Briefing note about EU Climate Finance

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Overall Findings and Conclusions:

a. **The climate finance** commitments of the European Commission (**EC**) and the European Development Fund (**EDF**) **increased significantly in 2015** (to €1.5 billion), making the total **twice as high** as in previous years (average €770 million between 2010 and 2014). According to the Council of the EU, climate finance from the EC and EDF continued to **increase in 2016, reaching €2.7 billion**. This stems mostly from a significant increase in the climate finance commitments of the European Commission.

   For the European Investments Bank (**EIB**), the level of climate finance fluctuated somewhat between 2010 and 2015. It has fallen in recent years, with the commitment level in 2015 being **40% lower** than it was in 2012. According to the Council of the EU, the EIB's climate commitments

   A similar trend is observed in the information provided by the Council of the EU, which reports that the climate commitments of the EIB were €2.1 billion in 2014, €2.2 billion in 2015 and fell to €1.9 billion in 2016. This is short of the target that the EIB itself defined in its Climate Strategy in 2015.[1]

b. According to the Council of the EU, climate finance contributions from **EU institutions and EU member states totalled €20.2 billion in 2016** (compared to €17.6 billion in 2015 and €14.5 billion in 2014). However, the total in 2016 remains only **22%** of the USD 100 billion per year in climate finance that was agreed in the Paris Agreement (starting from year 2020).

c. Climate commitments from the **EC and EDF** were, on average between 2010 and 2015, **51% for mitigation and 49% for adaptation** (cross-cutting divided equally). This is more balanced than

[1] External Lending Mandate. Climate Strategy. December 2015. EIB

almost all EU member states, which tend to provide considerable more finance for mitigation than for adaptation. However, the EIB is overwhelmingly focused on mitigation activities, which take up, on average, 95%, with only an average of **5% of its climate finance spent on adaptation**.

d. Regarding the EU member states, the countries **with the highest share of climate finance** spent on **adaptation are Ireland, Sweden, Netherlands, and Belgium with more than 33%** (in 2014). Increasing mobilisation of private investment makes this distribution even more imbalanced, as mobilised private investment focuses almost exclusively on mitigation (e.g. renewal energy projects). In general, many EU countries should prioritise a considerable increase in funding provided to adaptation projects, particularly in low-income countries.

e. The Paris Agreement seeks to attend to the special needs of **47 Least Developed Countries (LDCs)**. It is calculated that **37%** of climate finance from EC and EDF between 2010 and 2015 went **to LDCs. The EC and EDF are also playing a key role in supporting adaptation in LDCs** (and 60% of their climate finance to LDCs between 2010 and 2015 was spent on adaptation activities).

   However, this is *not* sufficient to compensate for the neglect of the **EIB,** of whose climate finance **only 2%** is provided to LDCs. This is below the average of the multilateral development banks, MDBs, which provide 5% of their climate finance to adaptation in LDCs.

f. Climate finance from the **EC and EDF is 99% grants**, whereas the **EIB's climate finance consist of 98% loans,** while 2% is equity investment. Among the member states, **France, with only 2% grants,** and Spain, with 12%, have the lowest level of grants in their climate finance. Reporting these loan instruments at their face value vastly overstates the level of assistance that developing countries truly receive. The estimated **grant equivalent of France's climate finance is less than half of its face value** of concessional and non-concessional loans **reported to UNFCCC.** There are currently no agreed definition of climate finance. In the Paris agreement it was decided to develop modalities for the accounting of climate finance to be adopted at COP24 in December 2018.

1. Introduction

ACT Alliance EU has requested the Danish consultancy firm, INKA Consult, to conduct a study on climate finance allocated by the European Commission and through other EU financial instruments.

EU institutions and EU Member States report their financing of measures against climate change to the UN Framework Convention on Climate Change (UNFCCC) through the First and Second Biennial Report, using the Common Tabular Format (CTF) defined by the UNFCCC. The Third Biennial Report is due to be submitted in January 2018.

The European Commission (EC), the European Development Fund (EDF) and the European Investments Bank (EIB) as well as Member States also report to the OECD-DAC, through the Creditor Reporting System (CRS). EU applies the methodology proposed by OECD, including the use of Rio markers.

