Enhancing the implementation and monitoring of the 25% climate mainstreaming target of the next EU budget

Discussion Paper – Final Version

for:

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LIST OF ABBREVIATIONS

CAP	Common Agricultural Policy
CBA	Cost-Benefit Analysis
CEF	Connecting Europe Facility
CF	Cohesion Fund
CNG	Compressed Natural Gas
DB	Draft Budgets
DCI	Development Cooperation Instrument
DG	Directorate-General
DG DEVCO	Directorate-General for International Cooperation and Development
DG ELARG	Directorate-General for Neighbourhood and Enlargement Negotiations
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
ECA	European Court of Auditors
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
EMFF	European Maritime and Fisheries Fund
ENI	European Neighbourhood Instrument
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EU	European Union
GHG	Greenhouse gas
IPA	Instrument for Pre-Accession Assistance
ITER	International Thermonuclear Experimental Reactor
LIFE	L'Instrument Financier pour l'Environnement (The Financial Instrument for the Environment)
LNG	Liquefied Natural Gas
MFF	Multiannual Financial Framework
NDICI	Neighbourhood, Development and International Co-operation Instrument
NECP	National Energy and Climate Plan
OECD	Organisation for Economic Co-operation and Development
OCT	Overseas Countries and Territories

This discussion paper is the second publication in a series of inputs to stimulate discussions on a more climate-friendly design of the post-2020 EU budget:

1. Climate-friendly design of the overall EU budget (September 2018)
2. Enhancing the implementation and monitoring of the 25% climate mainstreaming target of the next EU budget (December 2018)
3. Climate-friendly design of the Common Agricultural Policy (March 2019)

The analyses and recommendations in these papers served as a basis for discussions during workshops of the Expert Network on Climate Finance in the EU.

The project “Climate-friendly design of the EU budget and financial markets” is financed by the European Climate Initiative (EUKI). EUKI is a project financing instrument by the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU). It is the overarching goal of the EUKI to foster climate cooperation within the European Union in order to mitigate greenhouse gas emissions. It does so through strengthening across-border dialogue and cooperation as well as exchange of knowledge and experience.

1. INTRODUCTION

Europe needs to drastically cut greenhouse gas emissions until 2050. The European Commission recently set out its long-term vision for a 'climate neutral and prosperous' Europe by 2050. EU Member States are already committed to reducing their combined GHG emissions by at least 40% domestically compared to 1990, increasing the share of renewable energy to at least 32%, and reducing projected future energy consumption by at least 32.5% by 2030. Fully implemented, EU-level policies are estimated to enable GHG emissions reduction of around 45% in 2030 (European Commission, 2018a).

Directing finance towards sustainable and climate-friendly investments is key to achieve climate objectives. To support the achievement of these targets, the EU Commission introduced the concept of “climate mainstreaming” to the EU budget in 2014. Under the current Multiannual Financial Framework (MFF), at least 20% of all expenditures shall be spent on climate-relevant measures across all spending areas. This corresponds to a commitment of around €206 billion (European Commission, 2018b) to incentivise the integration of climate considerations across all EU funds and programmes and to send strong signals to investors and local stakeholders.

The 20% climate expenditure target is likely to be missed in 2020. According to the latest Commission estimates, only 19.3% of the EU budget will contribute to climate mainstreaming over the entire MFF period (European Commission, 2018c). This is equivalent to €7.6 billion that are not invested into climate mitigation or adaptation. Although the climate spending gap has narrowed over time, also recent years have not delivered in achieving or exceeding a 20% share.

For the 2021–2027 EU budget, at least 25% of expenditures shall contribute to climate objectives, according to the proposal by the European Commission (European Commission, 2018d). The Commission calculates that this would increase the expenditure for climate objectives to €320 billion. The European Parliament suggested to increase the annual spending target to 30% as soon as possible and at the latest by 2027 (European Parliament, 2018). At the same time, Member States need to finalise their integrated National Energy and Climate Plans (NECPs) by the end of 2019 which is a valuable opportunity to align climate mainstreaming with these plans which embed national contributions to the EU objectives in a coherent overall strategy to incentivise higher ambition.

A more effective implementation and monitoring of the new climate mainstreaming target and its results is needed to ensure that this target is achieved through genuine climate action. Analyses by a number of organisations and, in particular, by the European Court of Auditors (ECA) have shown how the current climate mainstreaming approach can and should be improved. In addition, the European Parliament recently called for reformed performance indicators that differentiate between mitigation and adaptation.

2. IMPLEMENTATION OF CLIMATE MAINSTREAMING

2.1 Current status of climate mainstreaming

The Commission set the objective that at least 20% of the overall EU budget 2014-2020 shall be spent on climate-relevant measures. This corresponds to a commitment of around €206 billion over the entire seven-year period (European Commission, 2018b). The share of climate contributions to the annual EU budgets has been significantly higher in 2016–18 compared to the first two years, mainly because not all Operational Programmes under the European Structural and Investment Funds (ESIF) were operational in 2014 and 2015. Later estimates of climate spending have mostly exceeded programmed expenditures in the draft budgets (DB) of the respective years (Figure 1). Nonetheless, the overall climate spending target is likely to be missed. According to the latest estimate by the European Commission from the Draft Budget 2019, only 19.3% of the EU budget will contribute to climate mainstreaming over the entire MFF period (European Commission, 2018c). What at first sight looks like a minor spending gap of only 0.7 percentage points is, however, equivalent to €7.6 billion that are not invested into climate mitigation or adaptation.

