Workshop documentation
requested by the BUDG Committee

European Parliament

PROCEEDINGS
The role of the EU budget in international climate finance

Budgetary Affairs

Policy Department D for Budgetary Affairs
Directorate General for Internal Policies of the Union
PE 744.203 - March 2023

EN

This document was requested by the European Parliament's Committee on Budgets.

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TABLE OF CONTENTS

European Parliament

WORKSHOP

The role of the EU budget in international climate finance

organized by the Policy Department on Budgetary Affairs for the Committees on Budgets and on Budgetary Control

Monday 30 January 2023
16:00-18:00
European Parliament, Brussels
Room: ASP 3G3

PROGRAMME

16:00	Opening remarks by BUDG and CONT Chairs
	First session: The global perspective
16:05	Sebastian BLOCK, Environmental Performance Index (EPI) *"Climate performance in the EU according to the 2022 Environmental Performance Index"*
16:15	Brief Q&A re. EPI presentation
16:30	Inge JONCKHEERE, Food and Agriculture Organization of the United Nations, IPCC

	"Climate change: the role of climate finance and way forward"
16:40	Q&A

Second session: The view from Europe

17:00	Margit SCHRATZENSTALLER, Austrian Institute of Economic Research (WIFO) *„The EU contribution to current climate finance goals – status quo, requirements, and options"*
17:10	Remarks by a Sebastien PAQUOT, Acting Head of Unit, DG CLIMA and Christophe GALAND, Acting Director, DG BUDGET
17:20	Q&A
17:55	Closing remarks by CONT and BUDG Chairs

BIOGRAPHIES OF SPEAKERS

Sebastian Block

Project director of the Environmental Performance Index (EPI)

Sebastián Block is a Research Affiliate at the Yale Center for Environmental Law & Policy and the project director of the Environmental Performance Index. He received a Ph.D. in Ecology and Evolutionary Biology from Princeton University in 2022. His doctoral research focused on the effects of climate change on the dynamics of ecosystems and their biodiversity. Driven by a growing concern about the climate and biodiversity crises, he is now applying his analytic and communication skills to help guide environmental policies and investments around the world..

Inge Jonckheere,

Forests and Climate Officer, Forestry Division of FAO

Forests and Climate Officer. Actually working in the Forestry Division of FAO of the UN, Rome, Italy. Experienced International Team Leader with a long and demonstrated history of working in international technical development (aid) & experience of over 25 years working in more than 60 developing countries.
PhD in Remote sensing & Earth Observation for climate change.
Strong information technology Team Leader, skilled in Climate change and Space science: Remote sensing and Earth Observation applications, Innovation & Technology, Sustainable Development, Land & Forest Management, Restoration, Carbon accounting, Digital platforms, Spatial Analysis and Biodiversity/ Ecology, Cultural heritage assessment using Remote Sensing.
Official ESA Astronaut selection 2021. IPCC Lead Author for several reports including AR6, Working Group III (Mitigation) since 2013. UNFCCC certified GHG expert for Belgium since 2011.
Culture, innovation, sports, music & sustainable fashion as hobbies.

Margit Schratzenstaller

Senior Economist, Austrian Institute of Economic Research (WIFO)

Margit Schratzenstaller is Senior Economist at the Austrian Institute of Economic Research (WIFO) and has been working in the Research Group "Macroeconomics and European Economic Policy" since 2003; she was Deputy Director of WIFO from 2006 to 2008 and 2015 to 2019. Margit Schratzenstaller is member of the Austrian Fiscal Council, the board of ÖGfE – the Austrian Society for European Politics, and the Scientific Advisory Board of the Vienna Climate Council. She is also member of the board of trustees of the European Forum Alpbach and the KDZ – Centre for Administrative Research. Her areas of expertise include (European) tax and budget policy, EU budget, tax competition and harmonisation, fiscal federalism as well as family policy and gender budgeting. She was deputy coordinator of the FP7 EU project WWWforEurope (2012-2016) and partner in the H2020 EU project FairTax (2015-2019), and she has prepared numerous studies for the European Parliament and the European Commission as well as for national clients.

PROCEEDINGS

The workshop was co-chaired by **Johan VAN OVERTVELDT** (BUDG Chair – first session) and **Gilles BOYER** (CONT Vice-Chair – second session).

Opening remarks by the co-chairs

Mr VAN OVERTVELDT welcomed the participants (MEPs, international experts and EC representatives). He emphasised that the EU and therefore the EU budget strove to be a frontrunner in the UNFCCC.

Mr BOYER drew attention to ECA Special Report 09/2022, which highlights a significant problem with the methodology used by the EC for calculating climate finance. He expressed the hope that the workshop would help to clarify this point and the links between the calculation methodology and the EU's contribution towards meeting the global need for international climate finance.

First session: The global perspective

'Climate performance in the EU according to the 2022 Environmental Performance Index' – Sebastian BLOCK, Research Affiliate at the Yale Center for Environmental Law and Policy, Project Director of the Environmental Protection Index

Mr BLOCK introduced the results of the 2022 Environmental Protection Index (EPI), in particular the indicators related to climate change. These trace how different countries around the world perform in climate change mitigation and how their performance is related to different economic and governance factors.

The EPI is a composite index produced by Yale and Columbia universities and released every 2 years, with a view to assessing environmental sustainability in countries around the world. The last report published in 2022 covers 180 countries with 40 different performance indicators measuring different aspects of sustainability and grouped into 3 main policy objectives:

- Environmental health;
- Ecosytem vitality;
- Climate change.

The section on climate change, which only considers climate change mitigation, is composed of nine different indicators that measure trends in the emissions of greenhouse gases (GHG): there are five indicators which measure the growth rates of the main GHGs, aerosols and black carbon, and how much the emissions of these gases have been growing in different countries over the last 10 years. The data for these indicators come from the Potsdam Institute for Climate Impact Research in Germany. Based on these indicators, the EPI team calculates a further four indicators (Projected Emissions in 2050; GHG Intensity Growth Rate; GHG per capita; CO_2 Emissions from Land Cover).

Mr BLOCK then detailed the observed performance on climate change mitigation across the world by regions. The scores range from 0 to 100 (the latter being the best possible performance). With median scores ranging from 25 to 52, the world as a whole and its different regions are very far from total success in mitigating their GHG emissions.

The presentation moved on to examine how these indicators correlate with economic factors:

- **Climate performance against GDP per capita** shows a positive and weak correlation between these two factors. The logarithmic scale means that small increases from very poor to medium poor countries have the largest effect. Moving up the GDP per capita scale, the result in improved climate performance becomes weaker.
- **Climate performance against the services sector** (as of % GDP) produces a positive correlation. Economies that are more service-oriented tend to perform better in the EPI indicators.
- **Climate performance against manufacturing** (as % of GDP) shows no correlation at all. There is a weak and negative correlation but it is not statistically significant.

A more telling picture emerges when correlating climate performance with governance factors, using three governance indicators also used by the World Bank: government effectiveness (how far people perceive the government as being effective at making good policies), rule of law (how far these policies are respected by people), and regulatory quality (the perceived quality of those policies). With all three of these governance indicators, there is a positive, though weak, correlation to climate performance.

Given that all the above factors are correlated, it is difficult to say what is driving climate performance, as observed correlation does not imply causation.

To summarise, firstly, finance is important for climate performance because it enables the technologies needed to reduce emissions (e.g. deployment of renewable energy). Secondly, the rule of law helps countries make better use of those financial resources. Finally, the effects of all these different factors are hard to disentangle, and a lot of variation remains unexplained.

First round of questions

In reply to the first question, by **José Manuel FERNANDES (EPP – BUDG)**, regarding the **role of regional differences** in development, Mr BLOCK agreed that there are differences in the needs of regions. In particular, **natural ecosystems** will play a big role in climate change mitigation, also called nature-based solutions. Different countries vary dramatically in natural ecosystems that can contribute to this global goal. It is also an important aspect of international climate finance that the countries which have the largest forests (e.g. the Amazon in Brazil) carry a global responsibility to protect those ecosystems to mitigate emissions, but they also need financial resources to support that effort. That is just one example of how needs vary drastically in different regions. In other regions it would be more important to focus on the deployment of renewable energy to decarbonise the economy. So, in some countries, the importance of nature-based solutions will be much greater than in

others. To a second question about additional sources of revenue for climate finance, Mr BLOCK declined to respond as it fell outside his expertise.

Noting that 'do no significant harm' is a cross-cutting principle in the budget, and that a substantial percentage of RRF funding has to go to climate policy, **Eider GARDIAZABAL RUBIAL (S&D – BUDG)** enquired as to how to prioritise the factors that have an influence on climate change: from the graphs alone, it is hard to see **which factors have the greatest impact on climate performance**. Going beyond what could be inferred from EPI data, Mr BLOCK agreed with the suggestion that government effectiveness plays a key role: there need to be good regulations that promote climate-friendly technologies and activities.

Rasmus ANDRESEN (Greens – BUDG) asked about the impact on the topic of the Russian aggression on Ukraine, and whether countries with less inequality (wealth/income) perform better. On the first point, Mr BLOCK noted that the 2022 index was compiled before the Russian invasion and therefore does not capture its effect. However, he pointed to the fact that the deployment of renewable energy has accelerated not just for climate action but also for **energy security** in some countries. On the climate mitigation effect of lower inequality he had no data but would expect it to be positively correlated.

Pierre LARROUTUROU (S&D – BUDG) related his experience in France, where a 25% reduction in emissions had been logged, but this did not take into account the carbon footprint of imports from China – in effect part of the pollution had been outsourced. Mr BLOCK clarified that the EPI only looks at what is happening **within** countries, and thus does not incorporate all the climate and other environmental impacts related to trade. That partly explains why the EU (the blue dots in the graphs) performs well in the EPI indicators. Another Yale University index called the Global Commons Stewardship Index explicitly covers the impacts embodied in trade and consumption (so-called 'international spillovers').

'Climate change: the role of climate finance and way forward' – Inge JONCKHEERE, IPCC

Speaking from New York, Ms JONCKHEERE based her presentation on the recent UN IPCC reports which she had co-authored, covering both mitigation and adaptation.

In terms of mitigation, there was bad news: we are **not on track** to limit the warming to 1.5°C – and beyond this threshold, we will face big climate extremes. With a lot of emissions not bound to regional and national borders, this is a truly global problem that has to be tackled globally. In this context she welcomed the EU's collective approach.

Ms JONCHEERE took pains to also highlight **positive** reports: we can see for the first time that some countries have achieved a steady decrease in emissions consistent with limiting warming to 2°C. Other good news is that zero emissions targets have been adopted by at least 826 cities and 103 regions, and that individuals' efforts to reduce emissions can actually have a measurable effect collectively. Also, with the advancement of technologies, in some cases costs for renewables have fallen below those of fossil fuels. Finally, the report also indicates that there are now viable options for every sector (energy, land use, industry, urban development, buildings, transport) to reduce emissions.

Turning to the event's focus on finance, Ms JONCKHEERE emphasised the urgent need to close the investment gaps. The IPCC study shows that actual financial flows for the climate

are 3-6 times lower than levels needed by 2030 to limit warming to below 1.5 °C or 2 °C. In theory, there is sufficient global capital and liquidity, but the challenge of closing gaps is widest for developing countries.

Ms JONCKHEERE then provided an overview of the landscape of carbon finance opportunities, from compliance markets and voluntary carbon markets to a results-based payments approach to sustainable development. Her presentation ended on the need to maintain a balance between mitigation and adaptation funding, allowing for loss and damage discussion, and to make the various forms of funding interlinked, harmonised and better coordinated.

