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on European Court of Auditors Special Report N° 17/2013 (2013 Discharge): "European Union Climate Finance in the context of External Aid"

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Rapporteur: Derek Vaughan

Introduction

Climate change is one of the greatest environmental, social and economic threats facing the planet. Millions of people in developing countries could be pushed back into poverty by climate change which poses a fundamental threat to economic development and the achievement of the Millennium Development Goals. Many developing countries remain vulnerable to climate change and often lack of sufficient resources to cope with the accelerating threats among others to water, energy, soil, forests or fish stocks.

Within the United Nations Framework Convention on Climate change (UNFCCC), developed countries have pledged to increase their support to assist developing countries in their efforts to adapt to and mitigate the impact of climate change. In 2009, developed countries agreed with the 'Copenhagen Accord' new and additional financing of USD 30 billion through the "Fast Start Finance" (FSF) for 2010-2012 and a long term commitment of USD 100 billion per year by 2020. With the 'Cancun Agreement' in 2010, a global Green Climate Fund (GCF) was set up to channel most of this funding.

At European level, climate change became an important priority of EU foreign policy leading to the progressive emergence of EU climate diplomacy with important security implications. The Commission funds climate finance in the context of external aid from the EU budget and the European Development Funds. Over the 2003-2012 period, the EU committed approximately €4.7 billion in climate finance and €155 million to fund climate-related disaster preparedness. The Member States jointly pledged to contribute another €7 billion to the "Fast Start Finance Initiative" (FSFI), a programme to help developing countries implement immediate, urgent action to tackle climate change. Collectively, the EU and its Member States are the largest contributor of climate finance to developing countries.

Audit Scope and Objectives

The Court audited the provision of climate finance for developing countries by the EU and concentrated its assessment around two axes:

- The Court examined whether the Commission has managed climate related spending from the EU budget and the European Development Fund (EDF) well.

- The Court then considered whether the Commission has taken appropriate steps to promote coordination with EU Member States in respect of climate finance for developing countries, and whether such coordination has been adequate.

The audit covered the Commission’s climate change finance initiatives taken in the 2007-2013 period with an impact up to 2020. It involved documentary reviews, desk reviews of programmes in sixteen countries and two regions, interviews and on-the-spot audit visits to four countries: Bangladesh, Indonesia, Tanzania and Uganda.

Court's Findings and Observations

- *Has the Commission managed climate-related support funded from the EU budget and the EDF well?*

The Court first examined whether financial resources allocated by the Commission to address the challenges of climate change were adequately reflected in policy commitments and were tailored to the specific circumstances of partner countries and regions.

The Court found that the Commission has performed well as regards its management of climate-related support funded from the EU budget and the EDF. The Court indeed observed that the Commission, in line with policy commitments, steadily increased climate-related spending for developing countries through the EU general budget and EDF during the ten-year period ended 2012, which included a supplementary contribution of 155 million euro provided under the Fast Start Finance initiative. Over the 2007-2013 programming period, approximately 3,7 billion euro was committed to climate related programmes until the end of 2012, i.e. about 8 % of the total EU budget and EDF development funding.

For the 2014-2020 period, the European Council has endorsed targeting at least 20 % of total EU spending on climate-related action, reflecting the EU's strategic priority of addressing climate change. The Court noted that this 20 % target was included in the draft Development Cooperation Instrument (DCI) regulation for the 2014 to 2020 period, and in the 11th EDF programming instructions. Assuming that the 20 % target were applied to all external aid, this would represent an estimated amount of 11,6 billion euro for climate change under external aid, that is to say more than a threefold increase compared to the amount committed over the 2007-2013 period.

The Court considered that the Commission tailored its climate finance to the specific circumstances of individual partner countries. During 2007-2013, the Commission's programming guidelines required analyses of climate change-related risks and opportunities for each partner country to be carried out. In 2009, guidelines were issued to the EU delegations indicating how climate change should be taken into account in specific sectors. For the sample of sixteen countries and two regions reviewed, the Court observed that the Commission adequately reflected the climate change priorities identified for most of them in its 2007-2013 programming. Taking the sixteen countries in its sample, the Court analysed in detail a further sub-sample of eight countries and two regions as to whether the Commission's climate-related interventions addressed the priorities identified by partner countries themselves. The Court found that programmes were appropriately targeted.

- *Has the Commission taken appropriate steps to promote coordination with EU Member States in respect of climate finance for developing countries; and has such coordination been adequate?*

The Court assessed the coordination between the Commission and Member States in respect of climate finance for developing countries, in particular progress made in a number of areas in ensuring that the actions of the EU and the Member States are complementary and efficient by looking at the following components: (i) the coordination of Commission country programmes with those of Member States, (ii) the Commission promotion of coordination with Member States to comply with international climate finance long-term commitments as agreed in the 2009 'Copenhagen Accord', (iii) the achievement in respect of monitoring, verifying and reporting on climate finance pledged and paid, (iv) the extent of progress made in these areas to make possible to verify and analyse the contributions made by the EU and the Member States to the FSF and (v) whether the EU has contributed to simplifying the mechanisms for delivery of climate finance ('reducing fragmentation').