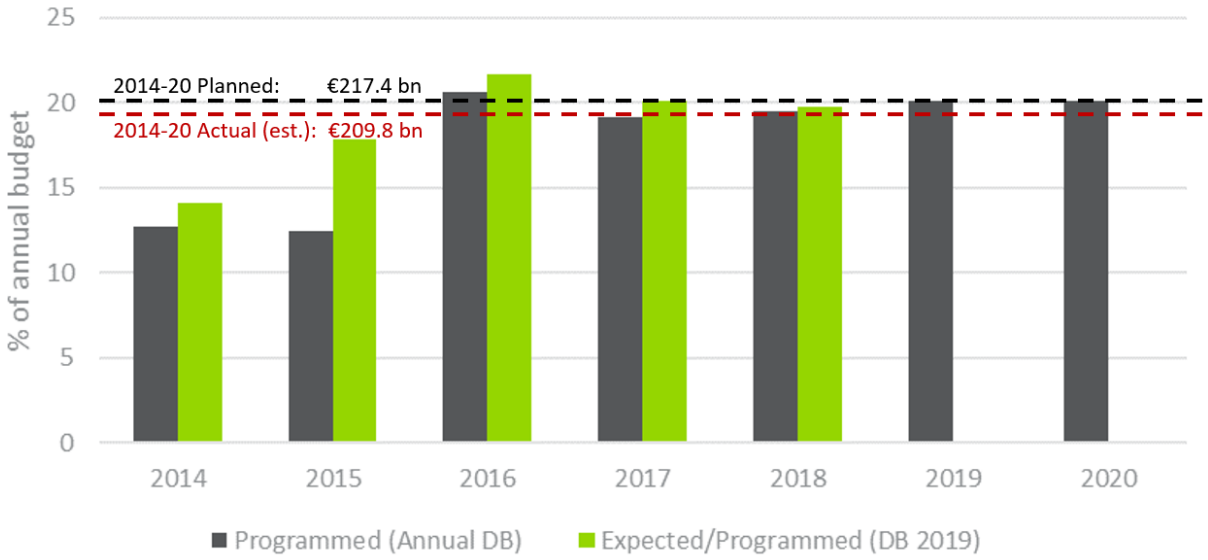

Figure 1: Initially programmed vs. currently expected contribution to climate mainstreaming

This spending gap could still narrow until the end of the current MFF period, given past upward adjustments of climate mainstreaming expenditures. For example, in the Draft Budget (DB) 2018 the European Commission estimated that the climate spending gap would be higher with a projected climate expenditure share of 18.8% during the 2014–20 MFF. This is partly due to the fact that the share of spending contributing to climate mainstreaming has been revised upwards based on updated commitment appropriations reflecting actual voted budget and amending letters. Figure 2 shows the spending estimates for past years in DB 2018 vs. DB 2019. For instance, the climate-related expenditures under Horizon 2020 for 2014 were adjusted by €316 million upwards as some financial instruments under the programme (e.g. InnovFin SMEG) are tracked biennially due to the European Investment Fund's reporting procedures.

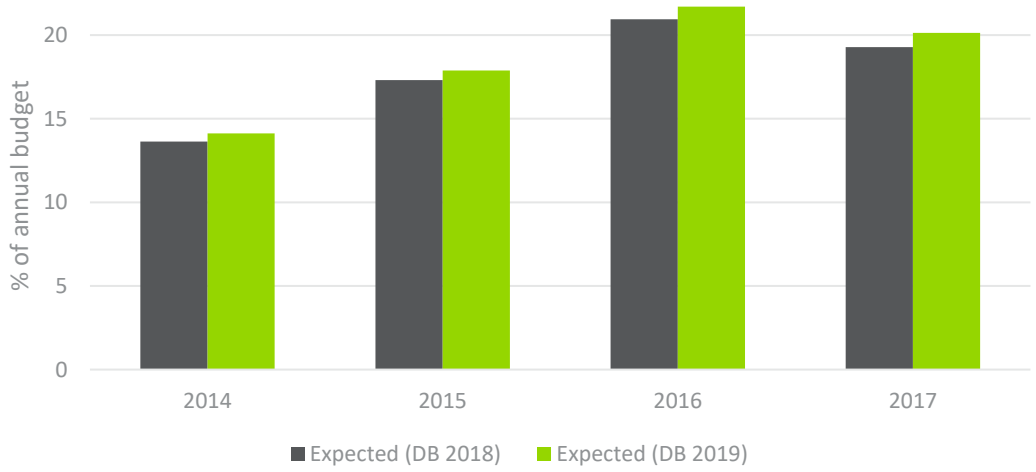

Figure 2: Expected contribution to climate mainstreaming in DB 2018 vs. DB 2019

Ex-post estimates based on actual commitments are currently not tracked but the Commission stressed that approximately 97% of commitment appropriations become payment appropriations (European Court of Auditors, 2016).

2.2 Success factors and barriers for climate mainstreaming

It is unclear to what extend the 20% climate expenditure target will increase the climate action spending compared to the previous budget 2007–13. According to the Commission, the target helped to achieve a threefold increase in the share of climate-related expenditure (European Commission, 2015a). In contrast, the ECA assumed that there were few changes for most programmes and rather business-as-usual but recognised that the share of climate-related expenditure under the European Structural and Investment Funds (ESIF) almost doubled to 21% in 2014–20 (European Court of Auditors, 2016).

European Structural and Investment Funds

A better focus on climate action can be achieved, by explicitly including climate action in Operational Programmes or other programming documents. For example, applications for ESIF grants clearly considered climate aspects, e.g. by including requirements to describe climate change impacts and risks or the project's climate change contribution. Member States such as Austria, Ireland or Luxembourg have higher shares of climate-related expenditures under the ESIF (Figure 3), suggesting different degrees of focus and readiness to scale up climate action funding across Member States (COWI, 2016).

