



actalliance eu

An analysis of the Climate Finance Reporting of the European Union

April 2018

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April 2018

This report was commissioned by

actalliance eu

The research has been prepared by

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LIST OF ABBREVIATIONS

Annex 1 parties	Parties mentioned in Annex 1 of the UNFCCC. These include OECD countries (Annex 2 parties) and economies in transition.
Annex 2 parties	Parties mentioned in Annex 2 of the UNFCCC. These include OECD countries.
ACT Alliance EU	Action by Churches Together (ACT) Advocacy to the European Union
BR1	First Biennial Report (UNFCCC)
BR2	Second Biennial Report (UNFCCC)
BR3	Third Biennial Report (UNFCCC)
CAN	Climate Action Network
COP	Conference of the Parties
CPI	Climate Policy Initiative
CRS	Creditor Reporting System (OECD)
CTF	Common Tabular Format
DAC	Development Assistance Committee (OECD)
DEVCO	Directorate-General for International Cooperation and Development
DG	Directorate General
DG NEAR	Directorate General for Neighbourhood and Enlargement Negotiations
ECOFIN	Economic and Financial Affairs Council (ECOFIN)
EC	European Commission
EU	European Union
EBRD	European Bank for Reconstruction and Development
EDF	European Development Fund
EIB	European Investment Bank
EUR	Euro
GCF	Green Climate Fund
GNI	Gross National Income
IATI	International Aid Transparency Initiative
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IPA	Instrument for Pre-accession Assistance
LDCs	Least Developed Countries
MDB	Multilateral Development Bank
MFF	Multiannual Financial Framework
MMR	Monitoring Mechanism Regulation
NGO	Non-governmental organisation
Non-Annex 1	Mostly developing countries <i>not</i> mentioned in Annex 1 of the UNFCCC
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OOF	Other Official Flows (OECD)
SCF	Standing Committee on Finance (UNFCCC)
ToR	Terms of Reference
UN	United Nations
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States dollars

FOREWORD

The EU and its Member States constitute the largest donor for development, humanitarian and climate finance to developing countries. However, looking exclusively at amounts of money would be misleading. In order to properly evaluate the effect for development on poor and vulnerable countries, we need to delve into how the money is accounted for and how it is allocated.

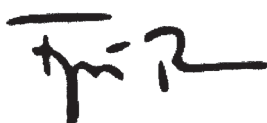
To this end, we commissioned an analysis of the accounting of funds allocated by EU institutions and Member States to climate action year by year. This research delivered several interesting results which are presented in this report.

The debate about climate finance has long revolved around total amounts. However, the 2018 UN negotiations also cover issues relating to transparency and accounting rules. But with no agreement about how to count or what to count. With regard to climate finance, parties tend to misunderstand each other, which has undermined trust and confidence in the deliberations for many years.

For the first time in history, the Paris Agreement brought countries together from across the world to tackle a common global threat. The spirit of the post-2020 climate regime is that everyone must contribute to a better future for all. This is why donor countries are expected to improve current accounting rules in order to make such practices more transparent and fit for purpose. This could unlock other contentious areas of ongoing negotiations, such as those aimed at enhancing the transparency of reporting for emerging economies.

We hope that this report will provide more clarity and transparency regarding EU climate finance, reporting practices, rules and methodologies. With its release, ACT Alliance EU and its member agencies wish to make a modest contribution to the ongoing negotiations on the Paris Agreement rulebook, which is set to be adopted at the 24th Conference of the Parties under the UNFCCC to be held at the end of 2018 in Katowice, Poland.

Brussels, 18 April 2018



Floris Faber
Director
ACT Alliance EU

EXECUTIVE SUMMARY

This study is commissioned by ACT Alliance EU in order to establish an overview of climate finance provided by EU institutions and EU Member States to developing countries. The report encompasses financial flows from the European Commission (EC), the European Development Fund (EDF), the European Investment Bank (EIB) and individual EU Member States.

Biennial reports from EU institutions to the UNFCCC include climate finance from the EC, the EDF and the EIB. Each October, the EU's total climate finance figure is published after a meeting in the Economic and Financial Affairs Council (ECOFIN), which determines total climate finance from the EU and its Member States through the EU's Monitoring Mechanism Regulation (MMR) reporting in September each year.

Total climate finance from EU institutions and EU Member States increased significantly from EUR 9.5 billion in 2013 to EUR 20.2 billion in 2016. The largest share of this came from individual Member States, which delivered EUR 15.5 billion in 2016. Of the remaining part, EUR 2.7 billion was taken from the EU budget and the EDF, while EUR 1.9 billion was provided by the EIB.

Climate finance reported by the EC consists of funds taken directly from the EC budget, as well as finance from the EDF and the EIB. Almost two-thirds of the climate finance *commitments* provided between 2013 and 2016 was from the EIB. In this period, the share from the EC and EDF increased, while the share from the EIB fell from 68% in 2013 to 42% in 2016.

Climate finance from the EC and EDF increased considerably between 2010 and 2016, when commitments rose by almost 400%, from EUR 550 million to EUR 2.7 billion. The increase in 2016 stemmed particularly from a large increase in the EDF's climate finance, while the sum total of commitments by the EC and EDF in 2016 was more than EUR 1.5 billion higher than the disbursement level. That could indicate that disbursements of climate finance from the EC and EDF also rose in 2017 and is set to continue to do so.

Climate finance provided by the EIB did *not* increase significantly between 2013 and 2016, when annual disbursements fluctuated around EUR 2 billion. On average, climate finance from the EIB made up 30% of EIB finance committed to DAC recipient countries. In 2016 EIB climate finance was slightly below previous years, amounting to only 27% of finance committed to DAC recipients, down from 35% in 2013. It is discouraging that the EIB's climate finance share has decreased, but it is still possible for the bank to reach its own strategic plan's target of 35% climate finance in its aid to developing countries within a couple of years.