Second round of questions

José Manuel FERNANDES (EPP – BUDG) wondered how the massive gap described could be filled, even within the EU. Recognising that Europe and the 'Global West' had a duty to help developing countries achieve climate goals, he also insisted on the need to ensure fair competition throughout this process. In her answer, Ms JONCKHEERE agreed that the biggest impact of climate change is in the countries that are polluting less. This is not fair and this is why we as the EU should work harder, both through development aid which is a big part of the budget, and through facilitating knowledge and technology exchange. Solutions are possible while maintaining people's standard of living. She also highlighted that we should raise awareness of sustainability (e.g. raise taxes on non-sustainable goods).

Following a similar line, **Pierre LARROUTUROU (S&D – BUDG)** noted that the funding needed for the EU alone had already been pegged at EUR 600 billion per year to reduce emissions by 40%, while that target had now been raised to 55%. He floated **using ECB money**, which according to him would be possible without changing the statutes and treaties, and also revived the idea of a **financial transactions tax** originally proposed by the Barroso Commission in 2011, which could yield up to EUR 57 billion a year. Ms JONCKHEERE emphasised that, here also, the underlying need was for a change in attitudes. She also noted that in the carbon market, a lot of money is not being spent in the most efficient way.

Rasmus ANDRESEN (Greens – BUDG) asked for further details on the **individual efforts** mentioned in the presentation, which indicated that emissions could be decreased by 40% to 70% by citizens' actions. Ms JONCKHEERE pointed to a whole range of choices, e.g. to eat less meat, to fly less, to use energy more efficiently, to insulate buildings. In her reply to a second question on the recent **ETS agreement**, Ms JONCKHEERE noted that a lot of this carbon trading and emissions trading depends on the standards used, and on the verification of these standards. It is extremely hard to see the different impacts on the ground and to have reliable verification systems. That is why this emissions trading remains complicated. On a final question on the role of **fossil fuel subsidies**, the expert surmised that as long as individuals and societies still depended on fossil fuels, the vested interests and financial incentives behind them would remain. The solution is that we have to transition to a new system.

Second session: The view from Europe

'The EU contribution to current climate finance goals – status quo, requirements, and options' – Margit SCHRATZENSTALLER, WIFO

Ms SCHRATZENSTALLER began her intervention by considering the **budget's contribution to the EU's own climate goals**. She highlighted the remarkable progress made in the current EU budget compared to the preceding one, in particular increasing the climate mainstreaming goal from 20% to 30%, and noted that total climate spending (in MFF and NGEU) now amounted to EUR 0.5 trillion, which equates to 0.5% of EU GNI. Among the issues still to be addressed, she emphasised that:

- Targets and tracking methods differ across funds,
- Implementation of the 'do no significant harm' (DNSH) principle differs, and in particular, the CAP is not formally covered by this principle,
- There is no differentiation between adaptation and mitigation, and
- A comprehensive ex ante and ex post climate impact assessment is missing (a point also criticised by the ECA).

As the way forward, she advocated funding additional climate and biodiversity spending through shifts within the EU budget, applying the DNSH principle consistently across all parts of the budget, and conducting comprehensive, ex ante and ex post assessment on the climate impact of all EU spending.

Ms SCHRATZENSTALLER then addressed the EU's potential contribution to international climate finance, noting in particular that its actual contribution to public climate finance in developing countries has doubled between 2013 and 2016. Developed countries' climate finance pledges overall have increased substantially since 2013 but still fell short of the USD 100 billion target in 2020. For 2021, the EU contribution reached USD 23 billion (USD 5 billion from the EU budget and the rest from the MS), i.e. one quarter of the envisaged USD 100 billion. Compared to the United States, this is a significant share; however, USD 100 billion is far from enough.

To further increase the EU's contribution to international climate finance, action is needed at both MS and EU level. According to the expert, additional contributions could be created by shifts in expenditures and by raising green own resources (draft resolution of the EP). She also saw an urgent need to dismantle MS fossil fuel subsidies and to mobilise additional private funds.

In conclusion, Ms SCHRATZENSTALLER highlighted that the EU budget is just one element of EU climate policy, it needs to be embedded in the reinforcement of carbon pricing on the one hand, and in an adequate institutional or regulatory framework on the other.

Remarks by European Commission representatives

Christophe GALAND – Acting Director, DG BUDGET

Mr GALAND set out how the EU budget dedicates substantial resources to the objectives of climate mitigation, climate adaptation, biodiversity and clean air. Through climate mainstreaming, the EU budget is expected to contribute EUR 557 billion to climate objectives in the next 7 years, triple the amount spent for the purpose under the 2014-2020 MFF. In June 2022, the EC published a staff working document on the Climate Mainstreaming Architecture in 2021-2027, where it has outlined the overall framework of green expenditure in the EU budget, including the methodological approach and the application of the 'do no significant harm' principle.

Sebastien PAQUOT – Acting Head of Unit, DG CLIMA

Complementing the above Mr Paquot highlighted the fact that the NDICI as the main instrument for funding to third countries is structured more around geographical priorities (76%). 8% is allocated to thematic programmes, including 3% for global challenges. This means that it is more important than ever to make sure that, of the geographical programming, a significant part is attributed to climate action that will make a difference on the ground in the different countries.

Spending was evenly **split between adaptation and mitigation** in 2020 (50.9% vs. 49%), but less balanced in 2021, with 37% for adaptation and 62% for mitigation. This will need to be closely watched, as adaption is becoming more and more important for partner countries.

In terms of perspective, over the last 10 years the contribution of MS and the EC in the form of climate finance has been constantly increasing, though stagnating this year at EUR 33 billion. Compared to less than EUR 10 billion in 2013, the increase is still significant. Against the agreed goal of USD 100 billion, it is clear that the USD 83 billion raised globally so far is not enough, but most partner countries are aware that the gap is not coming from the EU.

As **upcoming challenges**, Mr PAQUOT cited:

- the new, additional 'Loss and Damage' fund that was agreed in Sharm el-Sheikh and for which the tool has to be negotiated at COP28,
- a need to rediscuss the distribution of donors and beneficiaries for the goal of USD 100 billion per year, in order to reflect changes in the global situation since it was decided in 2009;
- how to better involve private finance, and make all financial flows consistent with the Paris Agreement, not only in the South but also in the North; and finally,
- the new quantified goal that should be agreed by 2025 – and for which the USD 100 billion per year agreed so far would merely be the starting point of the discussion.

Bernhard WINDISCH – Head of Unit, DG BUDGET

Noting that the key open point remains the CAP, Mr Windisch reminded all participants that there were **limits in terms of legal certainty and timeframe** to any abrupt changes in this policy: the CAP Strategic Plan regulation was agreed by all EU institutions, so cannot be bypassed – although changes can of course be discussed for after its 2027 horizon.

Third round of questions

José Manuel FERNANDES (EPP BUDG) reiterated his question regarding **new, additional own resources** to finance climate intervention. In her reply, Ms SCHRATZENSTALLER described the first batch of the own resources share of the ETS revenues and of the Carbon Border Adjustment Mechanism (CBAM) revenues as an important first step. From the EP draft resolution on the subject, she highlighted some interesting new additional options, such as a levy on cryptocurrencies and the new statistical national contribution, which could be based on biowaste. She also supported **taxes on aviation**, noting that this option was missing from the EP draft.

Noting the impact of steeply rising prices on developing countries' industrial investment and also their food security**,** thereby undermining their climate change mitigation efforts, **Margarida MARQUES (S&D – BUDG)** asked how the Commission intended to help third countries address these issues. Mr PAQUOT agreed that these developments needed to be closely followed, and possibly taken up with heads of state directly, as calls for more funding raised in COP negotiations were not always matched by individual governments' priorities, as observed by EU delegations on the ground.

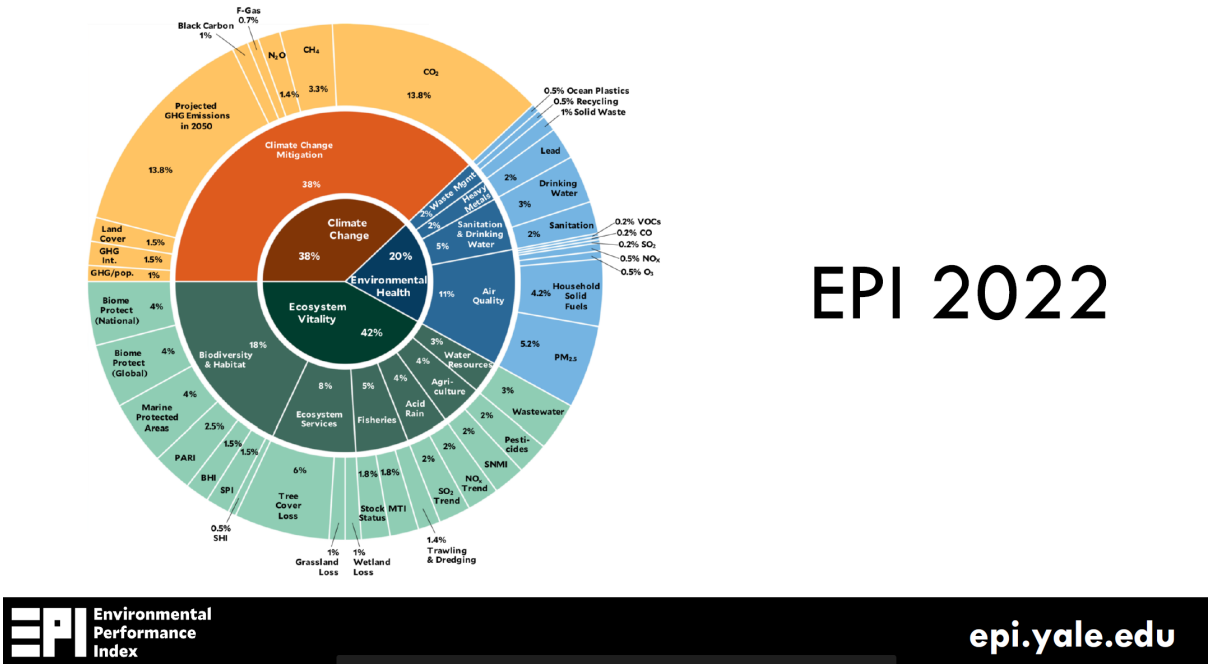
In reply to a question raised by **Rasmus ANDRESEN (Greens – BUDG),** Ms SCHRATZENSTALLER regretfully confirmed that there is **no real database regarding MS' individual pledges**. The numbers in her presentation were taken from a study by the World Resources Institute dating back to 2018. On Mr ANDRESEN's follow-up question for suggestions on new resources, she suggested including the 'Loss and Damage' fund as well, and creating an EU climate fund to bundle all pledges, both from the EU and from the MS.

Questioned more specifically about the **'Loss and Damage' fund** and how the EU contribution to it could be itemised in the budget, Mr PAQUOT replied that within the NDICI, there are already a lot of tools and instruments in humanitarian aid and in cooperation for development beyond the climate that address the needs for compensating loss and damage. The main difficulty is that, so far, the new fund's definition is vague and rather broad. In any case, new sources of revenue will be needed to finance all aspects of the climate transition.

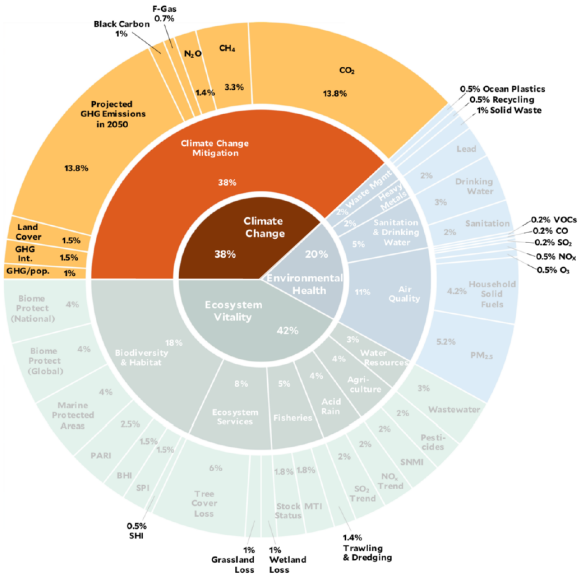
On Mr ANDRESEN's final question about **fossil fuel subsidies**, DG BUDG clarified that no such subsidies exist at EU level. Ms SCHRATZENSTALLER recommended including Member Statesfossil fuel subsidies in the European Semester, in order to maintain the pressure for a phase-out.