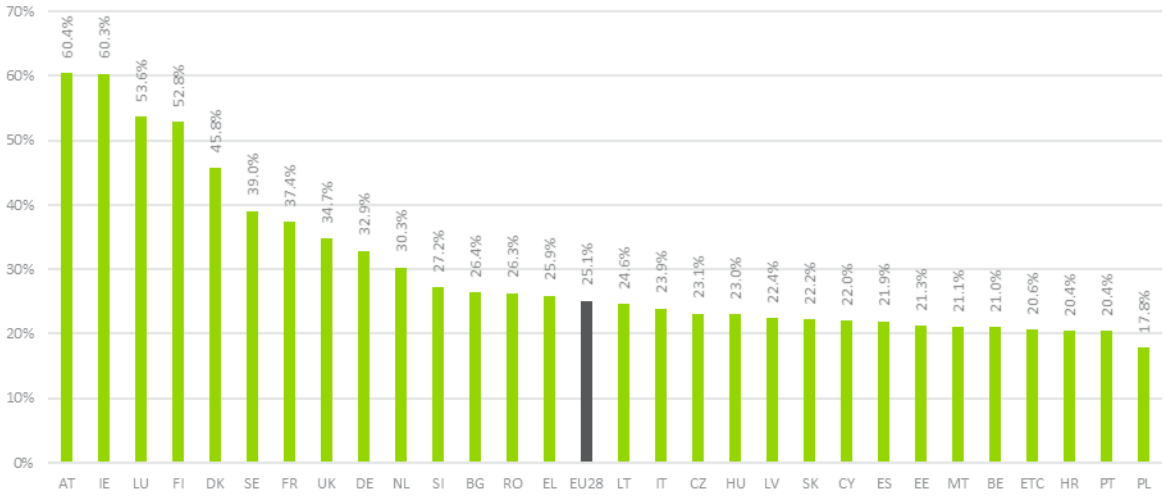

Figure 3: Figure 3: Climate-relevant expenditures under the ESIFs and for European Territorial Cooperation (ETC); Source: COWI (2016)

Local stakeholders often lack information, expertise and resources to access available funds for climate action (E3G, 2018). For example, the potential of available EU funds for energy efficiency investments has so far not been fully realised, also due to insufficient incentives for private investors (Ecofys/DIWEcon, 2016).

For the entire MFF, no estimates on a split between mitigation and adaptation spending is available. In an assessment of the ESIF, 42% of the expenditure was found to be marked towards mitigation purposes and 15% for adaptation measures (COWI, 2016). The remaining 42% had both adaptation and mitigation relevance.

Within the ESIF mitigation spending, the ECA observed a clear shift from railways and multimodal transport funding to more energy efficiency and renewable energy investments under the ESIF, i.e. investments that are fundamental for the clean energy transition. Despite such shifts towards more energy-focused climate action, CAN Europe criticises that only 7.6% of the Cohesion Policy funding under the current MFF will be spent on renewables, energy efficiency, electricity distribution, storage, smart grids and low-carbon research (CAN Europe, 2018).

Achievement of climate expenditure targets by programmes

Most spending programmes with explicit or implicit climate targets are expected to underdeliver in terms of their climate-related expenditures during the current MFF (Table 1). While **ERDF**, **Cohesion Fund** or the **European Social Fund** will deviate only marginally from their targets, **Horizon 2020** is expected to miss its 35% target by about 9 percentage points.[1] According to the figures from the DB 2019, **LIFE** would almost achieve its target of spending around half of the programme's budget on climate-related activities. However, when the ECA analysed actual expenditure at project level, only 34% of the LIFE funds were found to contribute to climate mainstreaming (European Court of Auditors, 2016).

Other programmes such as the **Connecting Europe Facility** (38.6%) or **Copernicus** (31.8%) are expected to have substantial shares of climate-relevant expenditures but have no explicit climate targets for the current MFF period.

[1] ECA estimates based on Commission programme statements, programming documents, Commission data, regulations and 2014-2020 multiannual financial framework (European Court of Auditors, 2016). DCI target based on interpretation of regulation annex: 27% x 50% + 73% x 50% of the Global Public Goods and Challenges Programme.

Table 1: Achievement of climate expenditure targets by programme; Source: (European Commission, 2018c)

Programme	Climate expenditure	Total expenditure	Climate share	Climate share	Difference
	(EUR million)	(EUR million)	(current)	(target)	(% points)
EAFRD	57,047	100,273	56.9%	57.5%	-0.6 p.p.
EAGF	45,761	302,798	15.1%	16.3%	-1.2 p.p.
ERDF	36,724	199,947	18.4%	18.5%	-0.1 p.p.
CF	21,121	74,589	28.3%	28.4%	-0.1 p.p.
Horizon 2020	19,642	75,090	26.2%	35.0%	-8.8 p.p.
CEF	11,539	29,931	38.6%		
DCI	4,595	19,966	23.0%	11.7%	11.3 p.p.
ENI	1,889	16,844	11.2%		
LIFE	1,615	3,451	46.8%	49.3%	-2.5 p.p.
IPA II	1,587	12,799	12.4%		
Copernicus	1,358	4,266	31.8%		
ESF	1,028	92,831	1.1%	1.2%	-0.1 p.p.
EMFF	1,012	6,382	15.9%	15.6%	0.3 p.p.
Other programmes	900	16,285	5.5%		
TOTAL	**205,816**	**1,066,414**	**19.3%**	**20%**	

The low climate share in the **Horizon 2020** expenditures are mainly due to backlogs in the bottom-up parts of the programme (i.e. thematically open calls for proposals), whereas the research targeting societal challenges (i.e. energy, transport or food) are close to delivering the 35% target (European Commission, 2016). The Commission developed an action plan to scale up climate action spending under Horizon 2020, including measures such as introducing climate-related considerations in the standard project proposal templates and in the award criteria (European Court of Auditors, 2016). However, the ECA criticises that the action plan contains no quantifiable targets for 2018–20 which could help decrease the spending gap.