At the same time, however, the EIB continues to support investments in fossil fuels both in Europe and in developing countries. This practice runs directly counter to the objectives of the Paris Agreement of aligning financial flows to the pursuit of low greenhouse gas emissions.

The Paris Agreement seeks to achieve a "balance" between adaptation and mitigation finance. Climate finance from EU institutions can be divided into what is provided for mitigation, for adaptation and for cross-cutting projects, i.e. projects in pursuit of both mitigation and adaptation.

According to data the EU reported to UNFCCC in the Biennial Report (BR3 for 2015-2016), the EU's institutions' (EC's and EDF's) climate support was 34% for adaptation and 66% for mitigation in 2016 (when cross-cutting is divided equally between the two categories). Support for adaptation was EUR 1,59 billion in 2016.

In 2016, the EC and EDF spent 55% on adaptation and 45% on mitigation (with “cross-cutting” divided equally between mitigation and adaptation). Conversely, climate finance from the EIB is overwhelmingly provided towards mitigation projects, with only 4% going to adaptation. The adaptation share of climate finance from the EC and EDF has stayed at around 50% from 2011 to 2015, though with a slight increase in 2016 to 55%. Conversely, while the adaptation share of EIB finance increased in 2015 to 8%, it fell again in 2016 to 4%.

Given the low level of finance for adaptation provided by the EIB, it is necessary to continue to raise the adaptation share of the EC, EDF and the EIB. Adaptation finance disbursements from the EC, the EDF and the EIB need to increase by approximately EUR 1.5 billion to achieve a 50-50 balance between adaptation and mitigation, assuming that the current level of commitments for mitigation remains steady.

Looking at the overall composition of climate finance provided by EU institutions as well as Member States, the adaptation share going to developing countries was approximately 30% in 2016. While this figure masks considerable spread between countries, it is clear that some countries have prioritised adaptation projects, including Belgium, Netherlands and Sweden, which are providing more than 60% of their climate finance for adaptation purposes. At the same time, some of the large donors are clearly favouring mitigation, including France, which only spends 21% on adaptation, and Germany with 24% spent on adaptation.

It should be acknowledged that private finance and loans have little adaptation potential, as it is difficult to make a good “business case” for adaptation. This makes it necessary for donor governments to provide a considerable part of their climate finance as public grants for adaptation projects, in order to reach the target of “balanced” climate finance set out in the Paris Agreement, taking into account that loans and private sector investments tend to favour mitigation.

The EU is playing a key role in supporting adaptation in the most vulnerable parts of the world. For the period 2013-2016, EC and the EDF commitments to Least Developed Countries (LDCs) were at an annual average of EUR 96 million from the EC, and EUR 116 million from the EDF. LDCs received 19% of overall climate finance provided by the EC, EDF and EIB between 2013 and 2016. Most of the climate finance to LDCs comes from the EC and EDF. Particularly the EDF has considerably increased support given to LDC in 2015 and 2016. However, this significant EC/EDF funding is far from sufficient to compensate for the neglect of the EIB, which only provided on average 8% of its climate finance for adaptation in LDCs between 2013 and 2016.¹

It is notable that there is no significant increase in the EIB's share of climate finance going to LDCs between 2013 and 2016, and indeed it continues to be below the average of other multilateral development banks (MDBs).

As most financial resources mobilised from private sector investors are expected to go to middle-upper income countries, it is particularly important that public funds from the EC, the EDF and Member States are allocated to LDCs and vulnerable states. The EIB could also work towards rapidly increasing the amount of finance going to LDCs and focus particularly on financing adaptation efforts in these countries.

Most of the climate finance provided by EU institutions between 2013 and 2016 went to Africa (35%) and Europe (including Turkey, 33%), followed by Asia (20%). The largest individual recipients of climate finance

1 Table 5, p. 11 in 2016 Joint Report on Multilateral Development Banks' Climate Finance.

were Turkey, with EUR 667 million annual average, Ukraine (EUR 301 million), and India (EUR 213 million). Of the 10 largest individual recipients, Bangladesh is the only LDC (7th place, EUR 74 million), and Brazil (EUR 52 million in 10th place), is the only country in Latin America.

As part of reporting to the UNFCCC, OECD countries and EU institutions are required to describe how the climate finance provided is *'new and additional'*. In its Third Biennial Report, the EC presents this definition:

"The financial resources reported in this Biennial Report are considered 'new and additional resources', meaning that they were committed after and not included in the previous National Communication or Biennial Report (i.e. committed in either 2015 or 2016). As EU budgets are determined on an annual basis, each annual commitment cycle represents new and additional resources."

The definition used by the EC is at odds with how 'new and additional' is interpreted by a number of actors, including many NGOs and developing states. It also does *not* fall within the possible definitions identified by the UNFCCC's Standing Committee on Finance in the 2016 Biennial Assessment.²

It is a problem that there is *no* internationally agreed definition of what constitutes "*new and additional*" resources under Article 4.3 of the UNFCCC convention. It has become common practice to merge climate-related finance with development aid (ODA) budgets at the EC and among EU Member States.

In 2016, EU Member States contributed EUR 15.5 billion in climate finance according to their reporting to the UNFCCC.

For many years, DAC members' efforts towards increasing their development aid have been addressed in terms of the UN's 0.7% ODA/GNI target. Similarly, this report presents climate finance delivered by EU Member States in relation to their Gross National Income, GNI.

This report illustrates the differences in climate finance relative to GNI for EU Member States, revealing a considerable spread in the relative level of climate finance provided by the various countries. Seven EU Member States donated more than 0.05% of GNI in climate finance, with the highest shares in the cases of Luxembourg (0.35%), Germany (0.23%) and France (0.13%). At the same time, thirteen EU Member States, primarily from southern and eastern Europe, provided less than 0.005% of GNI in climate finance.