PRESENTATIONS


Climate Performance in the Environmental Performance Index
Which factors drive performance around the world?
Sebastián Block
Workshop on
The role of the EU budget in international climate finance
January 30th, 2023
Environmental Performance Index
Yale


Climate Change
38%
Environmental Health
20%
Ecosystem Vitality
42%
Climate Change Mitigation
38%
Projected GHG Emissions in 2050
13.8%
Black Carbon 1%
F-Gas 0.7%
N2O 1.4%
CH4 3.3%
CO2 13.8%
Land Cover 1.5%
GHG Int. 1.5%
GHG/pop. 1%
Biome Protect (National) 4%
Biome Protect (Global) 4%
Marine Protected Areas 4%
PARI 2.5%
BHI 1.5%
SPI 1.5%
SHI 0.5%
Biodiversity & Habitat 18%
Ecosystem Services 8%
Tree Cover Loss 6%
Grassland Loss 1%
Wetland Loss 1%
Fisheries 5%
Stock MTI Status 1.8%
Trawling & Dredging 1.4%
Acid Rain 4%
SO2 Trend 1.8%
Agri-culture 4%
NOx Trend 2%
Water Resources 3%
SNMI 2%
Pesti-cides 2%
Air Quality 11%
Wastewater 3%
PM2.5 5.2%
Household Solid Fuels 4.2%
Sanitation & Drinking Water 5%
Waste Mgmt 2%
Heavy Metals 2%
Lead 2%
Drinking Water 3%
Sanitation 2%
0.5% Ocean Plastics
0.5% Recycling
1% Solid Waste
0.2% VOCs
0.2% CO
0.2% SO2
0.5% NOx
0.5% O3

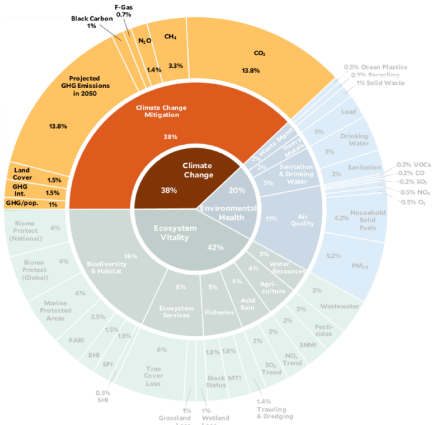
EPI 2022



Climate Change

Trends in the emissions of

greenhouse gases



Adjusted emission growth rates

- Carbon dioxide
- Methane
- Nitrous Oxide
- Fluorinated Gases
- Black Carbon

Growth rates from 2010 to 2019

PRIMAP-hist dataset

PIK Potsdam Institute for Climate Impact Research

Projected Emissions in 2050

GHG Intensity Growth Rate

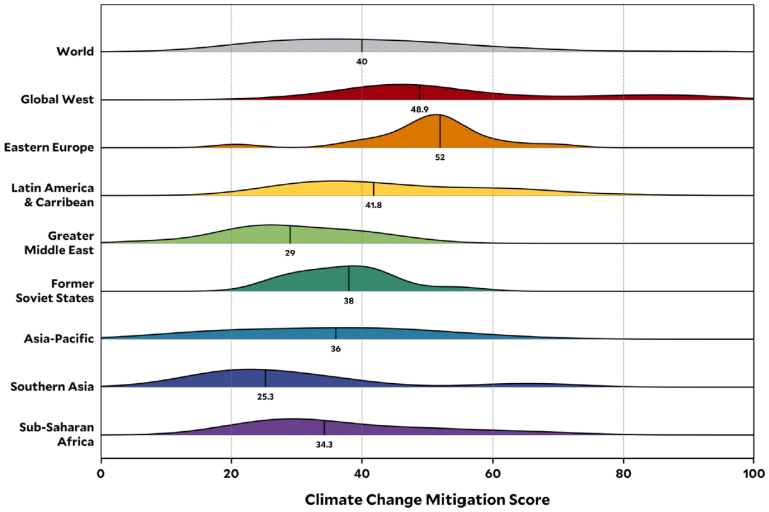
GHG per capita

GDP and population data from World Bank and IMF

CO_2 Emissions from Land Cover

FLINTPRO

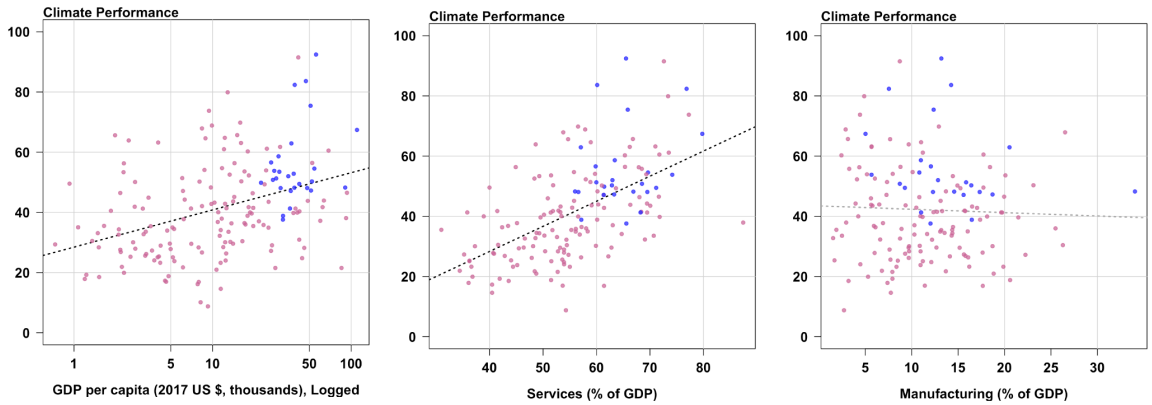
Poor climate performance around the world



Environmental Performance Index

epi.yale.edu

Service-oriented economies have better climate performance



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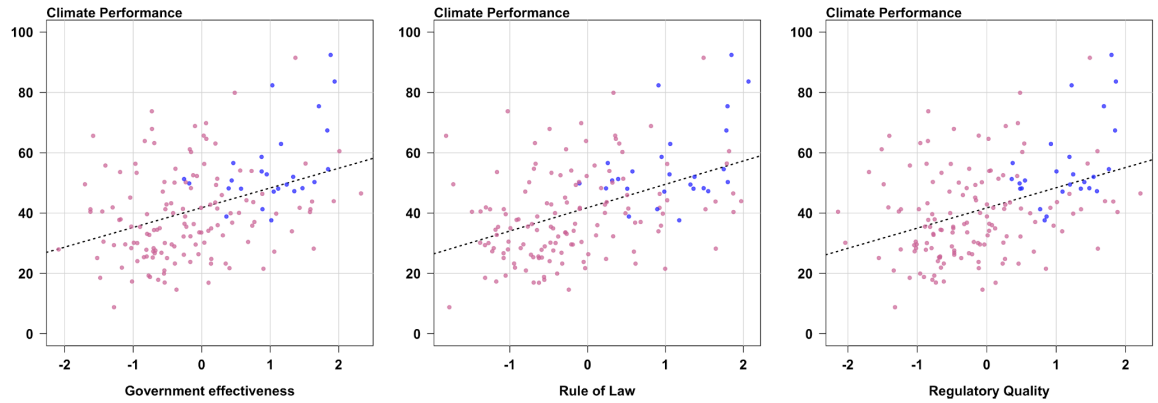
Governance factors are also correlated with climate performance



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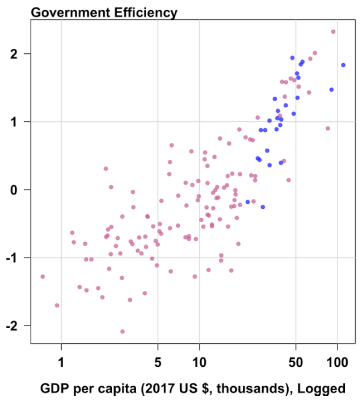
But what *drives* climate performance?

All these variables are correlated with each other



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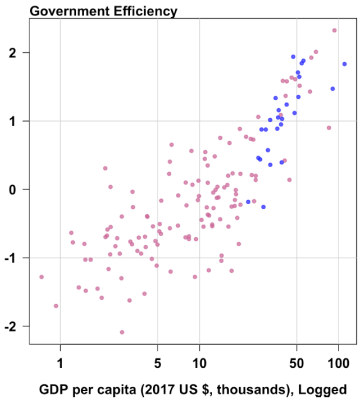
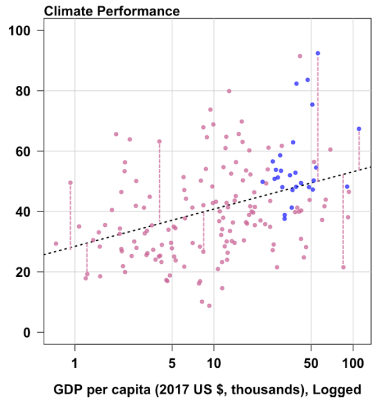
But what *drives* climate performance?

All these variables are correlated with each other



We need to look at variation not explained by GDP per capita



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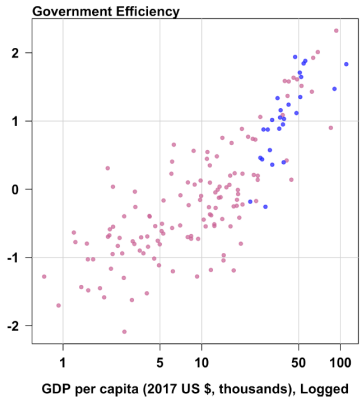
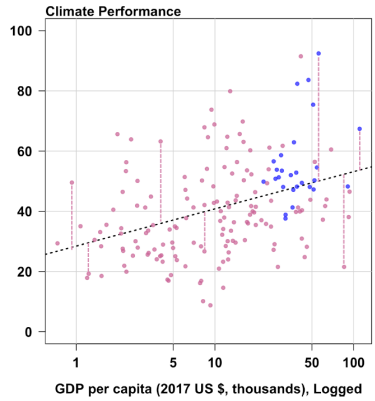
But what *drives* climate performance?