Although climate expenditures under the **Development Cooperation Instrument (DCI)** seem high compared to the target, it should be considered that there are only targets for the thematic approaches under DCI. Geographic programmes, which account for 60% of the DCI expenditures, have no clear targets for climate action and face the challenge that DCI partner countries often consider climate-related activities as less strategic and relevant (European Commission, 2017a).

Programmes like **ENI** or **IPA II** that currently do not have clear earmarks, achieve only limited shares of climate-relevant spending.

The **European Agricultural Fund for Rural Development (EAFRD)** is projected to have the largest share of climate-related expenditures under the current MFF. However, this is largely due to the applied tracking methodologies for this fund. The EAFRD is discussed in detail in section 3.2.

2.3 Commission proposals for climate mainstreaming under the next MFF

For the MFF 2021–27, the Commission plans to scale up the share of climate-related expenditures in the EU budget to at least 25%. In contrast to the current MFF, the Commission compiled an overall plan outlining which programmes could contribute to this objective and to what extent. Most programmes therefore need to contribute significantly more expenditures to climate mainstreaming objectives (Table 2). However, these targets are only aspirational in most cases. For example, the recital of the regulation proposal for Connecting Europe Facility states that "actions under this Programme are expected to contribute 60% of the overall financial envelope of the Programme to climate objectives" (European Commission, 2018e).

Table 2: EC proposals for climate expenditures under the next MFF

Programme	Climate expenditure	Total expenditure	Climate share	Expected share of total climate spending	Change compared to current climate spending
	(EUR million)	(EUR million)	(%)	(%)	(% points)
CAP (EAGF+EAFRD)	146,002	365,006	40%	46%	+14.5 p.p.
ERDF	67,892	226,308	30%	21%	+11.6 p.p.
CF	17,276	46,692	37%	5%	+8.7 p.p.
Horizon Europe	34,160	97,600	35%	11%	+8.8 p.p.
CEF	14,688	24,480	60%	5%	+21.4 p.p.
NDICI (ENI+DCI)	22,375	89,500	25%	7%	+7.4 p.p.
ITER	6,070	6,070	100%	2%	+100 p.p.
InvestEU Fund	4,418	14,725	30%	1%	+30 p.p.
LIFE	3,325	5,450	61%	1%	+14.2 p.p.
IPA	2,320	14,500	16%	1%	+3.6 p.p.
EMFF	1,842	6,140	30%	1%	+14.1 p.p.
OCT (incl. Greenland)	100	500	20%	0.03%	-1.9 p.p.
Other programmes	-	382,437	0%	0%	
TOTAL	**320,468**	**1,279,408**	**25%**	**100%**	

Ten programmes such as **Copernicus** or the **European Social Fund (ESF)**, which provided climate contributions under the current MFF (compare to Table 1), are not explicitly foreseen to contribute towards the 25% target but are expected to enable an overachievement of the target.

Expenditures under two programmes that have not been considered under the current MFF are expected to contribute 3.3 of the additional 5 percentage points of the new climate quota. The €6 billion that the EU is planning to spend on **ITER**, an international nuclear fusion research and engineering project, would account as 100% climate-relevant despite significant uncertainties around the future deployment of the technology and its contribution to climate change mitigation. Additionally,

InvestEU, which is building on the current European Fund for Strategic Investments (EFSI) and will also be backed by an EU budget guarantee, is expected to have a 30% share of climate-related investments. These expenditures are not additional as such but are only now considered to contribute towards the overall climate mainstreaming target.

2.4 EU Parliament positions on climate mainstreaming under the next MFF

The European Parliament suggested in November 2018 to increase the annual climate expenditure target for the next MFF to 30% as soon as possible and at the latest by 2027 (European Parliament, 2018)**.** In order to facilitate such an increase in ambition, the Parliament intends to scale up climate-relevant expenditures for key funds and programmes by either increasing the budget, the climate share or both:

- **Horizon Europe:** Increase of programme budget of almost €26 billion; climate share proposed by the Commission (35%) shall be met "at least" (European Parliament, 2018a)
- **InvestEU:** Increase of climate share from 30% to at least 40%; increase of EU guarantee by more than €2 billion (European Parliament, 2019)
- **LIFE:** €1.8 billion increase in programme budget (European Parliament, 2018b); same climate share as proposed by the Commission (61%)
- **CEF:** Almost €6 billion increase in CEF budget; same climate share as proposed by the Commission (60%) (European Parliament, 2018c)

3. CLIMATE MARKERS AND MONITORING

3.1 Current status of climate markers and monitoring

The current approach for defining and tracking climate-related expenditures under the MFF is a modified version of the OECD Rio Markers methodology, building on previous experience by DG DEVCO and DG ELARG in reporting on international climate (and biodiversity) related expenditure (European Commission, 2014a). Depending on their climate relevance, the following markers are generally applied by the Commission to classify and aggregate expenditures that are contributing to climate mainstreaming:

- **100%:** Expenditure supporting climate action as an explicit primary objective, with fundamental links to the design and impact of the activity; e.g. wind farms, energy efficiency, adaptation to climate change measures, cycle tracks.
- **40%:** Expenditure where climate action is a significant, but not predominant objective. Climate action, although important, is not the principal reason for undertaking the activity; e.g. air quality measures, enhancement of biodiversity, sustainable transport modes, such as railways, inland water ways, clean urban transport systems.
- **0%:** Expenditure that does not target climate action, e.g. motorways and roads, airports, waste management.