While climate finance relative to GNI is only one way of comparing finance levels, it does provide an insight into how different developed countries are sharing the burden of financing the costs associated with climate change.

Climate finance reported to UNFCCC by EU Member States includes not only grants, but also concessional and non-concessional loans and other financial instruments, such as equity investments. Concessional loans make up 47% and grants 35% of all donor-reported climate finance in Biennial Reports (BR3 for 2015-2016).

This report shows how loans constitute a significant part of climate finance from both the EU (EIB) and several EU Member States. However, the eligibility of loans as "climate finance" is contested, and several

² Annex Q in UNFCCC SCF. 2016a. *2016 Biennial Assessment and Overview of Climate Finance Flows Report - Technical Report*.

developing countries have repeatedly criticised this practice. This report presents loans both at their face value and at their grant equivalent value. The latter practice amounts to more transparent reporting by making the actual net contribution explicit.

While the climate finance provided by the EC and the EDF between 2010 and 2016 is composed of more than 99% grants, the climate finance provided by the EIB is almost exclusively in the form of different types of loans. The face value of the EIB's reported climate loans to developing countries (on the DAC list³) was EUR 1.95 billion in 2016 according to BR3. This study has calculated the grant element of EIB's loans to be in the range of EUR 0.41 to EUR 1.11 billion, i.e., 21%–57% of the reported face value.

The estimated grant equivalent value of EIB's climate finance is therefore considerably lower than the amounts reported by the EU in its Biennial Reports to the UNFCCC. It is problematic that the EU failed to mention the difference between face values and grant equivalent values in its BR3. Nor is such information published in the statements of ECOFIN ministerial meetings.

The total grant equivalent value is between 58% and 78% of the EUR 20.3 billion face value reported to the UNFCCC (which includes both grants and loans) for the countries and the EU institutions listed in the above table (which covers 98% of reported climate finance from EU and Member States). This reduces the reported climate finance by between EUR 4.6 billion and EUR 8.6 billion, which has implications for the understanding of the USD 100 billion promise in the Paris Agreement.

By calculating the grant value of climate finance provided by France and Spain, it becomes clear that the grant equivalent of finance from those countries is remarkably low. In the case of France, it implies that, instead of the EUR 3.3 billion reported to the UNFCCC, the estimated grant value is actually EUR 0.8-1.9 billion, which is only 25%-58% of what is reported in BR3.

Loans also constitute a significant part of the climate finance provided by, for instance, Germany and Luxembourg, but it should be noted that both of these countries nevertheless provide substantial climate finance measured as a percentage of their GNI. Countries such as the UK, Denmark, the Netherlands, Sweden and Norway are providing all or nearly all their climate finance as grants.

Reviews of Biennial Reports have shown that the guidelines leave room for interpretation and for a range of reporting approaches. The lack of common standards hinders consistent reporting and comparisons, which has been recognised by the UNFCCC's Standing Committee on Finance. This is also the conclusion reached by research related to this report about the EU, and by the authors of similar reports prepared in Denmark and Norway.⁴

Climate finance is currently being reported upon most comprehensively through the Biennial Reports and the Common Tabular Format (CTF) submitted by Annex 2 countries⁵ to the UNFCCC. However, the CTF is limited in its scope and lacks information on key policy issues, including grant equivalent values of financial instruments and share of climate finance going to LDCs and small island developing states. In this regard, more information is available in the OECD CRS database, to which donors are reporting at project level.

3 OECD's so-called DAC List of ODA recipients developing countries covers 2014, 2015, 2016 and 2017 reported flows. <http://www.oecd.org/dac/stats/daclist.htm>

4 Norwegian report: <http://www.forumfor.no/assets/docs/Analysis-of-Norwegian-Climate-Finance.pdf> and Danish report: https://www.92grp.dk/files/Danish_ClimateFinance.pdf

5 Annex II Parties consist of the OECD members of Annex I, but *not* the countries with economies in transition (the EIT Parties) as Russia and several Central and Eastern European States.

These limitations make it hard for governments in developing countries, civil society and researchers to analyse climate finance.

The climate shares (percentage of budget spent on climate objectives) of individual projects are particularly relevant when methodologies are used that do *not* rely on Rio markers with public access in OECD CRS database, as is the case of the joint approach applied by the EIB and the other MDBs. The lack of information on climate shares assigned to individual projects lessens the transparency of reporting and makes it impossible for external actors (civil society, researchers) to verify individual assessments of projects. It should be added that this study managed to get access to the EIBs dataset on climate actions.

ACT ALLIANCE EU RECOMMENDATIONS

1. The EC, EDF and EIB should continue to scale up climate finance, which has already gone through a steady rise in recent years. Furthermore, the EIB should take new initiatives to end support for fossil fuel-based investments and to focus more on climate change throughout its portfolio.
2. The EIB should increase the share of its climate finance spent on adaptation beyond the current figure of only 4%. The EC and EDF should continue to focus increasingly on adaptation to ensure that the total climate finance delivered by the EC, EDF and EIB strikes a good balance between mitigation and adaptation.
3. All EU Member States should consider increasing their allocations to adaptation. The aim should be to improve the balance between mitigation and adaptation, taking into account that loans and equity investments as well as private sector investments tend to favour mitigation.
4. The EC and EDF should continue to increase their support to LDCs, and the EIB should take new initiatives to ensure that LDCs benefit from greater support.
5. In accordance with UNFCCC agreements, EU climate finance should be “new and additional”. EU should work for an internationally-agreed definition of what constitutes “new and additional” climate finance. A shared understanding of how such principles should be operationalised, as well as transparency in their application, would help build trust and confidence between developing and developed country parties in the UNFCCC.
6. All EU Member States should consider how they can contribute to the EU commitment to scale up climate finance towards the global USD 100 billion target by 2020. This call is particularly important for countries with a comparatively small share of climate finance, compared to GNI.
7. The European Union should promote an agreement on rules and accounting guidelines to ensure that countries report the grant equivalent value of loans and other non-grant instruments to the UNFCCC. This would improve the accuracy of how climate finance figures reflect actual net value contributed towards climate change mitigation and adaptation, thereby minimizing developed countries’ tendency to over-report their climate finance by counting loans at face value.

