incentives for greater action) on the table, despite years of NCQG technical discussions and negotiations. This leaves a bitter taste with Global South Parties and civil society.

A key lesson from the previous, 100 billion international climate finance goal (2020-2025) is that in climate vulnerable and fragile contexts, market-driven private finance is insufficient, unavailable, debt generating and ill-suited. While all kinds of finance is needed to achieve the goals of the Paris Agreement, the EU cannot expect private finance to respond to vulnerable developing countries' needs, particularly for adaptation and loss and damage. Many developing countries are also grappling with the worst debt crises since records began.

Public finance that is predictable and highly concessional is critical for responding to the climate crises. Unlike private finance, public finance can target high-risk, low-return areas and objectives, and enable support to vulnerable communities, such as with education and social security to allow for just transitions.

International climate finance should therefore be extended via **non-debt creating instruments, as grants and highly concessional loans**. This finance should be new and additional to ODA, affordable, and should not exacerbate debt distress, which is known to push debt ridden governments to turn to unsustainable natural resource exploitation and other climate change inducing activities to pay off loans.

As of 2022, more than 50% of the EU's total international climate finance was extended via non-grant instruments.[2] Going forward, more grants are needed.

International climate finance is the best guarantee for future peace, stability and prosperity

International public climate finance is crucial for addressing the disproportionate impacts of climate change on the most vulnerable nations, which is also essential to strengthening climate security globally. Runaway climate change has been identified as an important factor threatening human security by the IPCC and by NATO as a 'threat multiplier' exacerbating conflict, fragility, and geopolitical competition.

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[1] Please see Climate Action Network's submission to the UNFCCC on the New, Collective, Quantified Goal on international climate finance (August 2024): https://climatenetwork.org/wp-content/uploads/2024/08/Climate-Action-Network_NCQG_August-2024.docx.pdf

[2] Please see CAN Europe's report (June 2024) on the EU's international climate finance https://caneurope.org/content/uploads/2024/06/CAN-EU-climate-finance-report-2024.pdf

The climate crises can only be solved through international cooperation. The stakes are likely much higher than foreseen. In a context where multilateralism is under threat, UNFCCC Parties' views are still wide apart in the negotiations concerning the new finance goal. **It is of utmost importance that the EU acts as a bridge builder and recognizes its responsibility and capability to ensure a strong and ambitious agreement on finance in Baku**. The EU should strongly signal to other developed countries that international climate finance provision to developing countries is not an expense, but a necessary investment in a stable future, a livable and healthy planet, and in the realisation of human rights.

Regardless of a potential expansion of reporting contributors of climate finance under the UNFCCC in the future, it is essential that Parties agree on the NCQG, with a quantum in the trillions, at COP29, and that developed countries take the lead in committing to increase their international climate finance provision accordingly.

New funding sources can generate trillions in public international support and simultaneously stimulate the green transition in Europe

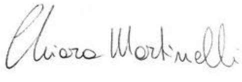
The EU and its Member States can raise substantial amounts of public finance for climate action, at home and around the world, by introducing **innovative and fair taxes and levies targeting high emission sectors, as well as by redirecting public finance, including subsidies for fossil fuels**.

The NCQG must recognize the principle of tax justice and the polluter pays principle. The EU must take the lead in introducing smart, socially just and climate friendly **taxes on high-emission sectors** and actors to ensure that the costs of climate change are borne by those with the greatest capacities as well as the most responsibility. This includes excess profit taxes on the fossil fuel industry and other high emission sectors and corporations, wealth taxes, financial transaction taxes, etc. Well-designed taxes and levies coupled with the rapid phase out and shifting of harmful subsidies, especially fossil fuel support, will also level the playing field for sustainable solutions and new European green industries, while ensuring an accelerated and socially just transition.

While taking rapid action at home, the EU should drive the global agenda of taxing high-emitting sectors and ending their public support, in a manner that is just and pro-poor, as part of negotiations under article 2.1(c) and the Sharm el Sheikh dialogue on aligning all financial flows with the Paris Agreement goals.

Finally, we want to remind you that the NCQG and international climate finance from developed to developing countries is about **leaving no one behind**, and enabling developing countries to have the necessary means to implement the Paris Agreement in the joint, global fight against climate change. The EU's stability, security and prosperity is directly linked to how developing countries are equipped to respond to accelerating climate change and to the forthcoming decision in Baku. For many developing countries, their citizens', cultures', ecosystems' and economies' very survival is at stake.

Yours sincerely,



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