The approach to implementation of these markers varies widely across programmes. For example, the ERDF and the Cohesion Fund have 123 investment categories, 20 of which have a 40% climate marker and 15 of which have a 100% marker. In contrast, only one out of the nine secondary themes under the European Social Fund counts as climate-relevant expenditure (100%). Both DG Budget and DG Climate Action monitor and report progress on climate-related spending in the annual draft budgets (see also section 2.1).

In addition to expenditures, for some funds such as the ERDF and the Cohesion Fund greenhouse gas (GHG) emission reductions are tracked. These two funds also monitor other climate-related indicators such as additional capacity of renewable energy. However, there are currently no consistent and transparent requirements or approaches across all EU programmes.

3.2 Success factors and barriers for climate markers and monitoring

The distinction between only three options for climate relevance has the merit that it is relatively easy to implement. However, important programme or context specific details cannot be fully captured with this approach. For example, any investments into railways or seaports always count 40% towards climate action, disregarding the actual scope and contents of the respective investments. On the one hand, for example, the markers do not reflect whether train engines are run with diesel fuel or have shifted to electric engines. On the other hand, a 40% marker could be justified since rail infrastructure investments will lead to lower emissions per passenger kilometre9 and because railway lines could be electrified at a later stage.

The criteria used in the **ESIF** deviate from the three markers that are generally applied as presented in section 3.1 and the underlying OECD-DAC Climate Markers. Under the ESIF, a “significant” contribution towards climate change objectives results in a 100% climate coefficient and a “moderate” contribution in a 40% marker. As this increases the number of cases in which the maximum coefficient can be used, climate-relevant expenditure is likely to be overestimated (European Court of Auditors, 2016), (Ecofys/DIWEcon, 2018).

There are examples of investments that are considered as 100% climate relevant, although their climate benefits are less clear than for renewable energy or energy efficiency investments. For

instance, 'high efficiency cogeneration, district heating and cooling', includes fossil-based co-generation technologies. Similarly, 'alternative fuels infrastructure' includes Liquefied Natural Gas (LNG) and Compressed Natural Gas (CNG) infrastructure for maritime and road transport. Expanding such infrastructure can lock-in fossil fuel-dependent technologies and create barriers to the adoption of cleaner alternatives.

For the **European Agricultural Fund for Rural Development (EAFRD)**, applying only a limited number of categories leads to significant overestimations (also see section 2.2). The ECA criticises that 90% of the EAFRD's climate funding is weighted with the 100% coefficient, although a 40% coefficient would have been more appropriate for e.g. 'areas under natural constraints', which aims to prevent land abandonment (ibid.). GHG emission savings in this category depend on the actual land use and are therefore less clear than for forestry measures. Applying more accurate climate markers across the EAFRD would decrease the fund's climate-related expenditure by 42% (ibid.).

The approach used for the **CAP** direct payments illustrates that expenditures do not necessarily have to be fully assigned to either a 40% or 100% marker. Only 20% of the direct payments outside greening are assumed to have a "significant" 40% climate contribution. However, the choice of this particular additional coefficient is lacking sound justification and should be more conservative (e.g. 10%), according to the ECA (ibid.).[2]

Climate markers may also be applied inconsistently within programmes with project by project assessments such as **Horizon 2020** or **LIFE**. Project officers do not always have particular expertise on climate change and sometimes find it difficult to identify mitigation and adaptation benefits (European Commission, 2015b).

Furthermore, the incoherent monitoring of other climate-related indicators such as GHG emissions reductions or additional renewable energy capacity poses challenges for comparability and aggregation of result indicators across funds and Member States. Under the **ERDF**, Member States only have to use the common GHG reduction output indicators for energy investments (European Court of Auditors, 2016). Member States also apply different methodologies and tools to estimate GHG reductions. In addition, only few existing indicators focus on adaptation.

3.3 Commission proposals for climate markers and monitoring under the next MFF

The Commission addressed some of the issues of the current climate expenditure tracking. However, as specific rules are defined in the programme regulations, an overarching and consistent approach is still lacking. Some contentious climate markers will be more granular in the next MFF according to the Commission proposals. For example, EAFRD expenditure for natural or other area-specific constraints would now be tracked with a 40% coefficient, as recommended by the ECA. Railway investments under the ESIF will now be distinguished between newly built (100%) and reconstructed or improved (0%) railways. Under CEF, however, railway infrastructure would always be considered as 100% climate-relevant. CEF investments into gas infrastructure – if enabling increased use of renewable hydrogen or bio-methane – will be marked with a 40% climate coefficient. This definition does not appear to be specific enough to avoid that investments into gas infrastructure that can be used for natural gas can be classified as climate-relevant expenditure. In addition, seaports and alternative fuel infrastructure under the ESIFs continue to have a 40% and 100% climate marker, respectively.

CAP direct payments shall count towards the climate mainstreaming target with a 40% coefficient on the basis of a new "enhanced conditionality", the successor to cross-compliance and greening. This is

[2] Options for a better implementation of the climate mainstreaming targets under the CAP will be addressed in more detail in a separate discussion paper to be published by Navigant Energy in March 2019.

unrealistic and would clearly overestimate the climate contribution of the basic income support (European Court of Auditors, 2018).

In terms of ex-post tracking, only the ERDF, Cohesion Fund, Neighbourhood, Development & International Cooperation Instrument and the Pre-Accession Instrument require reduced and avoided GHG emissions to be monitored under current proposals. Similarly, only the InvestEU regulation proposal includes investments supporting climate objectives as a key performance indicator. For the ERDF and Cohesion Fund, investments in measures to improve energy efficiency shall be monitored according to the Commission proposals (see Annex fur further details).

Annual performance reviews that keep track of non-emissions-based climate-related indicators such as energy savings in agriculture or share of livestock units under support to reduce GHG emissions and/or ammonia, including manure management, are mandatory for the EAGF, EAFRD and EMFF under current proposals. The Horizon Europe proposal also requires annual monitoring of performance indicators. However, these do not include climate-related indicators at this point.