It appeared from the Court's assessment that improvement was needed in the coordination of EU and Member States country programmes implying a prior clear division of labour and identification of comparative advantages between donors, but such a specific analysis was not carried out by EU delegations, neither an exchange of information between the Commission and Member States on allocations by country under their climate finance initiatives to identify overlaps or gaps in aid allocations.

The work of the Court identified several factors preventing a better coordination such as the donor willingness to cooperate on aid effectiveness and the fight against corruption, the national authority willingness to cooperate and the presence of a national climate strategy.

The Court's visits in Bangladesh, Tanzania, Uganda and Indonesia showed that there remained scope for improving the quality of donor coordination at the stage of implementation of programmes and to clearly define government roles and responsibilities regarding climate change.

Moreover, the Court's audit also highlighted the vulnerability to corruption for these four countries, making thus essential effective cooperation between donors to reduce the risk of corruption.

With regard to national governments' willingness, a mixed picture was found during the Court's visits in the four aforementioned countries; the Court pointing out that a single clear national climate strategy can reinforce national ownership and facilitate donor coordination. The Court also found that, in all four countries, the lack of prioritisation within government weakened climate change strategies and action plans.

Concerning the intensification of the long term climate finance, the Court's review highlighted that the Commission and Member States have not agreed how to meet the commitment to scale-up climate finance by 2020. Even though the Commission after the 'Copenhagen Accord' tried both to increase total EU and Member States' climate finance by identifying potential innovative sources[1] and to take several initiatives to tap these potential innovative sources of finance in coordination with Member States, significant challenges remain to meet the 2020 commitment insofar as there is no agreement globally on what types of spending will count as private finance and no roadmap proposed by the Commission.

The Court also found that a robust monitoring, reporting and verification system providing comprehensive and reliable information on the Commission's and Member States' climate related spending to monitor compliance with commitments made has not yet been established.

While common reporting formats have been agreed with the entry into force in June 2013 of the mechanism for monitoring and reporting greenhouse gas emissions (MMR), following the adoption of the UNFCCC reporting framework in February 2013, common standards and definitions related to 'new' and 'additional' resources, common parameters to quantify the climate finance component of 'Rio Marked programmes' and the way to distinguish between promises and payments are still missing. Therefore, this makes difficult the comparability of data, the reconciliation and the reporting on the disbursement of funding.

[1] The potential innovative resources are the following: auction revenues under the EU Emissions Trading System (EU ETS), carbon pricing of international aviation and maritime transport, a new Carbon Market Mechanism, a financial sector levy and access to climate finance through multilateral and other development banks.

The Court observed that the extent to which the FSF pledge has been fulfilled remains unclear especially for the reconciliation of the 7.34 billion euro mobilized by the EU and Member States between 2010 to 2012 with the data in the 'list of interventions'. The Court was only able to reconcile 5.48 billion euro and the Commission did not review the accuracy of the submissions by Member States and was unable to explain this difference of 1.86 billion euro (25% of the reported total).

On the reduction of the fragmentation of climate funds, the Court found that no attempt has been made to reduce the proliferation of climate funds which poses real coordination, ownership, accountability and governance challenges. It is also worth noting that the Commission and Member States use bilateral and multilateral channels (22 were recorded in 2010) to disburse climate finance. Furthermore, the Court's assessment showed that only a few Member States contributed for the Global Climate Change Alliance (GCCA) initiated by the Commission and that the EU and Member States did not act jointly for the Green Climate Fund (GCF) set up after the 'Copenhagen Accord'.

Summary of the Commission and European External Action Service Replies

The Commission and the EEAS agreed that the coordination of aid allocations at the global level was weak and will take initiatives to improve EU level coordination of climate finance in relevant expert groups to increase complementarity of efforts (e.g. Economic Policy Committee (EPC), Expert Group on means of Implementation (EGI), Expert Group on Adaptation (EGA)). The Commission and the EEAS also recognized that by end 2011, the EU had not made as much progress in joint programming as hoped. Since then, a commitment to Joint Programming has been made in some 40 countries.

Regarding the commitment to scale-up climate finance by 2020, the Commission has already developed an EU vision on scaling up of climate finance by 2020. EU and Member States have submitted to UNFCCC in September 2013 their views on strategies and approaches for mobilizing scaled-up climate finance, as a contribution to the commitments made by all developed countries for 2020. Moreover, in line with ECOFIN Council Conclusions of 15.10.2013 *'the EU and its Members States have committed to scaling up the mobilisation of climate finance in the context of meaningful mitigation actions and transparency of implementation, in order to contribute their share of the developed countries' goal to jointly mobilise USD 100 billion per year by 2020 from a wide variety of sources...*'.

In this background, the Commission recalled its efforts to include a definition of private climate finance within the Economic Policy Committee Working Group on energy and climate change and agreed to initiate a discussion with Member States on the launch of a roadmap. However, the Commission considered that the final decision will depend on the Member States. An independent evaluation of the Global Climate Change Alliance was planned to start in December 2013.