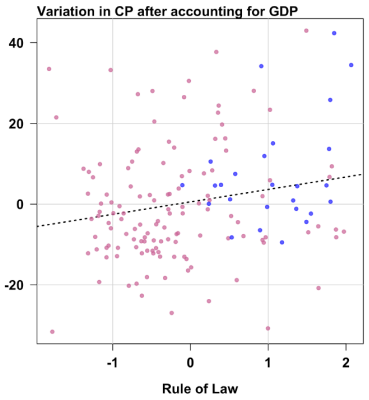
All these variables are correlated with each other



We need to look at variation not explained by GDP per capita



Rule of law explains CP after accounting for GDP per capita



Environmental Performance Index

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Summary

1. Finance enables the technologies needed to reduce emissions

2. Rule of law helps countries make better use of financial resources

3. The effects of different factors are hard to disentangle, and considerable variation remains unexplained

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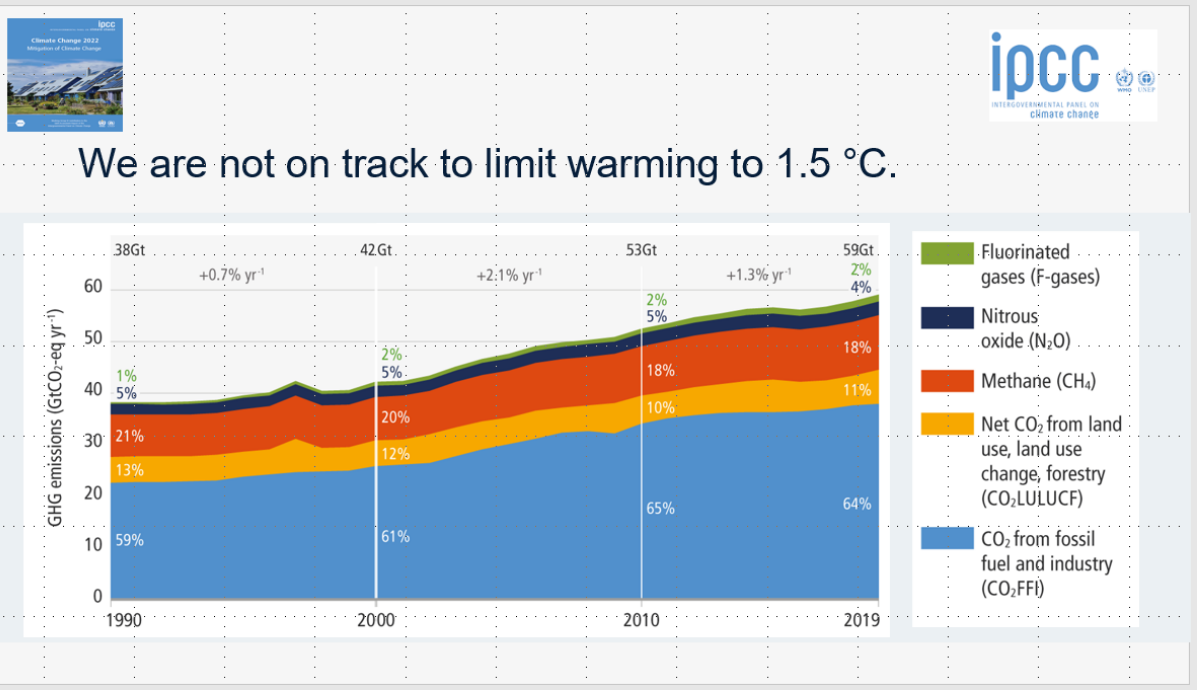
Climate change: the role of climate finance and way forward

Inge JONCKHEERE, PhD

FAO Forestry Division
Forest & Climate Group

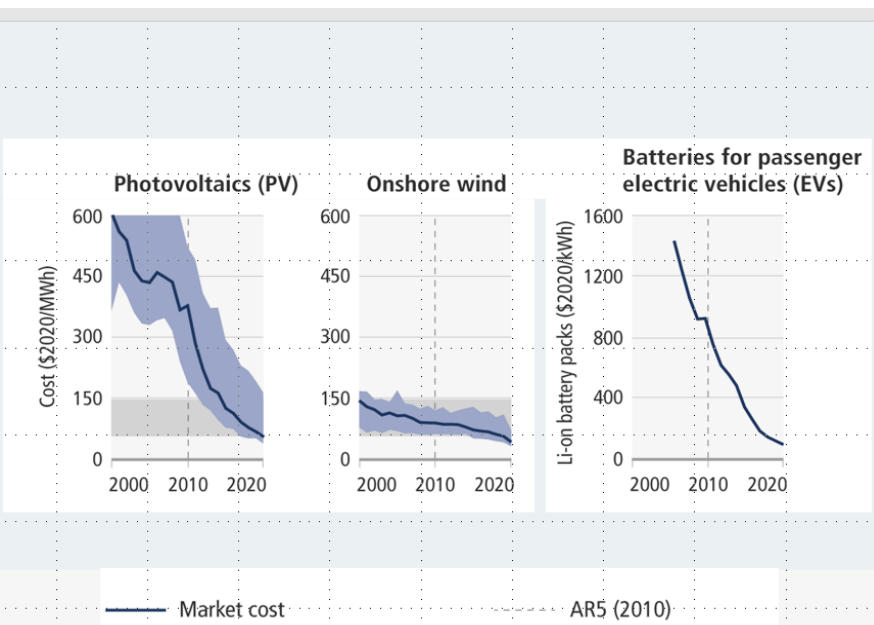
European Parliament, Brussels (BE)
30th January 2023



However, increased evidence of climate action

Some countries have achieved a **steady decrease** in emissions **consistent** with limiting warming to **2°C.**

Zero emissions targets have been adopted by at least **826 cities and 103 regions**



In some cases, costs for renewables have fallen below those of fossil fuels.


ipcc
INTERGOVERNMENTAL PANEL ON climate change
There are options available now in every sector that can at least halve emissions by 2030
Demand and services
Energy
Land use
Industry
Urban
Buildings
Transport

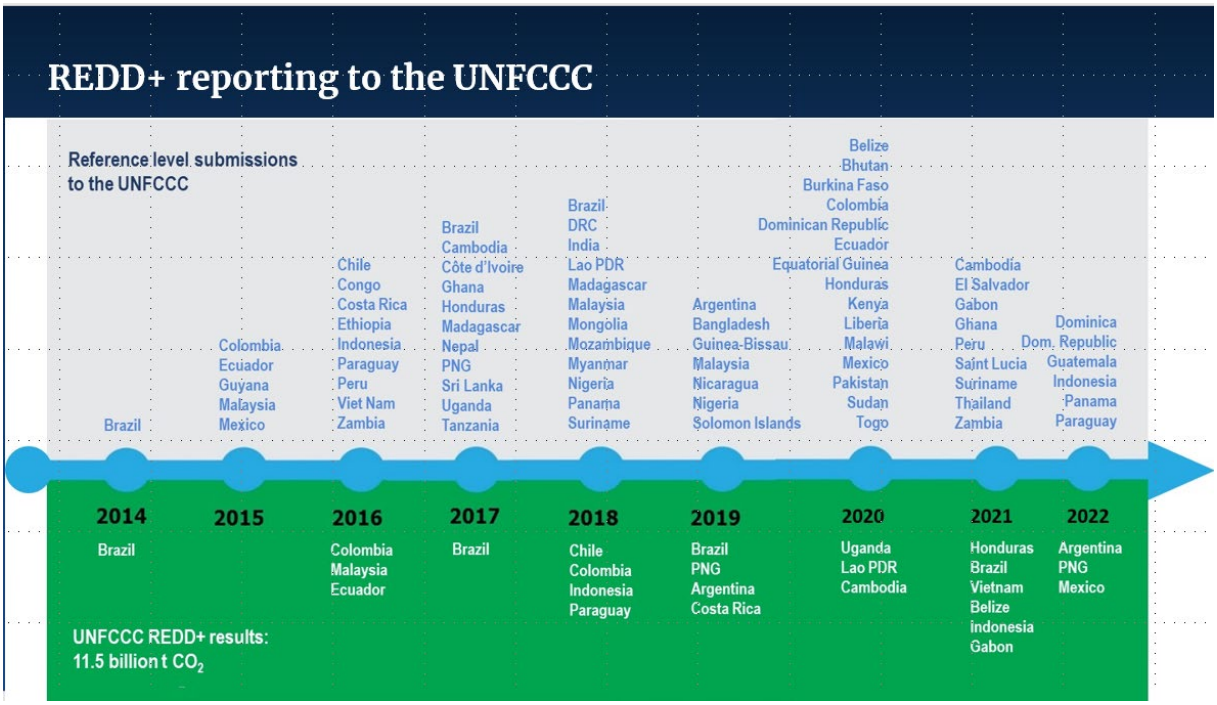

Closing investment gaps
Actual financial flows for climate: 3-6x lower than levels needed by 2030 to limit warming to below 1.5°C or 2°C
there is sufficient global capital and liquidity to close investment gaps
challenge of closing gaps is widest for developing countries
[Tobias/Unsplash, Rwanda Green Fund /CC BY-SA 2.0]

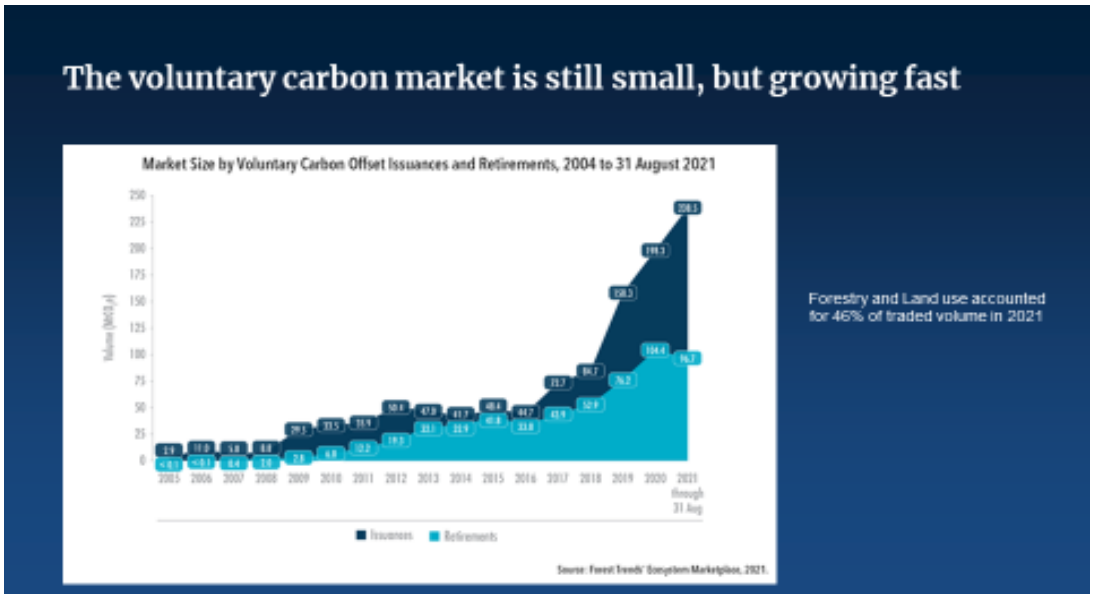
Technology and Innovation

- investment and policies **push forward low emissions** technological **innovation**
- **effective decision making** requires assessing potential benefits, barriers and risks
- **some options** are technically **viable**, rapidly becoming **cost-effective**, and have relatively **high public support**. Other options face barriers

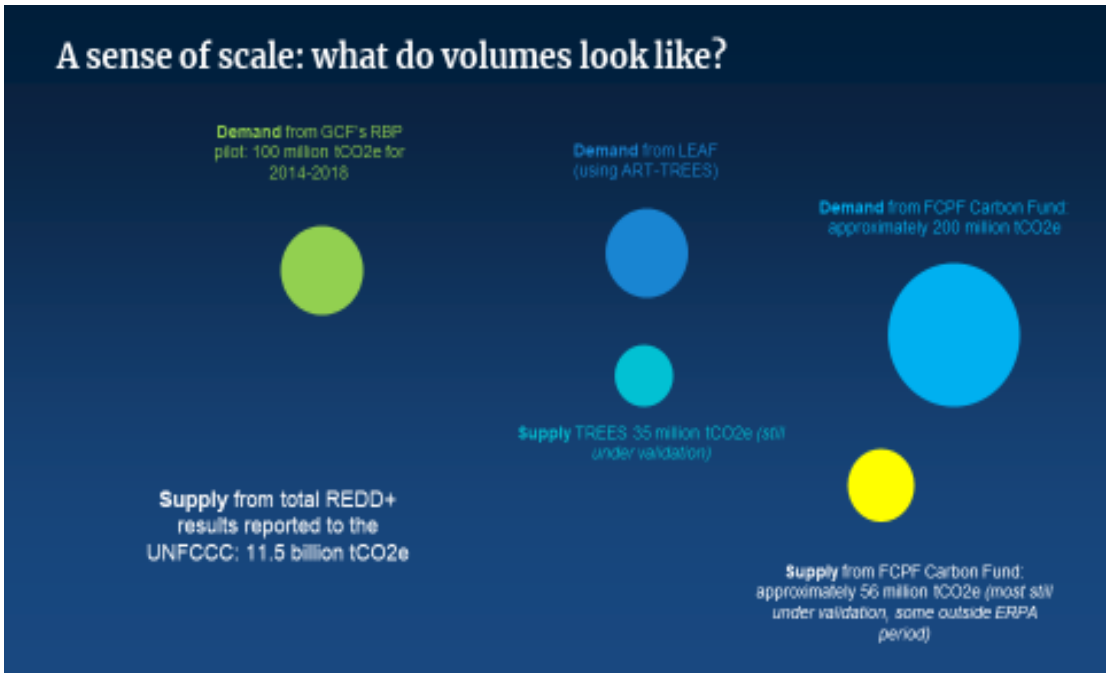
Adoption of low-emission technologies is slower in most developing countries, particularly the least developed ones.