4. RECOMMENDATIONS FOR THE NEXT MFF

The analysis of climate mainstreaming and climate tracking under the MFF shows need for improvements in different areas to achieve a consistent implementation of a “Paris-compatible” budget post 2020. Climate spending tracking is not a mere accounting exercise but a valuable approach to channel more funding towards climate change mitigation and adaptation and to help achieve the EU 2030 climate and energy objectives. EU funds and programmes should, hence, be designed to explicitly support these EU-wide objectives.

Despite the relatively small size of EU funding compared to national budgets in most Member States, the EU budget has an important signalling function and should therefore lead by example in terms of supporting sustainability and low-carbon development. A conservative, transparent, and sound tracking and monitoring of EU expenditures is a prerequisite and necessary basis for a trusted climate spending approach. From the analysis of the current tracking and monitoring methods as well as the proposals for the post-2020 period, we have derived a set of recommendations for a better implementation of climate mainstreaming under the MFF and for more effective climate markers and monitoring approaches.

4.1 A more effective implementation of climate mainstreaming

1) Set binding targets for funds and programmes

The overall climate expenditure target should be broken down across EU funds and programmes to ensure the uptake of climate action. These sub-targets should be made binding to send clear signals to investors and local stakeholders and to enable accountability. This means that sub-targets are clearly specified within the articles of the respective regulation and not only referred to in recitals or annexes. Clear earmarking and explicitly including climate action into programming documents is especially important for funds with low shares of climate-relevant expenditures or with inconsistent implementation across Member States.

2) Link climate-related expenditure to the NECPs

Member States could be rewarded for higher climate ambition as outlined in their National Energy and Climate Plans through a performance reserve (CAN Europe, 2017). To incentivise increased ambition, part of the EU budget (e.g. unallocated capacities) could be allocated accordingly. In addition, the review of the MFF should be aligned with the NECP review cycle and the global stocktake of progress on the Paris Agreement (Ecologic Institute, 2018).

3) Support local stakeholders to identify and access climate-related funding opportunities

Capacity building and technical assistance for cities, municipalities and other public bodies should enable them to identify and access funding opportunities under the EU budget that they could potentially use to meet their specific needs. This is especially relevant for renewable energy and energy efficiency investments, i.e. measures that are fundamental for the clean energy transition and generate substantial mitigation benefits.

4) Scale up genuine climate-relevant expenditure

Pathways for a further scale-up of climate spending in the next MFFs should be developed, taking into account the Commission’s proposal for a climate neutral Europe by 2050. In the context of the Paris Agreement, significantly more funds need to be invested in climate action. The current proposal for the next EU budget, which may set the path until 2027, would only result in an actual increase of 1.7 percentage points compared to the current MFF, as expenditures under ITER and InvestEU are only now considered to contribute towards the overall climate mainstreaming target.

While the 2014-2020 climate expenditure target was defined as “at least” 20%, the current wording in regulation proposals and in the Commission communication is inconsistent. We therefore propose to continue with the “at least” definition, to enable overachievement of the 25% climate-related expenditure target towards 30%, for example by raising sub-targets for key funds such as ERDF, Cohesion Fund or EAFRD. Also, we propose that expenditures for ITER should not count as climate-relevant due to its uncertain climate mitigation impact. In fact, under the current proposal, ITER would contribute twice as much to climate change mitigation than all climate action projects of the LIFE programme combined.

4.2 More effective climate markers and monitoring

1) Set conservative, consistent, and appropriate climate markers

Climate markers should apply the World Bank’s conservativeness principle to avoid overestimation and to allow for genuine climate contributions towards the climate mainstreaming target. In general, climate markers should have a consistent level of detail. The Common Provisions Regulation (CPR) could serve a single rule book that specifies climate markers for all funds and programmes with climate-relevant expenditures. The CPR should also clearly define that the 100% coefficient shall be applied to expenditure that is expected to contribute principally to climate objectives and the 40% coefficient to expenditure with significant climate contributions. In addition, project officers should be trained to ensure a consistent application of these markers.

2) Make climate allocations conditional based on actual results if climate relevance is not guaranteed

In order to further avoid possible overestimation, climate markers could be applied conditionally based on ex-ante impact targets and ex-post delivery of outcomes for funds and programmes with uncertain climate contributions (European Commission, 2017b). For instance, a threshold could be set in terms of GHG emissions reduced per Euro spent to define if a 40% or 100% climate coefficient should be applied.

3) Harmonise and track and emissions and other results indicators ex-post

Results indicators, especially on GHG emissions, should be harmonised to allow for comparability and aggregation of these indicators across funds and Member States. If EU funding should lead to increases in GHG emissions compared to baseline scenarios, these negative emission impacts should also be tracked. This procedure should build on the relevant section of the Cohesion Policy CBA Guide (European Commission, 2014b) which is based on the EIB Carbon Footprint Methodology (European Investment Bank, 2014). Other results indicators to be harmonised and tracked include *additional renewable energy production capacity* and *energy savings from energy efficiency measures*.

4) Track climate-relevant expenditures ex-post

Adaptation and mitigation expenditure should be tracked ex-post to verify climate contributions of funds and programmes which rely largely on ex-ante commitments. To limit the administrative burden, an ex-post assessment of expenditure could build on random samples of investments and projects to identify any systematic differences between commitments and actual climate spending (ibid). The contribution of funds and programmes towards the 25% climate mainstreaming target could then be adjusted based on any systematic differences. Climate-relevant expenditures should also be tracked by Member State so that insufficient climate action can be identified and scaled up.