8. The EU should work for UNFCCC agreements to reach a common definition of eligible climate finance as well as to improve transparency and accounting rules. This should include a revision of the Common Tabular Format (CTF) to cover more comprehensive and transparent information on countries' climate finance, including:
 - Information on the total level of climate finance from each donor country (table 7). This would require information about how much of the country's core funding of multilateral institutions should be counted as climate finance.
 - Information on the grant equivalent values of climate finance provided as loans and other non-grant instruments.
 - Information on the amounts of climate finance provided to Least Developed Countries and small island developing states.
9. In order to enhance transparency and accountability, the European Investment Bank (EIB) and the other Multilateral Development Banks (MDBs) should provide public access to additional project level information, including the percentage of climate finance calculated for each project, concessional or non-concessional loan, grant element of the loan, etc. This would facilitate verification of reported figures by recipient countries, civil society, researchers, and the public.

1 INTRODUCTION

This study has been commissioned by ACT Alliance EU in order to establish an overview of the climate finance provided by EU institutions and EU member states. The research has been conducted by Hans Peter Dejgaard and Jonas Appelt from INKA consult, and the methodology used is described in Annex 1. Finance has been an essential element of the climate debate from the very beginning. The need for action is obvious, and the importance of support to developing countries is acknowledged by all parties. It has been agreed that developed countries should mobilise 100 billion USD annually, for mitigation and adaptation, from 2020 and beyond. Global amounts of climate finance have so far not reached the USD 100 billion, and there is a need for exploring possibilities to scale up the support from developed countries. The focus of this report is on analysing and understanding climate finance provided by the EU, and will be used for a continued dialogue with relevant member states, EU institutions and stakeholders regarding climate finance accounting. The report also relates to the ongoing negotiations on how to improve accounting of climate finance at the international level in the context of the Paris Agreement and the UN Framework Convention on Climate Change (UNFCCC).

The study gathers information on climate finance allocated from EU Member States, the European Commission (EC), the European Development Fund (EDF) and the European Investment Bank (EIB), as reported to the UNFCCC and the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC). The information includes total amounts of climate finance, the distribution between mitigation and adaptation, the main recipient countries and the share going to Least Development Countries (LDCs). In addition, an estimate of the grant equivalents of the provided loans from the EIB and EU Member States are included.

The report starts with a summary and encompasses an introduction in Chapter 1 and a brief description of relevant context in Chapter 2. This is followed in Chapter 3 by an analysis of climate finance from the EC, EDF and EIB. Chapter 4 contains further analysis, with focus on the Member States of the EU. Finally, Annex 1 contains method for data analysis.

2 AN OVERVIEW OF EU CLIMATE FINANCE FRAMEWORK

On October 4, 2016, the European Council adopted the EU ratification of the Paris Agreement, which was done after the European Parliament gave its consent. EU Member States either ratified together with the EU or later completed their national procedures.

This chapter will provide an overview and context for EU climate finance, including the different ways EU climate finance is managed and reported, and how these reports relate to existing international agreements about climate finance. As further described in this chapter, EU climate finance to developing countries is managed in the following ways:

- Through the European Commission (EC), reported by the EU to the UNFCCC
- Through the European Development Fund (EDF), reported by the EU to the UNFCCC
- Through the European Investment Bank (EIB), reported by the EU to the UNFCCC
- Through EU Member States, reported by Member States to the UNFCCC

2.1 | Climate finance from the European Commission

2.1.1 | The EU's 2014-2020 Multi-Annual Financial Framework

Climate finance provided by the Commission should be seen within the context of the EU's annual budgets, under the 2014-2020 Multiannual Financial Framework (MFF). It is decided that the MFF should spend 20% of the total budget on climate change over a 7-year period.⁶ This political decision was adopted in a Council Regulation with the consent of the European Parliament. It offers priority to the mainstreaming of climate change considerations into all sectors and EU funds and created a need to establish a sound methodology to track climate-related EU expenditures.

The financial framework for 2014-20 is divided into the following categories of expense: i) Sustainable Growth, ii) Smart and Inclusive Growth, iii) Security and Citizenship, iv) Global Europe and v) Administration. Table 2-1 below shows the allocation of the total EUR 144,680 billion in year 2018.

6 <http://www.consilium.europa.eu/en/policies/multiannual-financial-framework/>

Budget line	2018 Adopted budget
1a Competitiveness for growth and jobs	20,097.2
1b Economic, social and territorial cohesion	46,527.3
2 Sustainable growth: natural resources	56,083.8
3 Security and citizenship	2,980.7
4 Global Europe	8,906.1
5 Administration	9,666.3
6 Compensations	0.0
Other special instruments	419.6
Total	144,681.0

Table 2-1: Overall budget lines of the 2018 budget for the EU.

With MFF's introduction of the overall 20% level target for climate mainstreaming, a two-fold commitment was made: First that climate change should be mainstreamed into all EU programmes, and second that EU expenditure on climate objectives should amount to at least 20% of the total EU budget.

To achieve this increase, mitigation and adaptation actions have been integrated into major EU spending programmes. The Cohesion Policy programme, Common Agriculture Policy programme, the Research and Innovation programme and the Connecting Europe Facility currently account for more than 90% of the EU's climate related spending. Around 80% of the EU budget is managed by Member States.⁷ Tracking is done using EU climate markers, which are adapted from the OECD's development assistance tracking 'Rio markers' to provide quantified financial data (see Section 2.4).

