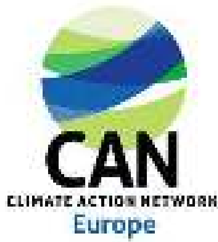
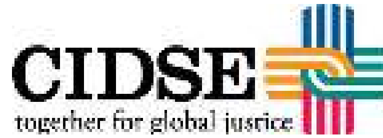




EU Climate Finance: Quo Vadis?

At the very time when promised financial support to developing countries should be starting to scale-up in order to meet the Copenhagen-mandated goal of reaching $100bn per year by 2020, little is being done to fulfil this commitment. Climate finance is increasingly constrained by shrinking aid budgets, new sources of mobilising public finance are yet to be tapped into, multilateral climate funds remain severely underfunded, and private finance, despite its obvious limits to finance adaptation needs, is being increasingly considered to fill the emerging gap. As climate adaptation needs are multiplying and the wellbeing and food security of millions of people is at stake, developed countries, including the EU and its member states, urgently need to provide a pathway of projected climate finance up to 2020. Failing to do so may compromise the success of the new international climate agreement in 2015.

CLIMATE FINANCE AND THE 2015 GLOBAL CLIMATE DEAL

Despite global agreement that warming must be kept below the critical 2°C threshold, emissions are rising rapidly, and much higher levels of warming are likely. The earth's atmosphere has just reached a carbon dioxide (CO2) concentration of 400 parts per million for the first time in about three million years. The last time levels were so high, global temperatures were 2–3°C warmer than they are today, and sea levels were up to 25 meters higher[i]. Climate change affects everyone, but developing countries will be hit harder than developed countries and the world's most food-insecure regions will be hit hardest of all, putting them at risk of greater food insecurity, especially in Africa and South Asia[ii].

In 2015, the world will have another chance to agree on an international deal to stop dangerous climate change. Governments now aim to come to an agreement on a new multilateral treaty at the 2015 United Nations climate conference in Paris, to limit global warming to 2 degrees, whilst distributing the efforts needed to do so fairly.

Climate finance – financial support which aids poor countries to put their development on a low-carbon pathway and to adapt to the impacts of climate change – can make or break the deal. Back in 2009, developed countries with both the greatest historic responsibility and largest per capita carbon footprints agreed to provide $30bn in Fast Start Finance (FSF) over 2010-2012 as well as mobilise $100bn per year by 2020 for climate action in developing countries. Scaling-up funds between now and 2020 will be essential to build broad support for the 2015 global climate deal.
Yet just as climate finance should be increasing after the end of Fast Start Finance, there is now the danger that future financing levels are going down, not up.

Climate finance needs are inversely proportionate to governments' efforts to reduce emissions. The lower the emission reduction efforts, the more finance will be needed to slash emissions elsewhere, and the higher the cost of adaptation – to the point where adaptation is not possible any longer. The current low ambition by most parties – including the European Union[iii] – is putting us at risk of

temperature increases of 3℃ to 4℃[iv] which, in turn, is already causing havoc in developing countries. In addition, inadequate global climate financing is also depriving these countries and the most vulnerable communities of the financial and technological means to deal with these dangers.

EUROPEAN CLIMATE FINANCE: LOOKING BACK

1. **Did the EU overachieve on Fast Start Finance?**

In a report on Fast Start Finance (FSF), the EU declared it had 'more than fulfilled their commitment' by disbursing €7.34bn over the period 2010 to 2012[v]. However, despite the promise that Fast Start Finance was new money, Official Development Assistance (ODA) had been cut back for the second year in a row[vi] . While recognizing that the EU has performed better than most other developed countries, research by Oxfam suggests that only 27% of the EU's FSF had not been pledged, planned or otherwise in the pipeline already when the fast start commitment was made in Copenhagen. Furthermore, it found that only 17% of fast start finance was additional to existing overseas aid promises[vii]. Finally, despite pledges to provide a balanced allocation between mitigation and adaptation, recent data by the Organisation for Economic Co-operation and Development (OECD) showed that finance for adaptation actually dropped in 2011[viii]. Despite attempts to mainstream climate finance reporting across the European Union through the Monitoring Mechanism Regulation (MMR) in 2012, inconsistencies in the methodologies employed by member states continue to exist, and climate finance reports may, as a result, be higher than what they are in reality[ix].