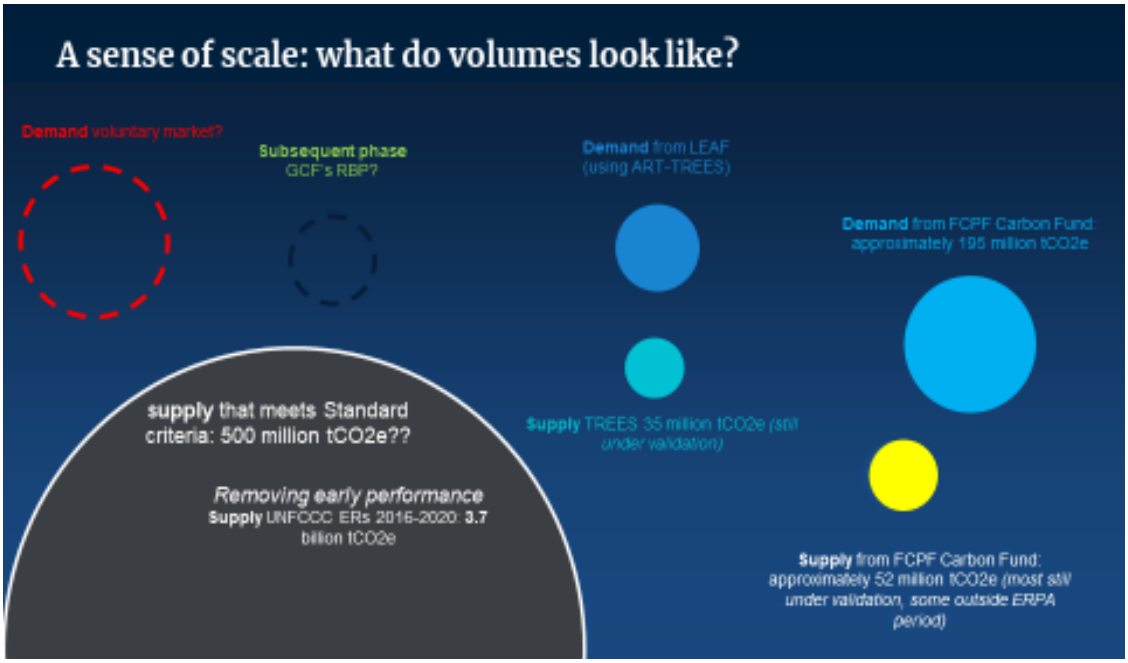
REDD+ reporting to the UNFCCC



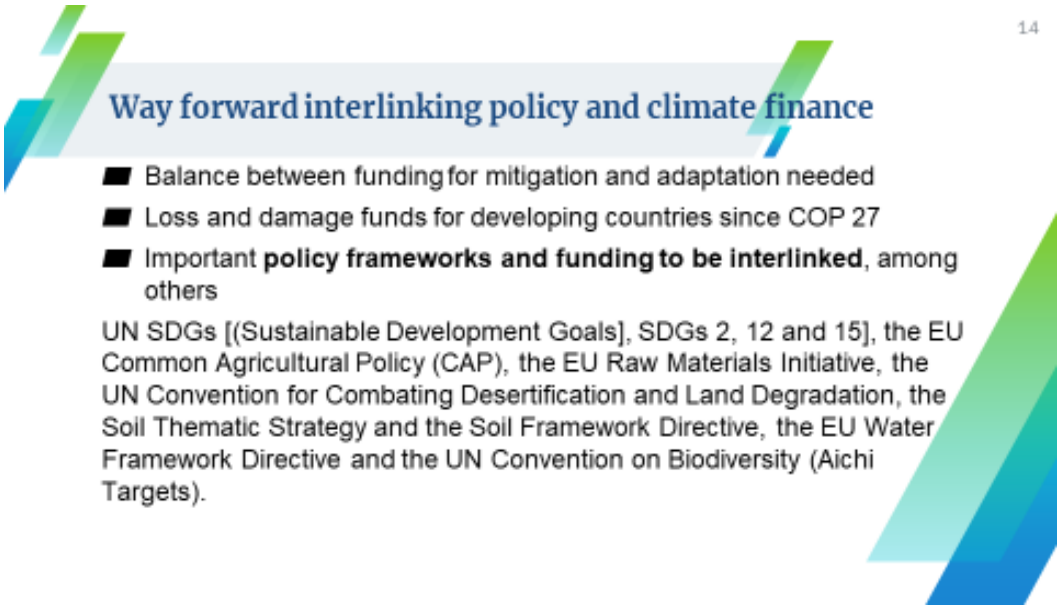

The voluntary carbon market is still small, but growing fast
Market Size by Voluntary Carbon Offset Issuances and Retirements, 2004 to 31 August 2021
Forestry and Land use accounted for 46% of traded volume in 2021


The complicated landscape of carbon finance opportunities
Results-based payments
Compliance markets
Voluntary carbon markets
GREEN CLIMATE FUND
FOREST CARBON PARTNERSHIP
JCM
ART
Architecture for REDD+ Transactions
CORSIA
VERRA


A sense of scale: what do volumes look like?
Demand from GCF's RBP pilot: 100 million tCO2e for 2014-2018
Demand from LEAF (using ART-TREES)
Demand from FCPF Carbon Fund: approximately 200 million tCO2e
Supply TREES: 35 million tCO2e (still under validation)
Supply from total REDD+ results reported to the UNFCCC: 11.5 billion tCO2e
Supply from FCPF Carbon Fund: approximately 56 million tCO2e (most still under validation, some outside ERPA period)


A sense of scale: what do volumes look like?
Demand voluntary market?
Subsequent phase GCF's RBP?
Demand from LEAF (using ART-TREES)
Demand from FCPF Carbon Fund: approximately 195 million tCO2e
supply that meets Standard criteria: 500 million tCO2e??
Removing early performance
Supply UNFCCC ERs 2016-2020: 3.7 billion tCO2e
Supply TREES: 35 million tCO2e (still under validation)
Supply from FCPF Carbon Fund: approximately 52 million tCO2e (most still under validation, some outside ERPA period)


13
Monitoring and policy needs (here and now)
Better data, better decisions? E.g. 10 years of UN-REDD
Need for (better) integration of measurable field, airborne and space borne parameters with practical land/forest (monitoring) solutions for the climate and policy implementation
Mitigation efforts versus adaptation: adaptation finance boosted after Glasgow COP: EU Mission on Adaptation to Climate Change plays a central, with support to at least 150 European regions and communities to become climate resilient by 2030.
In 2020, the EU and its Member States pledged around €23.39 billion in climate finance.
At COP26 the EU pledged €100 million to the United Nations Adaptation Fund


14
Way forward interlinking policy and climate finance
Balance between funding for mitigation and adaptation needed
Loss and damage funds for developing countries since COP 27
Important policy frameworks and funding to be interlinked, among others
UN SDGs [(Sustainable Development Goals], SDGs 2, 12 and 15], the EU Common Agricultural Policy (CAP), the EU Raw Materials Initiative, the UN Convention for Combating Desertification and Land Degradation, the Soil Thematic Strategy and the Soil Framework Directive, the EU Water Framework Directive and the UN Convention on Biodiversity (Aichi Targets).


Sixth Assessment Report
WORKING GROUP I & II – ADAPTATION & MITIGATION OF CLIMATE CHANGE
The evidence is clear:
The time for action is now


16
Thanks for your attention!
More info on www.fao.org
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WIFO ÖSTERREICHISCHES INSTITUT FÜR WIRTSCHAFTSFORSCHUNG

The EU Contribution to Current Climate Finance Goals – Status Quo, Requirements, and Options

Margit Schratzenstaller

Workshop „The Role of the EU Budget in International Climate Finance"
Brussels, January 30, 2023, European Parliament Budget Committee

Outline

Contribution of the EU budget

- to EU climate goals
- to international climate finance

2

WIFO

Contribution EU budget to EU climate goals (1)

Recent progress made

- Climate mainstreaming goal increased from 20% 2014-2020 to 30% 2021-2027
- Introduction of DNSH principle

3

WIFO

Contribution EU budget to EU climate goals (2)

Funds	Total (EUR billion)	% climate target
ERDF	226	Min. 30%
CF	48	Min. 37%
JTF	19.2[1]	100%
ESF+	99	Not specified
EAGF	291	Min. 40% (all CAP), specifically Min. 35% for EAFRD
EAFRD	95.5[2]	
EMFAF	6.1	Not specified
InvestEU	9[3]	Min. 30%
RRF	723.8[4]	Min. 37%
CEF	20.7	Min. 60%
ESP	14.8	Min. 30%
Horizon	86.1[5]	Min. 35%
LIFE	5.4	Min. 61%
IPA III	14.2	Min. 18% (20% by 2027)
NDICI	79.5	Min. 30%

Total volume MFF + NGEU: € 1.74 trillion (1.7% of EU-GNI)
Climate spending: € 0.5 trillion (0.5% of EU-GNI)

[1] based on EC MFF 2021. Note: [2] including EUR 10.8 billion allocated under NGEU; [3] including EUR 8 billion allocated under NGEU; [4] including EUR 47 billion allocated under NGEU; [5] including EUR 338 billion in grants and EUR 386 billion in loans allocated under NGEU; [6] including EUR 5.4 billion allocated under NGEU.

4

WIFO

Contribution EU budget to EU climate goals (3)

Open questions and issues (1)

- Targets and tracking methods differ across funds
- Implementation of DNSH principle differs (CAP?)

5 WIFO

Contribution EU budget to EU climate goals (4)

Open questions and issues (2)

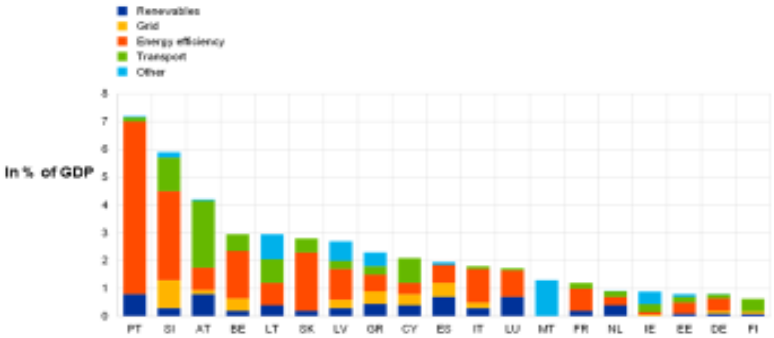
- No differentiation between adaptation and mitigation
- No comprehensive ex-ante and ex-post climate impact assessment

6 WIFO

Contribution EU budget to EU climate goals (5)

Is it enough?

Example of green investment gaps in Member States



Source: Delgado-Téllez et al. (2022).