The Midterm Review of the Multi-Annual Financial Framework (2016)⁸ took stock of cumulative progress and provided consolidated information on the relevant programmes over the full programming period. The draft budget for 2018 updated this and shows that the EU is broadly on track towards reaching the 20% target, but that further efforts are needed. Figures show that the total contribution to climate mainstreaming is expected to reach EUR 30.5 billion in 2018.

The Directorate-General for Climate Action under the EC published an external report evaluating the options for further improvements: "*Climate mainstreaming in the EU budget: Preparing for the next MFF*" in 2017.⁹ Furthermore, in January 2018 the High-Level Expert Group (HLEG) on Sustainable Finance published a report containing the EU's sustainable finance road-map, which urges that improved tracking of the EU's sustainable investment needs and financial flows is needed. The recommendation of the report serves to foster discussions on the post-2020 EU budget.

7 Source: https://ec.europa.eu/clima/policies/budget/mainstreaming_en

8 [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI\(2016\)593569](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2016)593569)

9 <https://publications.europa.eu/en/publication-detail/-/publication/1df19257-ae9-11e7-837e-01aa75ed71a1/language-en>

2.1.2 | Instruments for external cooperation

Global Europe covers all external action ('foreign policy') by the EU such as development assistance or humanitarian aid. For the period 2014-2020, the EU has five instruments covering external cooperation and aid:

1. European Instrument for Democracy and Human Rights (EIDHR)
2. Instrument contributing to Stability and Peace (IcSP)
3. Partnership Instrument (PI)
4. Instrument for Nuclear Safety Cooperation (INSC)
5. In addition to these, the Development Cooperation Instrument (DCI), which is divided in to geographic and thematic programmes, applies to all developing countries of Latin America, Asia and Middle East. Geographic DCI programmes support actions aligned to the European Consensus for Development programmes support actions based on the European Consensus on Development. The thematic DCI has two main programmes that aim to address different global challenges: i) 'Civil society organisations and local authorities' and ii) 'Global Public Goods and Challenges' (GPGC) supporting actions in areas such as: environment and climate change, sustainable energy, food and nutrition security and sustainable agriculture.

Figure 2-1 below shows that EUR 9 billion is allocated to "Global Europe" out of the total 144,680 billion in year 2018, which is approximately 6%. EU Climate financing for developing countries is paid out of the Global Europe budget.

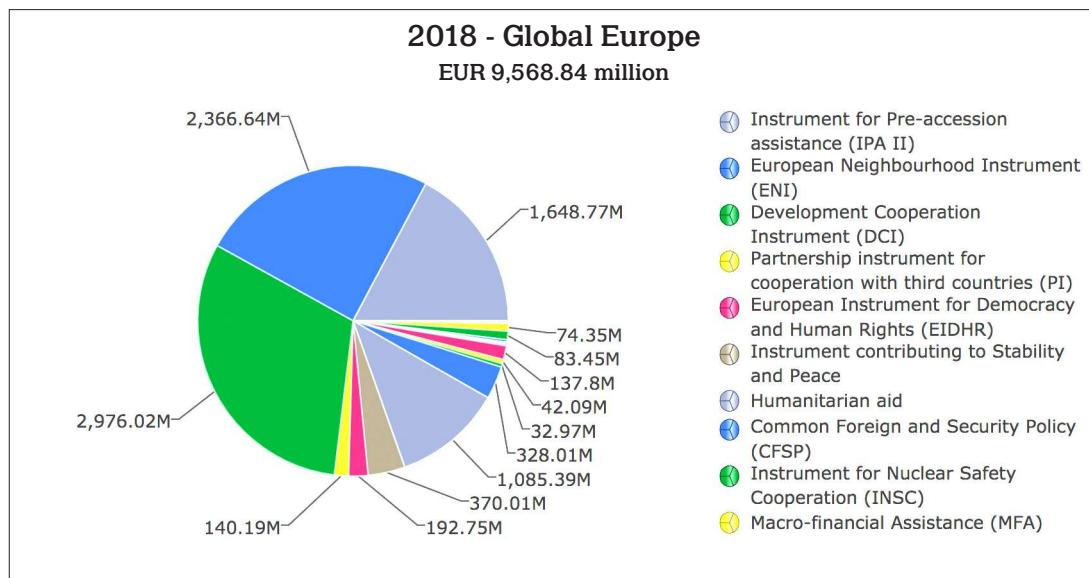


Figure 2-1: Division of the budget of Global Europe (http://ec.europa.eu/budget/annual/index_en.cfm?year=2018)

2.2 | The European Commission (EC)

The EU and its Member States are the world's largest contributor of climate finance to developing countries, and the EU is increasingly integrating climate change into its broader development strategy. While continuing to invest in domestic climate action in EU countries, climate finance to help the poorest and most vulnerable countries is scaled to help them mitigate and adapt to climate change. In particular, in the period 2014-2020:

- At least 20% of the EU budget will be spent on climate action (in the external cooperation)
- At least EUR 14 billion, an average of EUR 2 billion per year, of public grants will support activities in developing countries
- Compared to the average level in 2012-2013, funding for international climate action will more than double

In 2016, total contributions from the EU, its Member States and the European Investment Bank (EIB) amounted to **EUR 20.2 billion** according to ECOFIN.¹⁰ This includes climate finance from public budgets and other development finance institutions.

Among the biggest climate support programmes managed by the European Commission are:

- a) An EU flagship initiative – **Global Climate Change Alliance+** (GCCA+), which is the main channel for EU support to policy dialogue, and specifically to target climate action in developing countries. Since 2008, the GCCA+ has invested close to EUR 450 million in more than 60 country-based and regional actions.

GCCA+ priority areas: i) Mainstream climate change into national development strategies, ii) Increase resilience and iii) Support the formulation and implementation of adaptation and mitigation strategies

The GCCA+ has a strong focus on Least Developed Countries and Small Island Developing States (SIDS), as they are most vulnerable to climate change.