The Commission and the EEAS agreed to work with Member States towards agreeing on a common EU standard for Monitoring, Reporting and Verification (MRV) of public climate finance in time for the 2014 Monitoring Mechanism Regulation reporting and mentioned that a basic system was already in place for reporting on commitments against the 20% target. The Commission will within the coming 12 months conduct a review of the Rio marker system in view of identifying weaknesses and proposing actions for improving the application of the

system. Further, the Commission will include data on climate relevant commitment in the Annual Reports.

From the point of view of the Commission, the Fast Start Finance commitment was met within the parameters given in the relevant UNFCCC documents. The Commission agreed however that certain methodological concepts need further work and agreement at international as well as at EU level in order for the system to become more robust.

On the current fragmentation of climate funds, the Commission has made attempts to reduce the proliferation of these funds e.g. through playing an active role in the initial work to set-up the Green Climate Fund (GCF). The Commission has also jointly with Member States backed the position that this GCF should become the main financing delivery channel under the Convention.

Draftsman's recommendations for possible inclusion in the Commissions' annual discharge report

[The European Parliament]

1. Welcomes the special report examining the EU climate finance in the context of external aid as an important contribution to the overall political and financial debate about the European Union's climate policy and diplomacy; takes note of the findings, conclusions and recommendations and sets out its observations and recommendations below;

<u>General remarks</u>

2. Welcomes the findings of the report which show that the Commission has managed EU climate-related spending from the EU budget and the EDF well;

3. Welcomes also the work begun by the Commission and Member States on a common EU standard for monitoring, reporting and verification of public climate finance;

4. Reiterates the DEVE Committee position, noted by the Court (p.23) which insists that climate finance should be additional to the 0.7 % target, and regrets the failure to confirm the Parliament´s concept of additionality, in the DCI negotiations;

5. Points out however that there is a need for the Commission to exercise sufficient leadership to maximize its international impact and to consolidate the tools for shaping conditions for the Union's climate / green diplomacy in future years; particularly to deliver the climate-related benchmarks within the DCI as adopted in December 2013, stating that it "should contribute to the overall objective of addressing at least 20% of the Union budget to low carbon and climate resilient society, and that GPGC should use at least 25% of its funds to cover climate change and environment (Recital 19)".
   Annex IV also specifies that under GPGC, 27% of the funds are allocated to Environment and Climate Change and at least 50% of the GPGC programme will serve for climate related action and environment-related objectives;

6. Welcomes that a commitment to improving EU Joint Programming since 2011 has been made in some 40 countries, however points out that coordination between the Commission and Member States in climate finance for developing countries still needs should be considerably improvementd to meet not only the 2020 commitment but also to allow the Union to stay a frontrunner in terms of climate actions;

7. Recalls the DEVE position adopted on the Geographic Programmes indicating that: "Parliament congratulates the Commission and the EEAS, in particular the EU Delegations, on the achievements so far on joint programming, and welcomes the Commissioner's commitment that Parliament will be re-consulted whenever the launch of joint programming leads to changes in the DCI programming documents, independent of the mid-term review";

8. Notes the explanations about the difficulties in tracking and reporting, due to the divergent reporting practices of Member States, given in the Accountability Report from the Commission on Financing for Development, published on 3 July 2014 in the form of a Staff Working Paper, including a section in Volume I on Climate Finance which provides information on EU climate financing. The report repeats the figure of 7.3 billion euros of Fast Start Finance made available by the EU and Member States (p. 93/94)[1], and urges further improvements in reporting on the impact and results of development aid;

Future developments

9. Calls for more earmarking of funds to specific sectors, including climate finance, when channelled via Budget Support, and more transparency over use of funds overall;

10. Considers that the Commission and the EEAS should strengthen their communication policy both on the support provided globally or to individual recipient countries and to project Union's values;

11. Recognises that corruption remains a significant barrier to effective climate finance and urges the Commission to step up its efforts in regards to working with development partners on anti-corruption issues;

12. Requests the Commission to propose a road map to the Council for the scaling-up of climate finance towards the Copenhagen Accord 2020 target, including a definition of private finance;

13. Requests the Commission to make an independent evaluation of the Global Climate Change Alliance, including an examination of why most Member States did not choose to co-finance it;

[1] See: http://ec.europa.eu/europeaid/what/developmentpolicies/financing_for_development/documents/accountability-report-2014/financing_for_dev_2014_accountability_report_01_en.pdf
and http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/index_en.htm

14. Asks the Commission and the EEAS to report on the extent to which the target of spending 20 % of the EU budget and the EDF over 2014 to 2020 on climate related action is implemented in development aid, specifying what has been committed and disbursed;

15. Calls on the Commission and Member States, in the framework of the Monitoring Mechanism Regulation, to agree common standards for monitoring, reporting and verification, notably with respect to the definition of ‘new and additional’, the application of the Rio Markers and reporting on the disbursement of climate finance;

16. Invites the Commission and Member States to intensify their cooperation to implement the EU Code of Conduct on Division of Labour in the field of climate finance, notably with respect to the exchange of information on allocations by countries, joint programming and preventing and combatting corruption in climate finance.