2. **The 0.7% aid commitment and climate finance: together in a shrinking pot**

Most developed country governments balk at demands from developing countries that climate finance should be provided on top of what is needed to make progress towards the long-standing commitment to deliver 0.7% of gross national income (GNI) as aid. They argue that at the project implementation level, setting up separate climate and development silos leads to inefficient spending and breaches aid effectiveness guidelines. While at an operational level this is true and while all aid spending should deliver on development, climate and sustainability objectives, the overall cost of these challenges is rising, especially because of the rapidly increasing costs of climate change impacts and the need to adapt. So while multiple objectives can be achieved with the same Euro, the overall pot of finance should be increasing, not shrinking. Also, the EU's Monterrey Aid Accountability report of 2013 noted that climate finance in 2012, as opposed to in 2010 and 2011, had not met the Commission's own criteria for 'additionality' and therefore likely lead to the diversion of aid flows to vital sectors such as health and education[x]. If overall aid finance does not increase in parallel with increases in climate finance, counting the same Euro against several distinct financial commitments is problematic.

EUROPEAN PUBLIC CLIMATE FINANCE 2013-2020: QUO VADIS?

1. **What is in stock for 2013-2015?**

The commitment to mobilise climate finance to $100bn per year by 2020, in the context of meaningful mitigation action, has been re-affirmed on several occasions by the European Commission and EU finance ministers - the EU's share has been estimated to be around one third of the total global amount[xi]. As governments plan to adopt a new international climate treaty in 2015, ensuring trust in the run up to the negotiations can only be achieved if developed countries show tangible progress on existing finance commitments *until* 2020.

The 2013-2015 period is crucial, as it is the period immediately following the fast start finance period. However, there is no clarity on the planned levels of climate finance from developed countries over 2013-15. Only a handful of countries, most of them EU member states, announced at the 2012 UN climate conference in Doha what they have in stock for 2013, and even less gave an indication for 2014[xii]. Currently, there is no evidence that climate finance in 2013 and the following years will actually increase or at least reach levels of the fast start finance period.

2. **Pathways of projected climate finance towards 2020**

For developing countries to plan low-carbon and climate resilient development they need higher reliability and predictability of promised support and hence want to know what levels and what types of climate finance they can expect over the next decade. But so far, no developed country has prepared a clear climate finance roadmap. As of October 2013, the EU is the only UNFCCC party to have made a submission on strategies and approaches for scaled-up climate finance[xiii]. This is welcome – but though the paper highlights the breadth of climate actions the union is already supporting, it does not amount to a bold and forthcoming strategy. The paper rightly notes that public climate finance will need to “play a key role, particularly in areas where the private sector is reluctant to engage”. Adaptation needs in particular will need to be met mostly through public finance. Nevertheless, the submission does not contain clear steps for increasing support as promised. Furthermore, while calls for greater integration between development and climate finance are made[xiv], the submission does not indicate how public climate finance will increase over the next years and how the EU intends to reverse the trend of ODA declining for the second year in a row.

3. **Innovative sources of public finance**

Scaling up public climate finance at the time of difficult economic times is a real challenge. However, public finance can be radically increased without eating into aid budgets through the mobilisation of innovative sources. This was recognised by the UN Advisory Group on Climate Finance in 2010, by the European Commission in its first communication on long-term climate finance in 2011, as well as noted by EU finance ministers. However, progress on mobilising the most promising innovative sources is severely lacking:

- **Carbon pricing of international transport**: Despite repeated affirmation by EU finance ministers that carbon pricing of international shipping and aviation could be a source of public climate finance, ministers emphasise that it will be up to their national treasuries to decide how any such revenues should be distributed. Naturally, this means that, once again, developing countries would not have guarantees on the allocation of these revenues. This also means that developing countries cannot see this as a potential compromise on accepting to go forward with a global climate plan for shipping or aviation[xv].
- **Financial Transaction Tax**: After years of negotiations, 11 European countries[xvi] have agreed to go forward with the FTT in the framework of the so called ‘strengthened cooperation’. It could raise an estimated €37bn a year but we also run the risk that such revenues will be diverted to tackle deficits and investments in Europe, with complete disregard for the poorest of the world who are suffering from an economic and climate crisis for which they are not responsible. Political momentum is needed to not only ensure not only that the FTT is broad-based (including shares, bonds and derivatives), but also that the money is spent to fight poverty and climate change in developing countries.