- b) The **EU External Investment Plan** is a new financial instrument established in 2017 to support the preparation and financing of bankable climate relevant development projects in different areas including climate change and renewable energy. The plan encourages investment in EU partner countries in Africa and the EU Neighbourhood region by Development Finance Institutions (DFIs) and the private sector. With a contribution of EUR 4.1 billion from the European budget and the EDF in the form of investment facilities for blending and a guarantee fund from the European Commission, the plan is expected to leverage more than EUR 44 billion of investments by 2020.

The European Commission is also channelling funds to the European Neighbourhood Policy and to the Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR), which manages the Instrument for Pre-accession Assistance (IPA). In climate finance for these programmes, the focus seems to be primarily on mitigation and secondarily on adaptation.

¹⁰ Press release from ECOFIN (the Economic and Financial Affairs Council). <http://www.consilium.europa.eu/en/press/press-releases/2017/10/17/climate-finance-eu/>

2.2.1 | EU structure regarding climate finance

The European External Action Service (EEAS) is the diplomatic service of the EU. It supports the foreign affairs chief – the High Representative for Foreign Affairs and Security Policy – in carrying out the Union's Common Foreign and Security Policy.

The Commission's Directorate-General for International Cooperation and Development (DG DEVCO) is responsible for designing European international cooperation and development policy and for delivering aid. It does so in direct contact with those EU Delegations that are responsible for delivering aid to non-EU countries and for living up to the commitment to spend 20% of such external aid on climate action.

The relationship between EU Delegations and the Directorate-General for Climate Action (DG CLIMA) is indirect. DG Climate is in charge of climate policies and finance, and leads the European Commission's efforts to fight climate change by:

- formulating and implementing climate policies and strategies
- taking a leading role in international negotiations on climate
- implementing the EU's Emissions Trading System (EU ETS)
- monitoring national emissions by EU member countries
- promoting low-carbon technologies & adaptation measures

DG CLIMA leads the Commission task forces in international negotiations on climate change and ozone-depleting substances, and coordinates bi-lateral and multi-lateral partnerships on climate change with non-EU countries.

DG CLIMA has a staff of around 220. It was set up in 2010, climate change having previously been handled by the Commission's DG Environment.

2.3 | Climate Finance from the European Development Fund (EDF)

The European Development Fund (EDF) was created to enable the European Union to provide development aid for 79 African, Caribbean and Pacific (ACP) partner countries and for the Overseas Countries and Territories of Member States. The EDF is managed by the European Commission but is *not* funded by the EU budget. Instead, it is financed by direct contributions from EU Member States. It is established by an internal agreement of the Representatives of the EU countries sitting within the Council of Ministers.

Although, the 11th EDF remains outside of the EU budget, the negotiations in the Council of Ministers on its different elements have taken place parallel to the negotiations of the external instruments financed under the budget. The total financial resources of the 11th EDF amount to EUR 30.5 billion for the period 2014-2020.

2.4 | Climate Finance from the European Investment Bank (EIB)

The European Investment Bank (EIB) is the European Union's long-term lending institution and is owned by the 28 Member States of the EU. The EIB is active in 160 countries around the world. As the biggest multilateral climate financial institution, the EIB, according to its mandate, provides long-term financing for sound, sustainable investment projects in support of EU policy goals in Europe and beyond.

Each of the 28 Member State's share in the bank's capital is based on its economic weight within the EU (expressed in GDP) at the time of its accession. The total lending was in 2016 EUR 76.358 billion. It is not likely that Member States' contributions to shareholder capital are counted as climate finance in the countries' Biennial Reports to the UNFCCC (see next section). The EIB is the world's largest multilateral financier of climate-related projects. In 2016, around 23 % of all lending (to all countries) went towards climate action.¹¹ The EIB adopted its Climate Strategy in 2015,¹² where the bank is committed to raising the proportion of climate investment in developing countries to 35 % of its overall lending by 2020, and placing a greater emphasis on helping regions in the frontline of climate change to adapt.

In the same strategy, the EIB recognised that its share allocated to adaptation is too low, as illustrated by this quote from its official strategy from 2015:

“EIB's lending for projects or project components in the area of climate change adaptation in the period 2012-2014 amounted to EUR 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.”

Recently, Counter Balance and other NGOs have criticised the EIB for approved loans worth EUR 1.5 billion (USD 1.86 billion) to the Southern Gas Corridor pipeline project to ship gas from Azerbaijan to Italy. NGOs are calling for the EIB to take action for phasing out fossil fuels lending.

EIB raised in 2013 the bar on criteria that must be met for funding fossil-fuel projects in a new energy lending policy. However, the EIB has not followed the World Bank that, during French President Macron's climate summit in December 2017, announced that it will no longer finance upstream oil and gas after 2019. The World Bank ceased lending for coal-fired power stations already in 2010.

2.5 | EU Member States

Each EU Member State makes their own commitments for climate finance. The approach, and the modalities which are chosen, differ from country to country. That includes bilateral cooperation and funds channelled through multilateral banks and initiatives, and it includes grants, loans and equity investments.

Each Member State has its own decision-making procedures for climate finance, and the amounts are reported directly to the OECD and the UNFCCC. Furthermore, Member States report every year to EU's Monitoring Mechanism Regulation (MMR), where climate finance is included. See further in next section.

2.6 | Reporting of EU climate finance to the UNFCCC and OECD

The EU and its Member States report their climate finance to both the UNFCCC and OECD. The European Commission (EC) also produces the reports for the European Development Fund (EDF) and the European Investment Bank (EIB).

¹¹ In 2016 the EIB lent EUR 83.8 billion, of which 19 billion went to projects to counter climate change. Reuters 24 January 2017.

¹² External Lending Mandate. Climate Strategy. December 2015. EIB

The different reports are described below.