2. Climate Finance from European Commission (EC) and the European Development Fund (EDF)

The table below shows the climate finance in terms of commitments for the period 2010-2015, calculated based on the data in the OECD-DAC CRS database (similar calculations have been made for climate finance disbursements).

EC and EDF climate finance based on CRS - Commitments - million €		2010	2011	2012	2013	2014	2015	2010-2015 aver.
European Commission (EC)	Mitigation	80	32	84	209	223	287	153
	Adaptation	102	58	120	125	197	258	143
	Cross-cutting	9	44	61	316	220	432	180
	Total EC	*192*	*133*	*265*	*650*	*640*	*976*	*476*
Development Fund (EDF)	Mitigation	216	163	146	99	39	239	150
	Adaptation	56	98	165	264	2	264	142
	Cross-cutting	65	238	367	55	0	20	124
	Total EDF	*336*	*499*	*678*	*417*	*41*	*523*	*416*
Total EC+EDF		***528***	***632***	***944***	***1,067***	***681***	***1,499***	***892***

Table A: Climate finance commitments from EC and EDF between 2010 and 2015, calculated by the consultant team based on CRS data.

The consultant team's calculation shows that climate finance from the European Commission and the European Development Fund (EDF) totalled €1.5 billion in 2015, which is exactly what the European Commission has itself informed to the EU Council.[2]

According to the information to the EU Council, climate finance contributions from the EU and its member states totalled €9.5 billion in 2013, €14.5 billion in 2014, €17.6 billion in 2015 and **€20.2 billion in 2016**. The latter remains only **22%** of the USD 100 billion per year in climate finance that was agreed in the Paris Agreement (starting from year 2020).

The development in climate finance **commitments** from EC, EDF and EIB over the period from 2010 to 2015 is shown in Figure A below.

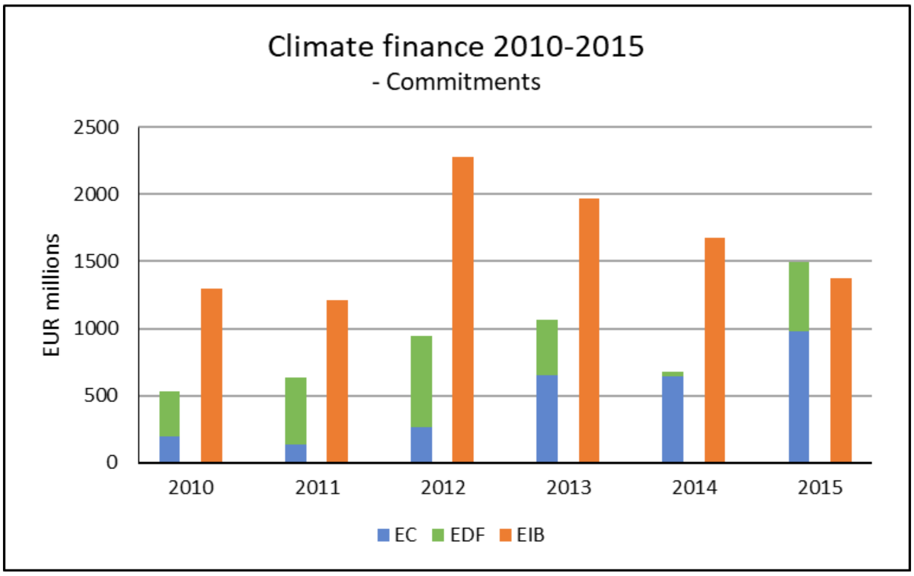

Figure A: Climate finance commitments from EC, EDF and from the EIB between 2010 and 2015. Calculation based on data from CRS and climate shares for the EIB are from OECD. This is a graphical representation of some of the figures provided in Table A and B.

[2] *https://www.consilium.europa.eu/en/press/press-releases/2016/10/25/climate-change-finance/* A difference is that the consultant team has calculated €1,372 billion (2015, where the EC figure is €2.2 billion from the European Investment Bank.