7

WIFO

Contribution EU budget to EU climate goals (6)

The way forward (1)

- Increase space for increase of climate (and biodiversity…) spending through shifts within EU budget
- Apply DNSH principle

8

WIFO

Contribution EU budget to EU climate goals (7)

The way forward (2)

- Determine climate impact ex-ante and ex-post comprehensively
- Strengthen contribution of revenue side („green own resources“)

9 WIFO

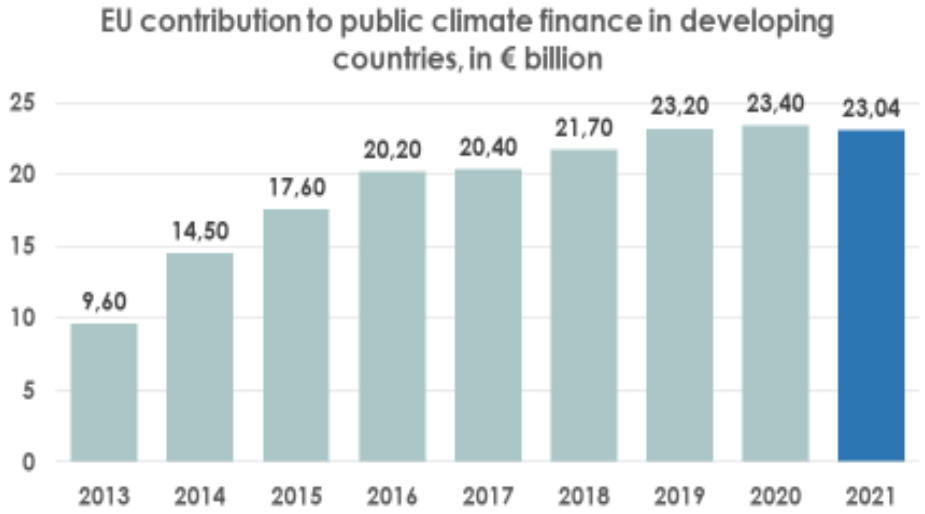
Contribution EU budget to EU climate goals (8)

The way forward (3)

- Increase climate mainstreaming goal
- Improve tracking methodology
- Don‘t forget other environmental goals (biodiversity!)

10 WIFO

EU contribution to international climate finance (1)

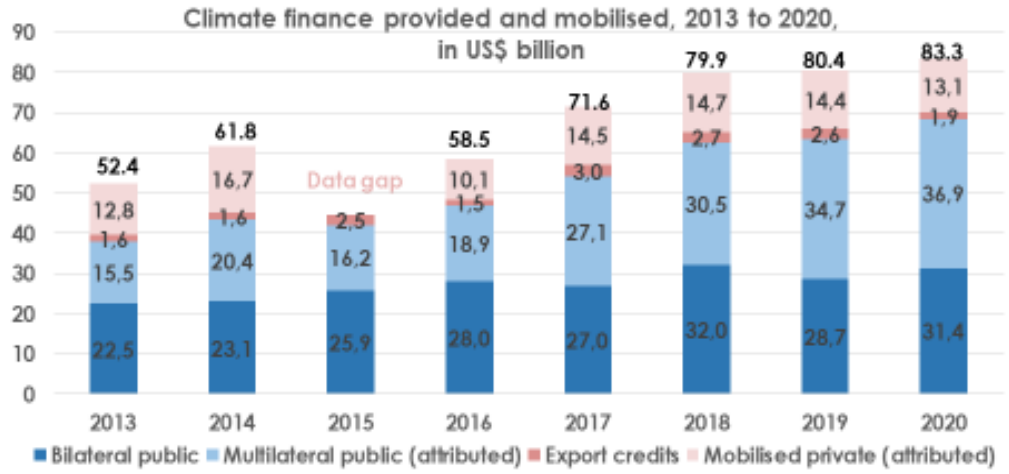


Source: Council of the European Union (2022).

11

WIFO

EU contribution to international climate finance (2)

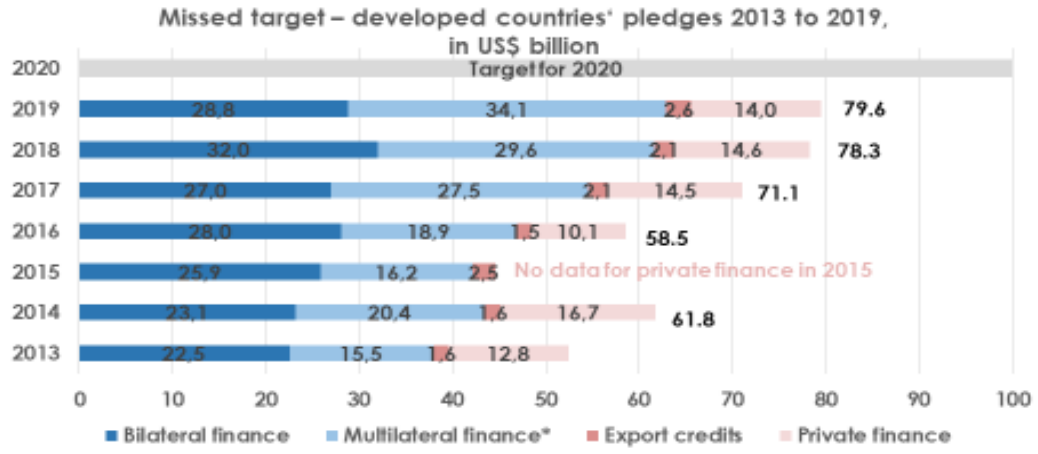


Source: OECD (2022).

12

WIFO

EU contribution to international climate finance (3)

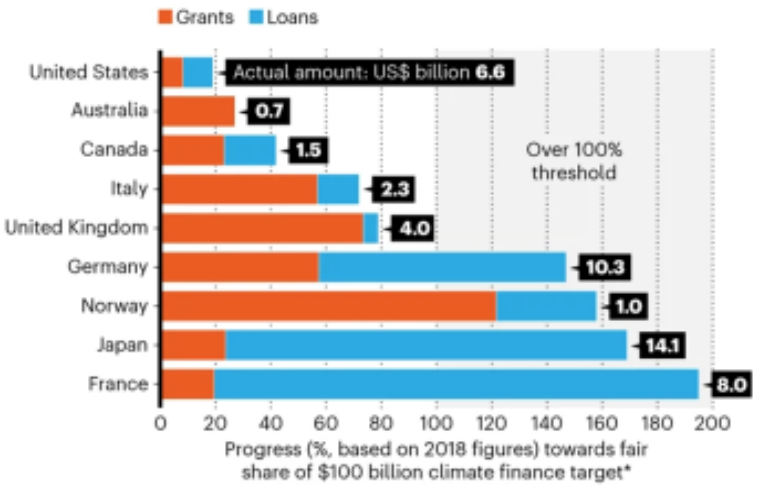


Source: OECD (2021). * Including financing through multilateral development banks.

13

WIFO

EU contribution to international climate finance (4)



Source: Timperley (2021). * Estimates include both bilateral and multilateral development bank financing, and incorporates European Union climate financing, apportioned to relevant nations.

14

WIFO

EU contribution to international climate finance (5)

Does EU contribution suffice?

- $ 100 billion by far not enough
- Pledges inflated

15 WIFO

EU contribution to international climate finance (6)

The way forward (1)

- Increase space in EU budget for additional EU contributions to international climate finance through
  - shifts in expenditures
  - raising (green) own resources

16 WIFO

EU contribution to international climate finance (7)

The way forward (2)

- Focus on grants (versus loans)
- EU-wide coordination of MS pledges („fair share“)

17 WIFO

EU contribution to international climate finance (8)

The way forward (3)

- Dismantle MS fossil fuel subsidies
- Mobilise private funds

18 WIFO

BRIEFING
Requested by the BUDG and CONT committees

European Parliament

Background information for the BUDG-CONT joint workshop on **'The Role of the EU Budget in International Climate Finance'**

The Committees on Budget (BUDG) and Budgetary Control (CONT) held a workshop on the role of the EU budget in international climate finance with invitation to Members of the Committee on Environment, Public Health and Food Safety (ENVI). The workshop covered a series of important questions regarding the financial instruments needed to reach the environmental goals set out in the Paris Agreement, of which the European Union (EU) and all its Member States (MS) are signatories. More specifically, the question was raised as to how much has been committed so far financially and how much of this is the EU's contribution. The key challenges in answering these questions are brought to light in the following sections. This briefing provides background information for Members of BUDG, CONT and ENVI about what is known to date about international climate finance and the role of the EU budget in this regard.

1. Introduction

Climate change and environmental degradation are two of the biggest global challenges of our time and represent an existential threat to Europe and the world. The EU and all its MS have signed the Paris Agreement (2015) which aims to limit global warming to well below 2°C, and preferably to 1.5°C, compared to pre-industrial levels. The European Green Deal functions as the EU's strategic roadmap of policy initiatives, which aims to support the path to a green transition, with climate neutrality for the European continent as the ultimate goal by 2050. To achieve these goals, investments from the public and private sectors are a necessity both within Europe and in the rest of the world.

According to the European Environment Agency, 'climate finance refers to investments that support significant reductions in greenhouse gas emissions, and to financial measures that help adapt to the current and future impacts of a changing climate'. In this light, climate finance refers to local, national, and transnational mechanisms of financing with the goal of supporting both mitigation and adaptation actions. While climate change mitigation specifically refers to efforts that seek to reduce or prevent the emission of greenhouse gases, adaptation to climate change points out the actions taken to prepare for and adjust to both the current and future effects of the changing climate. Climate finance is a necessity in both fields.

A call for financial assistance from Parties with greater financial resources in the developed world to those that are less endowed and more vulnerable is backed by the United Nations Framework Convention on Climate Change (UNFCCC), the Kyoto Protocol and the Paris Agreement. Country-specific climate action plans that specify national strategies to cut emissions and adapt to climate impacts are addressed in Nationally Determined Contributions (NDCs) that are renewed every five years. For effective NDC implementation, an unprecedented amount of climate finance needs to be mobilised.

Policy Department for Budgetary Affairs
Authors: Manuk SAHAKYAN and Sophie EISENBERGER
Directorate-General for Internal Policies
PE 742.134 - January 2023

EN

2. How much is actually needed?

Methodological challenges

A wide range of international organisations and climate experts have attempted to calculate the amount of international climate finance which is needed overall to reach the Paris Agreement goals. However, due to the highly complex character of the climate crisis and the significant range of policy fields that it touches upon, estimates vary widely. Generally, financial spending is split among mitigation and adaption actions which in turn are interrelated. While 'mitigation reduces all impacts (positive and negative) of climate change [by reducing the sources or enhancing the sinks of greenhouse gases] and thus reduces the climate challenge, adaptation is selective; it can take advantage of positive impacts and reduce negative ones'[1].

When looking at the international climate finance estimations needed to reach the Paris Agreement goals globally, one has to be aware of the inter-relationships between both terms. As outlined by the Intergovernmental Panel on Climate Change (IPCC), the relationship between adaptation and mitigation knows various forms. Adaptation action can have consequences for mitigation – and the other way around – while certain policy decisions can also include trade-offs or synergies between the two. The intrinsically complicated relationship between both types of actions makes it hard to calculate the real effects of climate spending on climate change. Additional key challenges – among many others – in assessing the cumulative costs of international climate finance relate to the effectiveness of financial spending on climate actions, the uncertainty associated with alternative emission scenarios, the environmental objectives set and the definitions used. The methodological limitations allow for the sketching of many different scenarios on how to finance the road to a net-zero transition and how much this will end up costing.

Estimation attempts

Ahead of the Sharm el-Sheikh COP27 UN Climate Change Conference in November 2022, the UN Environment Programme (UNEP) published two annual reports focusing on both ends of the scale. A differentiation can be made here between the financial needs for climate adaptation and mitigation. The Adaptation Gap Report 2022 (AGR) states that the adaptation finance gap in developing countries is widening rapidly as international support is not sufficiently aligned with the needs of 76 developing countries as expressed in their most recent NDCs. Although actions contributing to climate adaptation globally have been increasing significantly over time, estimated adaptation needs are currently between five to ten times higher than international adaptation flows. Based on data gathered from various sources, the AGR estimates that the annual cost of adaptation in developing countries could be between USD 160 billion and 350 billion by 2030. 'With increasing levels of climate change [in case the Paris Agreement goals are not sufficiently met in time], this annual cost was projected to increase to between USD 315 billion and USD 565 billion by 2050'[2]. With the cost of capital generally being even higher in emerging markets, developing countries rely almost entirely on their developed counterparts to finance this climate action gap.