5. SUMMARY OF EXPERT DISCUSSIONS

This section summarises the discussions during the second meeting of the Expert Network on Climate Finance in the EU on "Enhancing the implementation and monitoring of the climate mainstreaming target" held in Brussels on 18 December 2018. The previous chapters of this report have served as a background for the discussions of the expert network group.

Interventions

Intervention 1: Climate tracking in the MFF – Lessons learned and way forward for the next MFF

The Commission made improvements in terms of consistency and coherence of the approach without substantial changes to the method to ensure continuity and to allow for comparisons over time. In general, the absolute increase in climate-related expenditure is significant given the general budget constraints such as the Brexit gap or increased spending in areas with negligible potential for climate-relevant expenditures such as defence.

The Commission stressed that it is difficult to change the substance of programmes – including the level of climate ambition – later on in the MFF cycle, e.g. during the mid-term revision. Therefore, it is crucial to include key climate-related provisions in the final regulations at this stage.

The new plan with expected contributions provides more clarity through which funds and programmes the Commission plans to achieve its climate mainstreaming target. However, the climate quota as such cannot directly influence sector focusses as sector spending is not primarily determined by climate considerations. What climate-related expenditures are actually spent on needs to be defined in the substance of the programmes.

Negotiations on the next budget are still ongoing. If co-legislators decide to shift funds from one programme to another or change the substance of programmes, this could impact the total volume of climate-related expenditure as well as any changes to the marker framework.

Intervention 2: Climate tracking in practice – The Carbon Footprint Methodology of the EIB

The EIB began tracking GHG emissions and climate-related investments in 2011. The bank employs harmonised climate action tracking methods in alignment with other Multilateral Development Banks (MDBs) through common principals for adaptation and mitigation investments. The EIB has been able to achieve its 25% climate action investment target in past years. This target is higher for investments in developing countries (35%). The majority of climate investments is in mitigation. Investments are tracked on a relatively granular level. Identifying adaptation-related projects is more complex and involves a three-step approach focussed on how a project contributes to reducing vulnerability.

GHG emission calculations are used for reporting in the EIB's CSR report and on its green bonds, internal carbon pricing and for its Emissions Performance Standard, which serves as eligibility criterion for power sector investments. The EIB's carbon footprint methodology is publically available[3] and is in line with the International Financial Institutions Framework for a Harmonised Approach to Greenhouse Gas Accounting[4].

Assessing relative emission reductions is challenging and should reflect credible baselines, e.g. a modern standard bus fleet rather than an outdated bus fleet if an all-electric bus fleet is introduced. GHG footprinting mainly takes into account scope 1 and 2 emissions, but for sectors where scope 3 emissions are significant, such as in roads and gas pipelines, they are also included. Projects are included in the EIB's Carbon Footprint Exercise when absolute or relative emissions are greater than

[3] http://www.eib.org/attachments/strategies/eib_project_carbon_footprint_methodologies_en.pdf

[4] https://unfccc.int/sites/default/files/resource/International%20Financial%20Institution%20Framework%20for%20a%20Harmonised_rev.pdf

the threshold of 20,000 tCO_2e/year (100,000 tCO_2e/year for absolute emissions in past years). Guidance documents help to identify projects that are above this threshold.

EIB's current internal carbon price is set at 38 €/CO_2e, but it increases in future years in alignment with the findings of the Stern-Stiglitz High Level Commission on Carbon Prices.

At COP24 in Katowice, the EIB and other MDBs announced a joint framework for aligning their activities and operations with the Paris Agreement on climate change.

General discussion

Scaling up climate mainstreaming

The Commission clarified that smaller programmes such as Copernicus or the ESF will continue to contribute to the climate mainstreaming target, allowing for an overachievement of the 25% minimum target. Nonetheless, it was stressed that the MFF is large in absolute terms but only equivalent to about 1% of the EU's GDP. Therefore, mitigation impacts of the budget are ultimately limited, also due to competing priorities across Member States.

It was suggested that indicative yearly milestones for climate-related spending could be reported in annual reports. If these milestones are not meet, measures should be proposed to compensate the shortfall.

Inconsistencies across Member States

Climate mainstreaming spending is very unbalanced across Europe. Central and Eastern European countries often lack political will to invest into climate-related areas. It is therefore crucial to support local stakeholders, given the current lack of capacity and technical assistance.

Splitting mitigation and adaptation expenditure

Most participants agreed that separate targets would be desirable in theory, but that there are substantial administrative burdens in practice. Adaptation activities are country context and process specific. Therefore, it would be a big effort for Member States and implementers but the use of separate targets would be limited. However, some participants stressed that separate tracking is often well possible, especially for Cohesion Policy spending, and that adaptation reporting is gaining relevance on the international level. It was also highlighted that mitigation is a public good whereas adaptation is mainly a private good for which public investments are more difficult to justify in general.

Harmonising climate markers

It was noted that some markers still differ across programmes to reflect different modalities. For example, InvestEU is linked to the taxonomy of sustainable finance. Other participants criticised that markers have not been simplified and harmonised to the extent possible, also considering UNFCCC reporting requirements. It was criticised that the Common Provision Regulation is not referred to in recitals of most programmes.

Markers for railway investments are currently inconsistent. Some participants argued that investments into clean energy and energy efficiency are more important than railway investments which should be reflected in the climate marker system. However, others argued that railway investments should always receive at least a 40% marker. There are mitigation benefits even if train engines are run with diesel fuel because the rail network can enable a shift in the transport sector. Such a classification would also be in line with markers for electricity grid investments which ultimately also depend on the electricity mix.

Changing climate markers often is a question of political choice as some activities involve fossil fuel-related infrastructure or have unclear results. For example, research programmes under Horizon Europe or ITER can have uncertain mitigation impacts in the long term.