- a) **Biennial Reports (BR) to the UNFCCC (every two years)**: Developed countries' reporting of climate finance to the UNFCCC adheres to the reporting guidelines for National Communications and Biennial Reports (BR).¹³ The guidelines are in the process of being streamlined, so that both reports will be able to use the Common Tabular Format (CTF). The latest figures submitted by the EU and EU Member States on climate finance are found in Table 7 in their Third Biennial Reports¹⁴ covering 2015 and 2016. It includes the EU's provision of financial, technological and capacity-building support given to developing countries. An overview of the climate finance reported in the EU's Biennial Reports can be found in Chapter 3 of this report.

The current reporting guidelines ('Common Tabular Format' CTF) were decided upon in 2012 by the Parties to the UNFCCC without either an internationally-agreed methodology for calculating climate finance, nor a clear-cut definition of the term 'climate-specific finance'. At COP21 in 2015, a number of changes to the CTF were adopted, and it was decided to develop improved modalities for the accounting of climate finance to be adopted at COP24 in 2018.¹⁵

- b) **Reports to OECD-DAC database (every year)**: This annual exercise gathers statistics on ODA and other resource flows to developing countries from bilateral and multilateral development co-operation providers. The data is publicly available in the Creditor Reporting System (CRS) database via OECD-Stat.¹⁶ With regard to statistics, DAC plays a central role internationally. DAC sets the international standard for defining and registering ODA, and it is the best source of comparable data on development assistance of OECD countries.

The EC, EDF, EIB and EU Member States' official flows of ODA is uploaded to OECD-DAC's CRS database annually, including type of aid, disbursements and commitments. Here, the so-called 'Rio markers' for estimating climate finance are applied. Furthermore, since December 2016, the data for EU DGs are now publicly available at a website.¹⁷

- c) **Member States' Monitoring Mechanism Regulation (MMR) reports to the EU (every year)**: The EU Member States submit their annual reports under Article 16 of Regulation No 525/2013 on a mechanism for monitoring and reporting greenhouse gas emissions and for reporting other information at national and Union level relevant to climate change (called MMR). The format for MMR has been aligned with the CTF used in reporting of climate finance under the UNFCCC. Reports from Member States can be found on the EIONET website.¹⁸

13 UNFCCC. 2011. UNFCCC biennial reporting guidelines for developed country Parties - Annex 1 to Decision 2/CP.17.

14 Biennial Reports of EU Member States can be found at http://unfccc.int/national_reports/biennial_reports_and_iar/biennial_reports_data_interface/items/10132.php

EU's Third Biennial Report: http://unfccc.int/files/national_reports/annex_i_natcom/submitted_natcom/application/pdf/459381_european_union-nc7-br3-1-nc7_br3_combined_version.pdf

15 Paragraph 37 in UNFCCC Decision 1/CP.21. Requests the Subsidiary Body for Scientific and Technological Advice to develop modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Agreement for consideration by the Conference of the Parties at its twenty-fourth session in 2018.

16 Accessible through the QWIDS function in OECD-Stat (<https://stats.oecd.org/qwids>)

17 <https://webgate.ec.europa.eu/europeaid/reporting/ecas>

18 www.eionet.europa.eu

Deadline for MMR reporting is 1st September every year, which makes it possible for the EC to inform ECOFIN at a meeting in October. This meeting serves to approve the EU mandate for the COP conferences.

2.7 | Climate finance agreements within the UNFCCC

The reporting on climate finance from the EC and the EU Member States should be seen in the context of the UNFCCC, and the decisions made by its decision-making body, the Conference of the Parties (COP), as described below.

The UNFCCC established in 1992¹⁹ sets out developed countries' obligation to assist developing countries in covering the costs of dealing with climate change. The Copenhagen Accord from COP15 in 2009 contains for the first time the collective climate finance goal to be met by developed countries for

“mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries [...] from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources” (UNFCCC, 2010).

The Paris Agreement²⁰ confirmed the intention of developed countries to maintain their collective mobilisation goal of USD 100 billion per year in climate finance between 2020 and 2025. Paragraph 114 in the Paris Agreement explicitly calls on developed countries to submit a financial roadmap and enhance the provision of climate finance for developing countries towards meeting the 2020 goal. The Paris Agreement also calls for striking a balance between climate finance for mitigation and for adaptation, addressing conditions and capacity constraints in the poorest and most vulnerable developing countries (Article 9.4).

A major challenge is posed by the weaknesses in the accounting system agreed by the Parties to the UNFCCC (its Member States). In general, there is lacking international consensus as to what the best accounting practices are, and accounting systems vary widely from one country to another.

COP16 in Cancun (2010) established a Standing Committee on Finance (SCF) to assist the COP in exercising its functions in relation to the financial mechanism of the Convention. Reports from the Parties are used by the Standing Committee on Finance for the preparation of a Biennial Assessment Overview of Climate Finance Flows, of which the latest was presented at COP22 in Morocco in November 2016.²¹ It draws attention to a number of weaknesses in the current system for reporting to the UNFCCC.

A few months before COP21, the OECD published an estimate of the current status of the world's climate finance in 2013 and 2014 in the report *“Climate Finance in 2013-14 and the USD 100 billion goal”*,²² which the OECD prepared in collaboration with the Climate Policy Initiative (CPI). This report estimated the aggregate volume of public and private climate finance mobilised by developed countries for developing countries to be USD 61.8 billion in 2014, up from USD 52.2 billion in 2013. The report noted that

19 UNFCCC. 1992. United Nations Framework Convention on Climate Change.

20 UNFCCC. 2015. *Paris Agreement - Annex to Decision 1/CP.21*.

21 UNFCCC SCF. 2016b. *Summary and Recommendations of the Standing Committee on Finance on the 2016 Biennial Assessment and Overview of Climate Finance Flows*. COP 22 in Morocco 7 November 2016.