Climate finance commitments of the EC and EDF increased significantly in 2015 (to €1.5 billion), making the total twice as high as in previous years (average €770 million between 2010 and 2014). According to the Council of the EU, climate finance from the EC and EDF continued to increase in 2016, reaching €2.7 billion. This stems mostly from the EC increasing its climate finance considerably over the period, as its level of commitments was more than four times higher in 2015 than the annual average between 2010 and 2012. Climate finance commitments of the EDF remained roughly the same over the period, except for 2014, when the commitment level was considerably below average.

3. Climate Finance from the European Investment Bank (EIB)

The European Investment Bank (EIB) is the European Union's long-term lending institution, whose shareholders are the EU member states.

The table below shows its climate finance in terms of commitments for the period 2010-2015, for which the consultant team has extracted the EIB's project portfolio data from the OECD-DAC CRS database. [3]This only includes loans provided to countries on the so-called DAC List of ODA Recipients.[4], which explains why the calculated figures are considerably lower than those reported by the EIB (which include finance provided to countries with per capita incomes above those of DAC-listed countries).

EIB climate finance based on CRS - Commitments - million €		**Year**						**2010-2015 aver.**
		2010	***2011***	***2012***	***2013***	***2014***	***2015***	
European Investment Bank (EIB)	Mitigation	1,222	1,083	2,166	1,903	1,635	1,274	1,547
	Adaptation	73	126	111	62	42	97	85
	Cross-cutting	0	0	0	0	0	0	0
	Total EIB	*1,295*	*1,209*	*2,277*	*1,965*	*1,677*	*1,372*	*1,632*

Table B: Climate finance commitments from EIB between 2010 and 2015, calculated by the consultant team based on CRS data and information on mitigation and adaptation levels from MDBs joint annual reporting of climate finance.

The consultant team has calculated that climate finance commitments of the EIB in 2015 to countries on the DAC list totalled €1.37 billion. This is 40% below the level of 2012. In general, the level of climate finance from the EIB has been somewhat fluctuating between 2010 and 2015.

A similar trend is observed in the information provided by the Council of the EU, which reports that the climate commitments of the EIB were €2.1 billion in 2014, €2.2 billion in 2015 and fell to €1.9 billion in 2016. This is short of the target that the EIB itself defined in its Climate Strategy in 2015.[5] Here it was announced that the Bank intends to increase the share of climate-related projects to 35% of its overall lending to developing countries by 2020, and to place greater emphasis on providing adaptation assistance to regions on the frontline of climate change.

The EIB recognises that its share allocated to adaptation is too low, as illustrated by this quote from its official strategy: "*EIB's lending for projects or project components in the area of climate change adaptation in the period 2012-2014 amounted to €237 million, 4% of overall climate finance volume, reflecting the difficulty to identify a stream of adaptation activities, the developing countries' lack of appetite for borrowing for adaptation as well as the limited attractiveness that this sector has for private sector investors. Going forward, investment in adaptation is expected to grow gradually once resources from the GCF and other multi- and bilateral sources of finance begin flowing in earnest,*

[3] The information on climate finance provided by the EIB can also be found in the 2nd Biennial Report from EU
[4] DAC List of ODA Recipients Effective for reporting on 2014, 2015 and 2016 flows: http://www.oecd.org/dac/stats/documentupload/DAC%20List%20of%20ODA%20Recipients%202014%20final.pdf
[5] External Lending Mandate. Climate Strategy. December 2015. EIB

providing much needed investment grants and other subsidies for blending with MDBs' concessional lending."

Rio markers are *not* applied to EIB activities, whose climate relevance is instead assessed case by case based on the joint methodology developed by the Multilateral Development Banks (MDBs).[6] The overall result is published each year in the MDBs'[7] '*Joint Report on Multilateral Development Banks' Climate Finance*'. Unfortunately, however, the MDBs have *not* disclosed more detailed public information about their assessments (including the percentage of climate finance in each project), which makes it difficult to verify reported climate finance figures.