– **European Emission Trading System**: Revenues from the auctioning of emission allowances under the EU's Emission Trading System (ETS) can be used toward climate finance. The EU ETS Directive stipulates that member states should spend at least half of these revenues on activities related to climate change, energy and low-emission transport, including in developing countries. According to the Commission's calculations, "the gross revenues available from this source would be up to $30bn per year by 2020[xvii]". Despite the huge potential of this source, only a handful of member states have put in place systems to ensure that part of the ETS auctioning revenues is spent as climate finance. The upcoming structural reform of the EU ETS may yet provide new opportunities to catalyse this potential source.
– **Fossil fuel subsidies**: According to the IEA in 2011 the fossil fuel industry received more than $523 billion in subsidies and other forms of support from governments. This is five times more than the $100 billion a year promised to developing countries and around six times the level of support given to renewables globally. These subsidies should be redirected towards renewable energy technologies and energy efficiency which help reduce the impacts of climate change and not make them worse, while ensuring access to sustainable energy services for all and safeguarding poor and vulnerable groups. Fossil fuel subsidies in developed countries should be redirected as international climate finance.

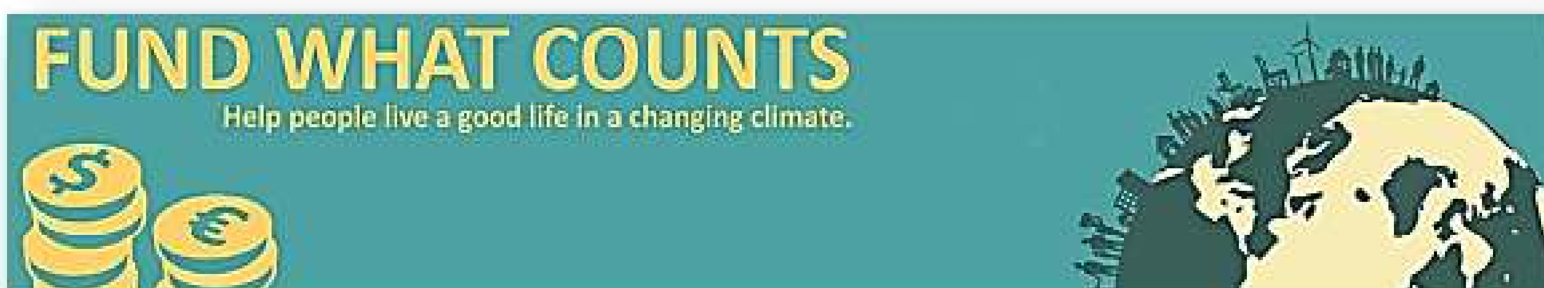
CONCLUSION

Climate finance at the end of 2013 risks rolling backward rather than moving forward. This is making progress towards a global climate agreement in 2015 very difficult. EU and its member states should immediately shift course and demonstrate at the High Level Ministerial Roundtable on climate finance at the UN talks in Warsaw this November that they are ready to make clear steps forward on climate finance.

EU ministers should come to Warsaw for the UN climate conference (COP19) with a clear mandate to negotiate, and commit to:

- **Provide climate finance for 2013-2015** at a higher level than the amount delivered over the EU Fast Start Period. This should also include **pledges and regular contributions to multilateral climate funds, especially the UN Green Climate Fund, the Adaptation Fund and the Least Developing Country Fund.**
- Ensure **at least 50% of public finance** is dedicated to developing countries' **adaptation needs.**
- Phase out **EU Member States' subsidies for fossil fuels** and deploy savings as a new source of international climate finance
- Use the upcoming **structural reform of the EU Emissions Trading System** as an opportunity to raise climate finance by automatically allocating a percentage of revenues from the auctioning of emissions allowances to the Green Climate Fund.