Climate markers under the Common Agricultural Policy

Some participants warned that almost half of the climate-related expenditures rely on a very contentious contribution due to weak rules under the CAP which seriously undermines the credibility of the entire climate mainstreaming approach. Direct payments which would be classified as significantly contributing to climate change mitigation and adaptation in fact include subsidies to carbon-intensive operations such as dairy farming. Participants recognised that it is important to consider actual mitigation impacts and genuinely increased resilience.

Reporting GHG emissions and other results indicators

Views on the proportionality and usefulness of reporting GHG emissions differed among participants. While some argued that requiring e.g. small municipalities to report GHG emissions is difficult to implement and not worth the effort, others argued that the additional administrative effort is crucial to understand how expenditures are contributing to mitigate climate change.

It was suggested that absolute GHG emissions of MFF-related expenditures could be tracked and compared over years. However, this could potentially lead to counterintuitive developments and disincentivise investments e.g. into energy-intensive activities with high energy efficiency potentials.

Other results indicators could be further simplified and better structured and aligned across programmes. These indicators should also focus more on objectives.

Climate Proofing

Requirements for climate proofing could be more stringent under the next MFF and will be compulsory for investments with an expected lifespan of more than five years, according to the CPR proposal.

Linking the MFF to NECPs

There is already a link between the NECPs and the MFF as the NECP template requires Member States to report on how they are using EU funds. CAP strategic plans and ESIF operational programmes should reflect the content of the NECPs.

Conditionality elements are not part of the current proposals but could be recommended by the Council or the Parliament. However, it should be noted that the climate-related expenditures under the MFF are relatively small compared to the amount of investment needed to meet the NECPs.

Just transition

Issues such as a just transition which focuses on the cost of the energy transition and on how this burden is shared are becoming more relevant. The ESF or the Cohesion Fund already tackle such challenges but there is no coherent reporting or focus on the topic at this stage.

The remaining 75% of the budget

Activities under the remaining parts of the budget are key to ensure compatibility with the Paris Agreement and the long-term vision for a carbon neutral Europe. If fossil fuel-related expenditures will be eligible under the next MFF, negative GHG emission impacts should be reported. Ideally, a negative list for Paris-incompatible investments should be introduced to avoid a fossil fuel infrastructure lock-in. It was also criticised that major projects under the ESIFs will no longer have to be approved by the Commission.

Sustainable finance taxonomy

Currently, there is a mismatch of labels for sustainable investments. Clear definitions that are now being developed will define what counts as climate finance for the EU. The EIB will consider to align its definitions accordingly.

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ANNEX: COMMISSION PROPOSALS ON EX-POST MONITORING

Programme + climate spending	Commission proposal on ex-post impact analysis	Ex-post monitoring	
		Emissions	Investments
CAP **(EAGF + EAFRD)** *€146.0 billion*	• **Annex I – Impact, result and output indicators** Indirectly climate-related indicators (selection): • *Green energy from agriculture and forestry (MW)* • *Energy savings in agriculture* • *Additional renewable energy production capacity* • *Share of agricultural land under commitments to improve climate adaptation* • *Number of ha under environmental practices (synthesis indicator on physical area covered by conditionality, ELS, AECM, forestry measures, organic farming)* • *Number of ha subject to conditionality (broken down by GAEP practice)* • *Share of livestock units under support to reduce GHG emissions and/or ammonia, including manure management* • *Share of forest land under management commitments to support forest protection and management*	No	Partly
ERDF + Cohesion Fund *€17.3 billion + €67.9 billion*	**Annex II – Core set of performance indicators for the ERDF and the Cohesion Fund referred to in Article 7(3)** Indirectly climate-related indicators (selection): • *Investments in measures to improve energy efficiency Beneficiaries with improved energy classification* • *Volume of additional renewable energy produced* • *Annual number of passengers served by improved rail transport. Annual users served by new and modernised tram and metro lines* • *Estimated greenhouse gas emissions*	Yes	No
Horizon Europe *€34.2 billion*	**Annex V – Key impact pathway indicators** No climate-related indicators	No	No
Neighbourhood & Development *€22.4 billion*	**Annex VII – Key performance indicators** Directly climate-related indicators: *GHG emissions reduced or avoided (ktons CO_2eq) with EU support*	Yes	No

Programme + climate spending	Commission proposal on ex-post impact analysis	Ex-post monitoring	
		Emissions	Investments
CEF *€14.7 billion*	**Annex Part I – Indicators** Indirectly climate-related indicators (for details see annex): *Number of alternative fuel supply points built or upgraded with CEF support* *Number of CEF actions related to RE*	No	No
ITER *€6.1 billion*	**Explanatory Memorandum 5** No climate-related indicators	No	No
InvestEU *€4.4 billion*	**Annex III – Key performance indicators** Directly climate-relevant indicator: *3.2 Investment supporting climate objectives* Indicator for mobilized investments, only InvestEU altogether Indirectly climate-related indicator: *4.1 Energy: Additional renewable energy generation capacity installed*	No	Yes
LIFE *€3.3 billion*	**Annex II – Result indicators** Indirectly climate-related indicators: *2.1.Net change to the environment and climate, based on the* *aggregation of project level indicators to be specified in the calls for* *proposals under the sub-programmes for…Climate Change Mitigation* *and Adaptation…*	Uncertain	Uncertain
Pre-Accession *€2.3 billion*	**Annex IV – List of Key Performance Indicators** Directly climate-related indicators: *GHG emissions reduced or avoided (ktons CO_2eq) with EU support*	Yes	No
Overseas, incl. Greenland *€0.1 billion*	**Annex I – Article 3 – Indicators** No climate-related indicators	No	No
EMFF *€0.1 billion*	**Annex I – Common Indicators** Indirectly climate-related indicator: *Surface covered by protection, maintenance and restoration measures*	No	No