4. Funding for adaptation

The Paris Agreement seeks to achieve a "balance" between adaptation and mitigation finance

The table below shows the average levels of mitigation, adaptation and cross-cutting commitments for EC, EDF and EIB for the period 2010-2015. Projects with Rio markers for both adaptation and mitigation are counted as 'Cross-cutting'.[8]

Type of climate finance – 2010-2015 total, commitments		**2010-2015** - € million	**%**
European Commission (EC)	Mitigation	915	32%
	Adaptation	860	30%
	Cross-cutting	1,082	38%
Development Fund (EDF)	Mitigation	901	36%
	Adaptation	849	34%
	Cross-cutting	745	30%
European Investment Bank (EIB)	Mitigation	9,283	95%
	Adaptation	512	5%
	Cross-cutting	0	0%

Table C: Total mitigation, adaptation and cross-cutting finance for EC, EDF and the EIB. 2010-2015. Information on relative spending on mitigation, adaptation and cross-cutting by the EC and EDF is based on CRS data. Mitigation and adaptation shares for the EIB are based on the average figures indicated in the MDBs joint annual reporting of climate finance between 2011 and 2015[9].

The distribution between spending on mitigation, adaptation and cross-cutting goals is more or less the same for EC and for EDF grants, with about 1/3 going to each of the three categories. If the cross-cutting category is divided equally between mitigation and adaptation, climate disbursements from EC and EDF is, on average, 54% mitigation and 46% adaptation between 2010 and 2015.

6 *http://documents.worldbank.org/curated/en/653481468190738889/pdf/97398-REVISED-10-7-2015-WP-PUBLIC-Box393216B-Joint-Report-MDB-1604608-Web.pdf*

7 MDBs included in the reporting are: African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank Group, and the World Bank Group.

8 The European Investment Bank (EIB) is *not* applying Rio markers. The consultant team found the information on mitigation-adaptation shares in the annual reports from the multilateral development banks (MDBs), where EIB is member together with the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank Group (IDBG) and the World Bank Group.

9 It should be noted that the MDBs' joint annual reporting covers all recipients of EIB finance. The level of mitigation and adaptation in the case of finance going only to DAC-listed countries might therefore vary slightly from what is included in Table C.

The climate finance provided by the EIB is overwhelmingly focused on mitigation activities, which take up 95% on average. By contrast, adaptation accounts for as little as 5% of climate finance on average.

Regarding the EU member states, the figures in the table below is for 2014. The consultant team is expecting to get access to figures for countries' climate finance in 2016 by late January 2018.

The EU countries with the highest share spent on adaptation are Ireland, Sweden, Netherlands, and Belgium with more than 33%. They are followed by Finland, Germany and Luxembourg (see the table below). There is considerable variety in what percentage of climate finance bilateral agencies allocate to adaptation. In general, many EU countries should prioritise an increase in funding of adaptation projects, particularly in low-income countries.

Increasing mobilisation of private investment makes this distribution even more imbalanced, as mobilised private investment focuses almost exclusively on mitigation.

Ran-king	**Member States**	**Total climate finance 2014** (million €)	**Adaptation finance 2014** (million €)	**% adaptation of total climate finance**
1	Ireland	33.97	22.87	67
2	Netherlands	371.28	133.84	36
3	Sweden	228.84	77.77	34
4	Belgium	95.4	32.05	34
5	Finland	116.17	24.26	21
6	United Kingdom	1,197.92	246.13	21
7	Luxembourg	38.7	7.35	19
8	Germany	5,135.38	814.63	16
9	France	2,767.19	279.14	10
10	Denmark	224.9	20.16	9
11	Portugal	9.22	0.86	9
12	Italy	54.66	4.55	8
13	Austria	101.07	6.88	7
14	Spain	463.14	18.67	4
15	Poland	3.67	0.15	4

Table D: EU member states ranked after their share of adaptation in climate finance in 2014. Source: *Study on climate finance reporting, including methodological issues, producing overview information and assessing emerging requirements.* Öko-Institut. 2016.