Watch the Climate Action Network video: http://www.climnet.org/fundwhatcounts:



END NOTES

[i] IPCC (2007) „Climate Change 2007: Working Group I: The Physical Science Basis", chapter 6.3.2 „What does the record of the mid-Pliocene show?" http://www.ipcc.ch/publications_and_data/ar4/wg1/en/ch6s6-3-2.html

[ii] Oxfam (2013), Growing disruption: Climate change, food, and the fight against hunger, Issue brief. http://www.oxfam.org/en/grow/policy/growing-disruption-climate-change-food-hunger

[iii] The EU reached its own 20% emissions reductions target for 2020 already in May 2013 (source WWF: http://wwf.panda.org/?208844/EU-meets-2020-climate-target--and-faces-7-lost-years).

[iv] World Bank (2012) Turn Down the Heat: Why a 4 degree centigrade warmer world must be avoided. http://climatechange.worldbank.org/sites/default/files/Turn_Down_the_heat_Why_a_4_degree_centigrade_warmer_world_must_be_avoided.pdf

[v] http://unfccc.int/files/cooperation_support/financial_mechanism/fast_start_finance/application/pdf/ie-05-29_-_fsf_report.pdf

[vi] According to the latest OECD aid figures, aid from EU-15 fell for the second time in a row, with a €10 billion shortfall on their 2010 target of 0.51%. Aid as a share of national income fell from 0.44% last year to 0.42%, shattering even further their promise to give 0.7% of their national income to the poorest by 2015.

[vii] http://www.oxfam.org/sites/www.oxfam.org/files/oxfam-media-advisory-climate-fiscal-cliff-doha-25nov2012.pdf

[viii] Oxfam EU office, "Staggering 55% cut to EU funding for climate change adaptation", http://oxfameu.blogactiv.eu/2013/04/08/staggering-55-cut-to-eu-funding-for-climate-change-adaptation/

[ix] Despite the European Parliament and NGOs having demanded greater transparency and common reporting rules on climate finance within the Mechanism for Monitoring and Reporting (MMR), EU member states could not agree on a common methodology to measure international public climate finance.

[x] The EU Monterrey Aid Accountability report of 2011 developed a relatively good approach on additionality to safeguard existing 'non-climate' aid levels. In both 2011 and 2012 the EC was able to report that EU climate finance had not taken away from existing aid. The Monterrey Accountability report of 2013 states that in 2012 the EU most likely *did not* achieve additionality.
EU Monterrey Accountability Report (2013) http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/documents/financing_for_dev_2013_accountability_report_01_en.pdf..

[xi] COM 2011, Scaling up international climate finance after 2012. http://ec.europa.eu/economy_finance/articles/financial_operations/pdf/sec_2011_487_final_en.pdf

[xii] UK, Germany, France, the Netherlands, Sweden, Denmark and the Commission announced total voluntary contributions of EUR 5.5bn to climate finance from their respective financial provisions

[xiii] Strategies and Approaches of the EU and its Member States for mobilising scale-up climate finance towards the developed countries' goal to jointly mobilise USD 100 billion. http://unfccc.int/files/documentation/submissions_from_parties/application/pdf/cop_suf_eu_02092013.pdf

[xiv] Echoing the recent EU Communication '*Beyond 2015: towards a comprehensive and integrated approach to financing for poverty eradication and sustainable development*'.

[xv] NGOs consider that if all revenues gained from the ETS aviation scheme (estimated to be around EUR 600 million per year from 15% of allowances auctioned) would have been dedicated to the Green Climate Fund, this could have been a compelling case for developing countries to accept and may have changed the course of events around the current Stop the Clock proposal.

[xvi] These are: Germany, France, Italy, Spain, Belgium, Portugal, Austria, Greece, Slovakia, Slovenia, Estonia

[xvii] At a carbon price of 25/tCO2, and if up to 10% of revenues were allocated to finance action on climate change in developing countries. COM 2011, Scaling up international climate finance after 2012