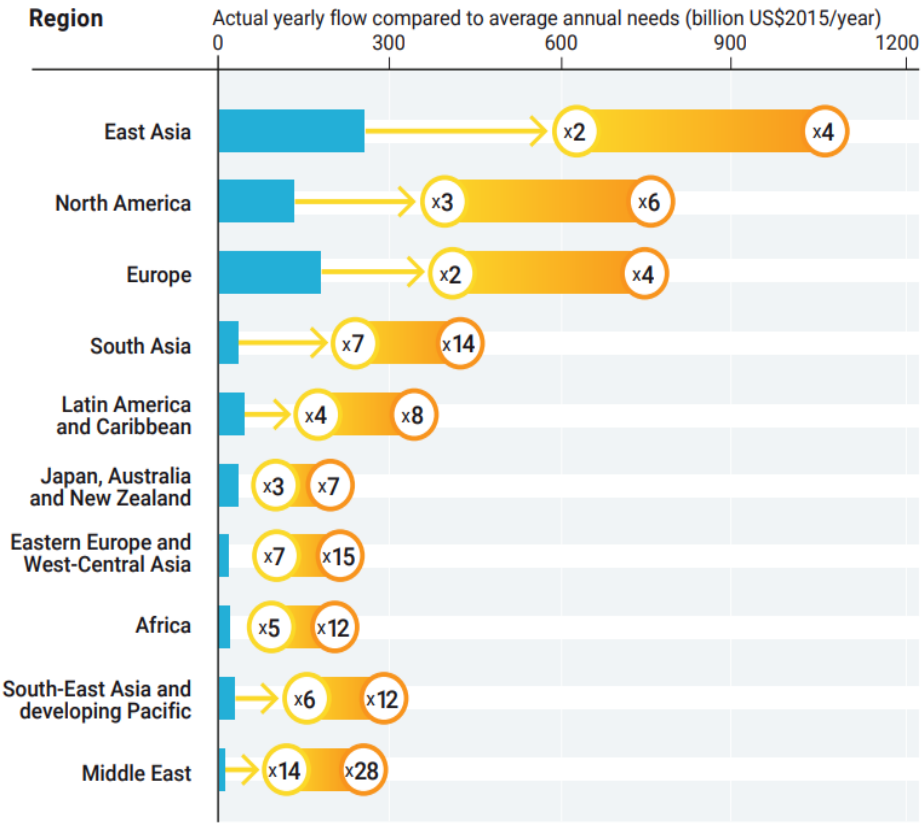
The Emissions Gap Report 2022 (EGR) by the UNEP published in the same month states that even if all objectives of the current NDCs of participating countries are successfully implemented, the planet would still end up with an increase of 2.6°C compared to pre-industrial levels, with the current state of policies in place even pointing at a 2.8°C rise. There is a crucial gap in national commitments and the actions necessary to reach the Paris Agreement goals. In particular, a rapid increase in investments in low-carbon assets – renewable energy sources – would be a necessity to support climate mitigation in the long run. While climate-related investments in mitigation rose significantly to about USD 571 billion per year in 2019-2020,

[1] Klein, R.J.T., S. Huq, F. Denton, T.E. Downing, R.G. Richels, J.B. Robinson, F.L. Toth, 2007: Inter-relationships between adaptation and mitigation. Climate Change 2007: Impacts, Adaptation and Vulnerability. Contribution of Working Group II to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change, M.L. Parry, O.F. Canziani, J.P. Palutikof, P.J. van der Linden and C.E. Hanson, Eds., Cambridge University Press, Cambridge, UK, 750.

[2] United Nations Environment Programme (2022). Adaptation Gap Report 2022: Too Little, Too Slow – Climate adaptation failure puts world at risk. Nairobi. https://www.unep.org/adaptation-gap-report-2022.

the IPCC has predicted that an increase by a factor of 3 to 6 is needed on average globally [3]. Based on research presented by the IPCC, Figure 1 shows the uneven distribution of climate investment needed per region averaged until 2030, with 2015 used as the base year[4]. It highlights the UNFCCC's call for financial assistance in terms of cross-border investment from Parties with greater financial resources in the developed world to those that are less endowed and more vulnerable.

Figure 1: Finance flows and mitigation investment needs per region (averaged until 2030)



Source: United Nations Environment Programme (2022). Emissions Gap Report 2022: The Closing Window – Climate crisis calls for rapid transformation of societies. Nairobi. https://www.unep.org/emissions-gap-report-2022, p. 66.

Using a different methodology, the report (October 2022) published by Climate Policy Initiative (CPI) states that at least USD 4.3 trillion in annual finance flows – mitigation and adaptation costs combined – by 2030 is needed overall to avoid the worst impacts of climate change. This, compared to preliminary estimates suggesting a total of finance flows in 2021 amounting to USD 850-940 billion, results in a recommendation of at least a factor of 4 regarding climate finance by 2030.

Separate research (2018) carried out by the Organisation for Economic Co-operation and Development (OECD) even estimates that an amount of USD 6.9 trillion is required annually up to 2030 to reach the current climate and development objectives, highlighting that annual investment in energy efficiency and renewable energy particularly would need to increase by a factor of 5 by 2050. Although all mentioned reports are based on different research using various types of methodology, the common conclusion is that there is a significant gap in international climate finance if the Paris Agreement goals are to be met.

[3] United Nations Environment Programme (2022). Emissions Gap Report 2022: The Closing Window – Climate crisis calls for rapid transformation of societies. Nairobi. https://www.unep.org/emissions-gap-report-2022.

[4] M. Pathak, R. Slade, P.R. Shukla, J. Skea, R. Pichs-Madruga, D. Ürge-Vorsatz (2022). Technical Summary. In: Climate Change 2022: Mitigation of Climate Change. Contribution of Working Group III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [P.R. Shukla, J. Skea, R. Slade, A. Al Khourdajie, R. van Diemen, D. McCollum, M. Pathak, S. Some, P. Vyas, R. Fradera, M. Belkacemi, A. Hasija, G. Lisboa, S. Luz, J. Malley, (eds.)]. Cambridge University Press, Cambridge, UK and New York, NY, USA. doi: 10.1017/9781009157926.002.

3. How much has been pledged or committed so far?

Tracking challenges

Throughout the research, a number of tracking challenges have been identified, which include but are not limited to the lack of data available on the private sector and some public sector flows, the disparity of sources, and the intertwining of public and private flows. Public international climate finance is making progress in its reporting methodology, enabling providers to understand climate investments better. However, the same level of reporting expertise is lacking in the private sector, which leads to data gaps. Another challenge is to get a complete picture of climate finance through individual country reports due to disparate sources. Finally, categorising the different financial flows (public/private and international/domestic) can also be difficult.

Climate finance between 2011 and 2020

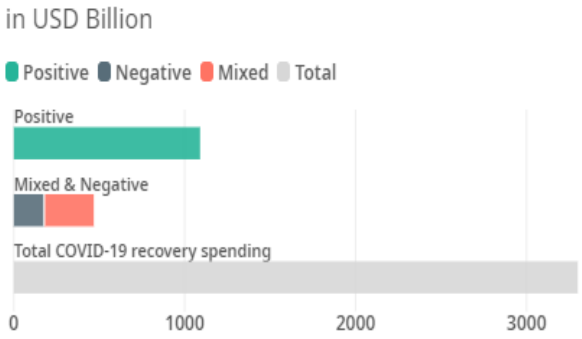
According to the recent CPI report, global climate finance has almost doubled over the past decade, with an average of USD 480 billion per year or a cumulative USD 4.8 trillion. Mitigation financing has grown by a 6% cumulative average annual growth rate (CAGR), while adaptation funding has been increasing rapidly, achieving an overall 16.7% CAGR. However, current rates of increase are not sufficient to achieve a 1.5°C global warming scenario, even if global climate finance has grown by 7% CAGR. Geographically, the largest share of climate finance (76%) was generated and spent at national level, i.e. primarily in East Asia and the Pacific (mainly led by China), North America and Western Europe. Annual climate flows averaged USD 653 billion in 2019-2020, 15% higher in comparison to 2017-2018[5].

Additionally, at COP16 in 2010, the Green Climate Fund (GCF) was established and subsequently designated as an operating entity of the financial mechanism. It is a financial mechanism established by the UNFCCC, which aims to facilitate the provision of climate finance and serves the Kyoto Protocol and the Paris Agreement. By October 2019, a total of 27 states – of which a vast majority are EU MS – had pledged to replenish the fund with an additional USD 9.78 billion equivalent for the four years that followed.

Green recovery measures

Following the COVID-19 pandemic, the OECD created a platform known as the Green Recovery Database, which measures economic recovery efforts with environmental impacts, ranking them as positive, negative or 'mixed'.

According to this database, the budget for environmentally positive measures increased from USD 677 billion to USD 1 090 billion, which is 33% of total stimulus spending announced since the beginning of the crisis.



Source: OECD Green Recovery Database (2022)

The USD 100 billion goal

At the UNFCCC's 15th Conference of the Parties (COP15) in Copenhagen in 2009, developed countries committed to a collective target of mobilising USD 100 billion annually by 2020 for climate action in developing countries. This target was recognised in the Cancun Agreements adopted at COP16. It was then reaffirmed and extended to 2025 at COP21 in Paris. In 2020, the initial target year under the UNFCCC, the total climate finance provided and mobilised by developed countries for developing countries amounted to USD 83.3 billion. While representing an increase of 4% from 2019, this means that the collective level of developed-country climate finance remained USD 16.7 billion short of the goal.

[5] Climate Policy Initiative [B.Naran, J.Connolly, P.Rosane, D.Wignarajah, E.Wakaba, B.Buchner]. 2022. Global Landscape of Climate Finance: A Decade of Data 2011-2020.

Climate finance components

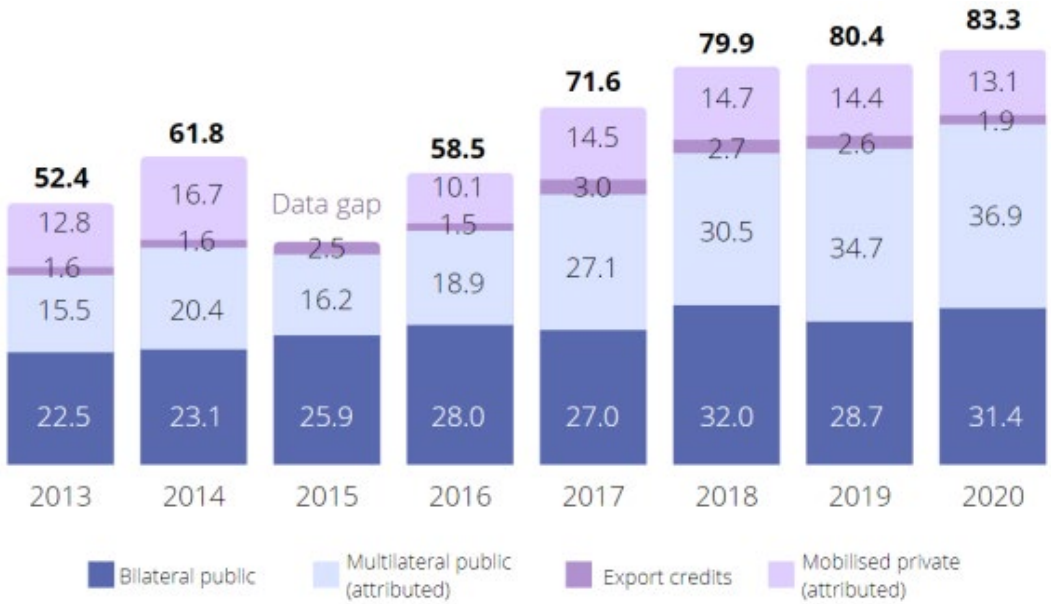
The OECD monitors climate finance provided and mobilised by developed countries for climate action in developing countries based on four distinct components:

- **Bilateral public climate finance**: public climate finance commitments (excluding export credits) by developed countries for developing countries;
- **Multilateral public climate finance attributed to developed countries**: climate finance provided by multilateral development banks (MDBs) and multilateral climate funds to developing countries;
- **Climate-related officially supported export credits**: financial support extended by developed countries' export credit agencies for climate-related projects in developing countries;
- **Private finance mobilised by bilateral and multilateral public climate finance and attributed to developed countries**: proportion of finance from private sources mobilised by bilateral and multilateral public finance interventions in support of climate activities in developing countries which can be attributed to developed countries.