5. Funding for Least Developed Countries (LDCs)

Least Developed Countries (LDCs) and small island developing states are particularly vulnerable to climate change, and will need to adapt to the inevitable impacts. The Paris Agreement seeks to attend to the special needs of these two categories of countries. As defined by the UN, there are 47 LDCs (as of June 2017).

Based on the OECD's CRS, it can be calculated that 28% of the European Commission's climate finance between 2010 and 2015 went to LDCs, and as much as 46% in the case of the EDF. In combination, this means that 37% of total climate finance from the EC and EDF is given to LDCs. For the EIB, by contrast, it is only 2%, as its loans are mainly provided to '*Upper-middle income countries*.' See table below.

Recipient country income group – 2010-2015, average annual commitments	**LDCs**		**Other low-income countries**	**Lower-middle income countries**	**Upper-middle income countries**
	Million €	%	%	%	%
European Commission	64	28%	3%	29%	40%
European Development Fund	114	46%	9%	27%	18%
European Investment Bank	32	2%	2%	25%	71%

Table E: *Climate finance provided by EC, EDF and the EIB between 2010 and 2015, divided on income groups of the recipient countries. Only finance with identified, individual recipient countries have been included. Regional and global projects are not included. It is noted that the income group "More advanced developing countries and territories" has not been included. Support to this group constitute an average of €1 million per year from EC (0.37%) and €8 million per year from EIB (0.55%).*

The EC and EDF are playing a key role in supporting adaptation in LDCs. For the period 2010-2015 the average annual support from the European Commission to LDCs was €64 million and from the EDF €114 million. As much as 60% of the climate finance provided by the EC and EDF to LDCs was spent on adaptation activities.

However, this significant EC/EDF funding is far from sufficient to compensate for the neglect of the EIB and the other multilateral development banks, which only provided 5% of their climate finance to adaptation in LDCs in 2016. Collectively, the six multilateral development banks (MDBs[10]) committed USD 27,441 million in climate finance in 2016[11], of which only USD 1,205 (less than 5%) was for adaptation in LDCs (see table below). However, this percentage figure is less than half in the case of the European Investment Bank (EIB), which raises the question of why.

Table 5: MDB climate finance to least-developed countries and small island states, 2016 (in US$ million)

	Mitigation finance	Adaptation finance	Total
Least-developed countries	1,841	1,041	2,882
Small island developing states	207	91	298
Least-developed countries and small island states	17	72	90
Total	**2,066**	**1,205**	**3,270**

Table F: Climate finance from MDBs provided to LDCs and small island states in 2016. Source: Table 5, p. 11 in *2016 Joint Report on Multilateral Development Banks' Climate Finance.* MDBs. 2016.

The figures show that the EU should give much greater priority to increasing climate finance to LDCs, taking into account that EIB is only providing 2% to LDCs.

The consultant team's final report will further explore the support provided to small island developing states.

The OECD has estimated[12] bilateral climate-related finance donated to LDCs to be only 14% of total development aid. Climate finance should also match the priorities of LDCs as agreed in the *"Programme of Action for the Least Developed Countries for the Decade 2011-2020"*, which was adopted in 2011 in Istanbul at the Fourth UN Conference on LDCs.

[10] The group of multilateral development banks (MDBs) is composed of the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank Group (IDBG) and the World Bank Group.

[11] For adaptation USD 6,224 million or 23 % of total committed US$ 27,441 million in climate finance in 2016 from MDBs according to "*2016 Joint Report on Multilateral Development Banks' Climate Finance*". https://publications.iadb.org/handle/11319/8505

[12] USD 4.4 billion on average per year to LDC countries in the period 2012-14. OECD. 2016. About the same amount came through multilateral channels. Source: OECD. 2016. *FACTSHEET: Financing for development: the case of Least Developed Countries (LDCs).*

6. Loans and grant equivalents

Climate finance from the EC and EDF is primarily provided as “Official Development Assistance” (ODA), of which 99% consists of pure grants. Conversely, climate finance provided by the EIB consist of “Other Official Flows”, of which 98% consists of loans and 2% of equity investment. The table below provides an overview of the overall level of each type and source of climate finance as a percentage of total climate finance provided by the EU.

EU climate finance based on finance type - commitments	**Year**						**2010-2015 aver.**
	2010	***2011***	***2012***	***2013***	***2014***	***2015***	
Grants (EC+EDF)	28%	34%	29%	35%	29%	52%	35%
Loans (EIB)	69%	64%	70%	64%	70%	46%	64%
Equity (EDF+EIB)	3%	2%	1%	1%	1%	1%	1%

Table G: Climate finance from EC, EDF and the EIB between 2010 and 2015, divided on type of finance instrument. Figures are based on CRS data.

An Oxfam International report from 2016[13] found that *reported* levels of global climate finance are much higher than *actual* support provided to developing countries. This is mainly because many countries include transfers provided as loans at face value rather than at their grant equivalent value. Oxfam uses a method for downgrading of concessional and non-concessional loans, arriving at a rough estimate that reported numbers may be up to three times higher than the true net assistance value.

The table below shows reported climate finance and grant equivalent estimates for major donors in 2013-2014. Furthermore, it shows how climate finance is distributed between grants and loans, as some donors offer 100% grants, while other countries offer more loan-based climate finance.

	Reported **Climate Finance** (million USD)	**Grants**	**Concessional** loans or equity	**Non-concessional** loans or equity loans or equity	Non-concessional other instruments	Unspecified	Estimated total **grant and grant equivalent** (million USD)
France	3,310	2%	78%	20%	0%	0%	710 - 1,900
Spain	430	12%	7%	32%	49%	0%	60 - 70
EU Institutions	3,840	28%	6%	3%	0%	63%	1,441 - 2,040
Germany	5,180	45%	46%	9%	0%	0%	2,940 - 3,940
United Kingdom	750	94%	6%	0%	0%	0%	710 - 730
Denmark	200	100%	0%	0%	0%	0%	200
Netherlands	340	100%	0%	0%	0%	0%	340
Sweden	280	100%	0%	0%	0%	0%	280

Table H: Reported climate finance and grant estimates for major donors (2013-2014 average) delivered through bilateral channels. Source: *Climate Finance Shadow Report 2016: lifting the lid on progress towards the $100 billion commitment.* Oxfam. 2016.

France and Spain have the lowest level of grants among EU countries, providing just two and twelve percent of their climate finance, respectively, in the form of grants. In the right column, Oxfam has estimated the grant equivalent.

Reporting these loan instruments at their face value vastly overstates the level of assistance that developing countries truly receive. The estimated grant equivalent of France’s climate finance is according to Oxfam less than half of its face value.

[13] *Climate Finance Shadow Report 2016: lifting the lid on progress towards the $100 billion commitment.* Oxfam. 2016.

As of 2018, new guidelines to assess the concessionality of loans apply for OECD countries, which imply i.a. that only loans with a grant element of at least 45% will be reportable as ODA.

Under the right circumstances, concessional loans, equity or guarantees can all have an important role to play in providing and mobilising climate finance, but reporting these instruments at their face value vastly overstates the level of assistance that developing countries truly receive.

7. Top-ten recipients of climate finance

Figure B below, shows the **top-ten recipients** of climate finance from the EC and EDF, of which only four are least developed countries. While Turkey is by far the largest individual recipient, only four LDCs (shown in red) are also present among the top recipients.