Bilateral and multilateral public climate finance represented the largest share of the total. Between 2013 and 2020, it increased from USD 38 billion to USD 68.3 billion, i.e. by 80%. It should also be noted that since 2015 it has constantly increased year on year. In particular, from 2013 to 2020, multilateral public climate finance attributable to developed countries increased by 138%, compared to a 40% increase in bilateral public climate finance for the same period[6].

As for climate-related export credits, between 2013 and 2020, they increased by 19%, but their proportion of the total remains modest. Mobilised private climate finance increased by almost 30% between 2016 and 2020.

Figure 2. Climate finance provided and mobilised in 2013-2020 (USD billion)



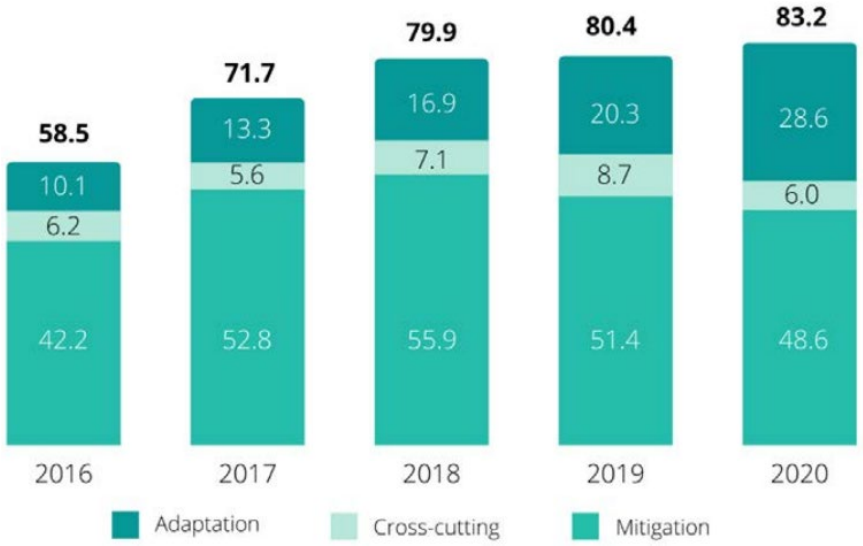
Source: OECD, Aggregate Trends of Climate Finance Provided and Mobilised by Developed Countries in 2013-2020, https://doi.org/10.1787/d28f963c-en

[6] OECD (2022), Aggregate Trends of Climate Finance Provided and Mobilised by Developed Countries in 2013-2020, Climate Finance and the USD 100 Billion Goal, OECD Publishing, Paris, https://doi.org/10.1787/d28f963c-en

Thematic split of climate finance

Both mitigation and adaptation funding provided and mobilised by developed countries increased in absolute terms between 2016 and 2020. However, over the period 2019-2020, while adaptation funding increased by USD 8.3 billion (41%), mitigation funding decreased by USD 2.8 billion (5%). In 2020, mitigation represented 58% of total climate finance provided and mobilised (Figure 2).

Figure 3. Thematic split of climate finance provided and mobilised in 2016-2020 (USD billion)



Source: OECD, Aggregate Trends of Climate Finance Provided and Mobilised by Developed Countries in 2013-2020, https://doi.org/10.1787/d28f963c-en

4. How much is the EU's contribution?

The European Union and its MS are strongly committed to supporting the Paris Agreement and limiting global warming. In this context, the EU countries are committed under the European Climate Law to a reduction of greenhouse gas emissions by at least 55% by 2030, supporting the objective to become the first climate-neutral bloc by 2050.

EU budgetary expenditure and instruments

According to the Commission, 20% of the total EU budget of the multiannual financial framework (MFF) 2014-2020 (totalling EUR 908.40 billion in payments) was spent on climate-related actions. This amounts to a total of EUR 216 billion of spending on climate-relevant measures under the previous MFF.

The current MFF combines EUR 1 074.3 billion (MFF) and an additional EUR 750 billion (NGEU recovery instrument) for a total budget of EUR 1.8 trillion for the years 2021-2027. An overall climate target of 30% applies to the total amount of expenditure from the EU budget under the current MFF and 35% for the Neighbourhood, Development and International Cooperation Instrument (NDICI) which forms the main financial pillar of the Union's external action. The EU continues its commitment towards the jointly set goal of mobilising USD 100 billion per year until 2025 in order to contribute to climate action support regarding developing economies. The EU is financing the transition to climate neutrality through various instruments in the current EU budget. Table 1 lists the most prominent instruments in the MFF 2021-2027.

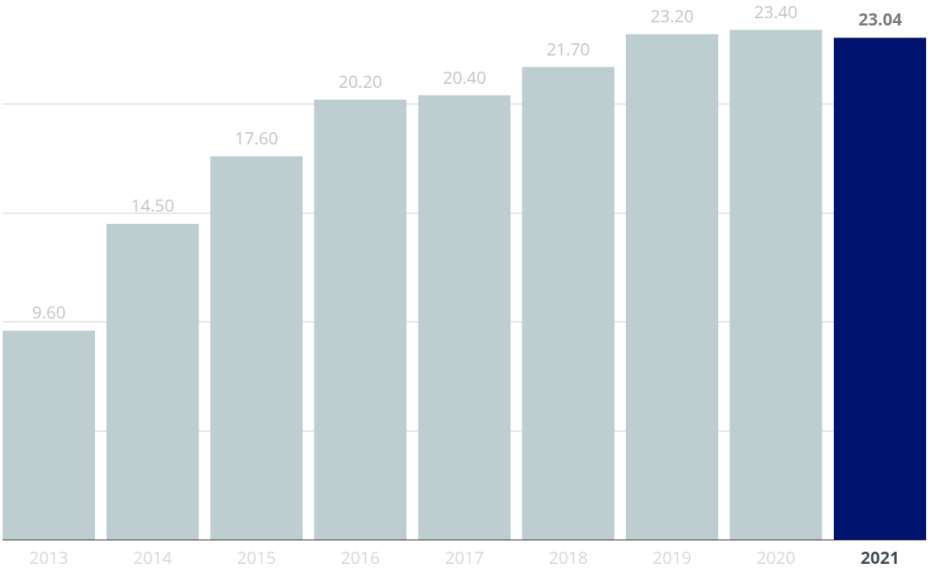
Table 1. EU budgetary instruments for climate finance

Programme	Description	MFF 2021-2027 funding (EUR)
Just Transition Mechanism	Aims to address the socioeconomic impact of the transition to a low-carbon economy and environmental legacy problems to harness new sustainable economic development opportunities for the places and communities most affected.	65-75 billion
Modernisation Fund	Intended to support 10 MS in meeting 2030 energy targets by contributing to the modernisation of energy systems and improving energy efficiency.	14 billion
Horizon Europe	The EU's main funding programme for research and innovation, tackling climate change and helping to achieve the UN's Sustainable Development Goals.	95.5 billion
Innovation fund	One of the world's largest funding programmes for the demonstration of innovative low-carbon technologies that contribute to the reduction of greenhouse gases.	10 billion
LIFE Programme for the environment and climate action	One of the cornerstones of European environment and climate funding, contributing to the implementation, updating and development of EU environmental and climate policy and legislation by co-funding projects with European added value.	5.4 billion

Beyond the EU

The EU and its MS and the European Investment Bank (EIB) are together the largest contributor of public climate finance to developing economies, providing around EUR 23.4 billion overall in the year 2020 alone. The Commission's contribution to developing economies was EUR 2.6 billion in 2020, the majority of which tackles climate adaptation activities. Worldwide, the EU is one of the top providers of development assistance, into which climate action is progressively integrated. The infographic in Figure 4 illustrates that funds raised to support developing countries to mitigate and adapt to the impact of climate change have more than doubled since last decade.

Figure 4. Europe's contribution to climate finance (in EUR billion) since 2013



Figures include sources from public budgets and development financial institutions of the EU, its member states (including the UK) and the European Investment Bank.

Source: European Council, https://www.consilium.europa.eu/en/infographics/climate-finance/.

Supporting public and private climate finance

Although a significant and increasing share of the EU's budget is committed to climate action, there is still a need for countries to attract additional public and private financing for the transition to a climate-friendly economy. According to data from the World Resource Institute, USD 76 billion globally was invested in unsustainable, polluting activities and fossil fuels by public and private agencies in the year 2020 alone. At the same time, significant shortages remained regarding the USD 100 billion promises made in the Paris Agreement. According to the Commission, 'international climate finance should be used as a lever to incentivise climate-resilient and low-carbon investments, complementing domestic resources in developing countries'. The EU set an important example by establishing a common language and a clear definition of what is 'sustainable' through the EU Taxonomy and providing guidance in this regard.

EU Taxonomy

Regulation (EU) 2020/852 represents a key step towards the Union's objective to achieve climate neutrality by 2050 by establishing a framework to facilitate sustainable investment by means of providing a unified classification system for environmentally sustainable economic activities. In this light, the EU taxonomy would support both public and private investors as well as policy makers with appropriate definitions for which economic activities can be considered environmentally sustainable. It should contribute to protecting private investors from greenwashing and to help companies to become more climate-friendly while shifting investments to where they are most needed.

Source: https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en

Challenges

According to a recent European Court of Auditors (ECA) report, the Commission fell short of its self-imposed target to spend 20% of the EU budget for 2014-2020 on climate action. The ECA reported that the Commission's estimated spending was not always effectively relevant to climate action. The report highlights that the Commission overstated international climate finance by more than EUR 72 billion. This in turn would mean that only 13% of the EU budget (2014-2020) has actually been dedicated to climate action. To improve future reporting on climate spending, the ECA recommended that the Commission obtain scientific evidence to support the contribution from agricultural policy, the largest component of the EU's climate reporting. Also recommended is enhancing climate reporting by identifying EU spending with a potentially negative climate impact, issuing guidelines to ensure consistency, and taking stock of unused amounts.

With climate targets far from achieved, there is enormous room for improvement overall regarding international climate finance. Nonetheless, according to the Environmental Performance Index (EPI) 2022, which provides a databased overview of the state of sustainability in the world, EU MS are generally among the highest-performing countries. This results from long-standing and ongoing investments in policies that protect environmental health, preserve biodiversity and habitats, conserve natural resources, and decouple greenhouse gas emissions from economic growth. The framework and funding for international climate finance provided by the EU has contributed to the high ranking of its MS.

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This joint workshop gave members of the BUDG and CONT Committees an overview of global efforts to finance the fight against climate change and of the EU's role in this context. Key findings were:

- The EU's contribution, both regulatory and financial, is considerable and exceeds its 'fair share';
- However, a significant gap remains between actual commitments globally and the agreed funding level of USD 100 billion per year;
- Even more funding will have to be mobilised, including from private donors, as this amount is merely the starting point for the next round of negotiations, which will also cover loss and damage.

MEPs present agreed that both committees should continue to discuss these issues over the coming months.

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