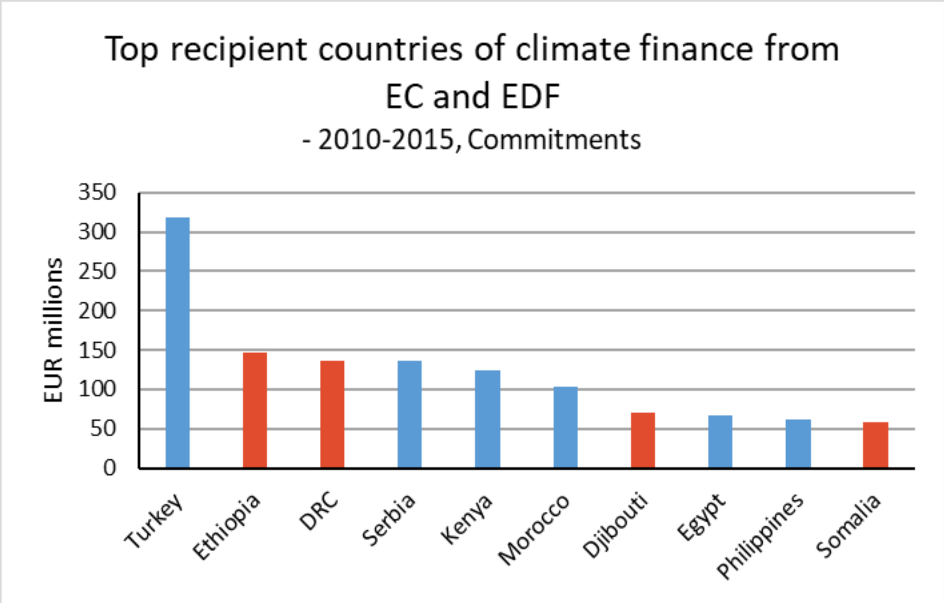

Figure B: Top ten recipients of climate finance from EC and EDF between 2010 and 2015 (total commitments). LDCs have been marked with red color. Calculation by consultant team based on CRS data.

Figure C below, shows the **top-ten recipients** of climate finance from the EIB. Turkey is also here the largest recipient, directly receiving about a third of all climate finance from EIB[14]. No LDCs are among the top ten recipients.

[14] It is noted that, since information on individual climate projects from EIB is not available, the division here represent how all finance from EIB is divided on recipient countries. The overall division of EIB finance for each year has then been multiplied with the climate share of the project portfolio. The amounts for climate finance in Figure C are therefore estimates rather than precise figures.

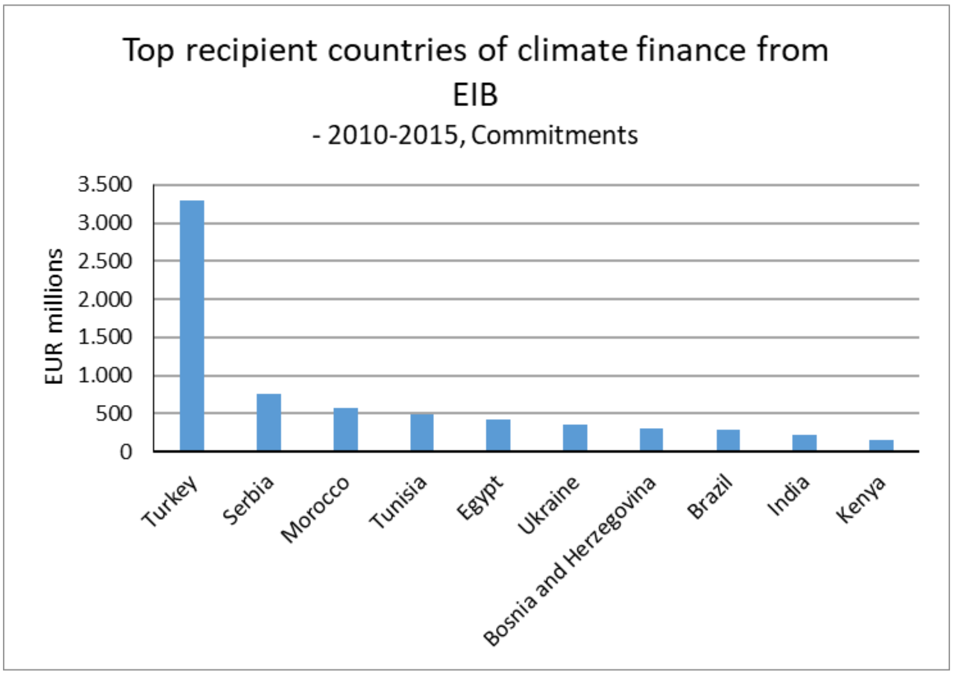

Figure C: Top ten recipients of climate finance from EIB between 2010 and 2015 (total commitments). Calculation by consultant team based on CRS data and information on climate shares from OECD.