22 OECD-CPI. 2015. *Climate Finance in 2013-14 and the USD 100 Billion Goal*

“data challenges and constraints mean that it was not possible to provide a fully complete and comprehensive picture of mobilised climate finance for climate action in developing countries.”

Another important source of information is Adaptation Watch, whose annual reports²³ present analysis of the weaknesses in reporting on financial contributions to adaptation. This includes the use of Rio markers as a basis for identifying climate-specific ODA for adaptation.

2.8 | Reporting with Rio markers

In general, there is lacking an international consensus within the UNFCCC on what the best accounting practices for climate finance are, and accounting systems vary widely from one country to another.

So far, most developed countries use the OECD-DAC's 'Rio markers' system to collect data and to report to the UNFCCC Secretariat on their financial commitments. The Rio markers were originally designed for policy makers to help members track the extent to which they integrated the Rio Conventions on sustainable development into their aid portfolios, by identifying activities that mainstream the Conventions' objectives into development cooperation. Accordingly, the Rio markers methodology was *not* originally designed to monitor financial pledges.

The EU indicates whether each development finance activity pursues environmental objectives.²⁴ The Rio markers regard: 1) biodiversity, 2) climate change mitigation and 3) desertification, and were introduced in 1998 with a fourth marker being applied in 2010 on 4) climate change adaptation. Recently, the markers are also applied to reporting on amounts raised from private sources (in 2017 for reporting based on 2016 data).

The Rio markers use a scoring system for bilateral projects, in which projects are 'marked' as pursuing climate change mitigation or adaptation as either their *principal* objective or as a *significant* objective, or as *not* pursuing such an objective at all (as stated in the project/programme documents). Generally, a project marked as having mitigation or adaptation as their *principal* objective must be explicitly stated in the project documentation to be the principal reason for undertaking the action. Projects marked as having this as a *significant* objective have other primary objectives, but have been formulated or adjusted to help meet mitigation or adaptation concerns. Rio markers are applied to all bilateral ODA, except general budget support, imputed student costs, debt relief, administrative costs, development awareness-raising and refugee reception in donor countries. Core funding for multilateral institutions is *not* marked by Member States individually. Instead, organisations report on the actual allocation of their funds ('multilateral outflows').

When EC reports to the UNFCCC, the OECD's Rio markers are used as a basis for calculating the amount of climate finance. If a project or programme is given Rio-marker 1 ("Significant") for adaptation and/or mitigation, 40% of the project is reported as climate relevant finance. If a project is marked with Rio-marker 2 ("Principal"), 100% of the budget is reported as climate relevant. In order to avoid double-counting, where projects or programmes are marked for both adaptation and mitigation, the total amount of climate relevant finance reported does not exceed 100% of each project's budget.

23 Adaptation Watch's annual reports can be found on www.adaptationwatch.org

24 OECD-DAC. 2016. *Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire*.

Where the EC is scaling the Rio-marker 1 (“Significant”) with 40%, these “coefficients” differ across EU Member States from 0% (Portugal) to 100% (Luxembourg, Slovak Republic and Slovenia).²⁵ This is an example of the lack of common reporting standard.

The EC is using the ‘OECD-DAC Rio markers for Climate - Handbook’.²⁶ The EC has a system of quality assurance of applied Rio markers before reporting to the OECD and UNFCCC. Since 2014, DG DEVCO, with the support of an Environment and Climate Change Mainstreaming Facility, carries out a quality control of DEVCO commitments at the end of each year, so that the Unit in charge of presenting the information to the OECD-DAC has quality controlled information ready by April of the following year.

2.9 | Accounting by the European Investment Bank

Rio markers are *not* applied by the EIB. In 2015, the MDBs²⁷ instead announced the so-called MDB methodology based on “*Common Principles for Climate Mitigation Finance Tracking*”, in addition to setting out principles for tracking adaptation finance. It ensures that finance data is tracked and reported through specific assessments of each project, counting only the financing of those components (and/or subcomponents) of projects that directly contribute to (or promote) mitigation and/or adaptation. It also includes a context and location-specific approach.

There is limited public access to the database on which the European Investment Bank and the other MDBs have based their calculations. Fortunately, the EIB has kindly provided the study with a copy of the dataset, which contains project level information between 2010 and 2016 for climate action data (with the EIB’s own resources). The dataset contains commitments from the year signing the loans, including information on the percentage of climate finance for each project/loan. The dataset does not contain information about disbursements.

25 Source: Annex C in the report ‘Climate Finance in 2013–14 and the USD 100 Billion Goal’. OECD-CPI. 2015.

26 Connected to Annex 18 in the Statistical Reporting Directive under OECD DAC in the Statistical Classification Manual. April 2016.

27 Multilateral Development Banks are the following: African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank Group (IDBG) and World Bank Group (WBG).

3 REPORTED EC, EDF AND EIB CLIMATE FINANCE CONTRIBUTIONS

This chapter presents an overview of climate finance provided by EU institutions, specifically from the European Commission (EC), the European Development Fund (EDF) and the European Investment Bank (EIB) between 2010 and 2016. The information on climate finance is based on EU reporting to the UNFCCC and OECD-DAC, as well as data provided by the EIB for this study. The data includes both the figures reported to the UNFCCC, and figures calculated based on the EU's reporting of project level data to OECD-DAC. The methodology used for these calculations is described in Annex 1.

Initially in Section 3.1, climate finance reported by the EU to the UNFCCC is compared with climate finance figures calculated on the basis of OECD and EIB data, and is viewed from the perspective of general trends in climate commitments and disbursements. Section 3.2 compares between the EC's, EDF's and EIB's mixes of climate finance loans and grants and presents calculations of the grant equivalent value of loans. Section 3.3 provides information on the distribution between adaptation and mitigation finance, while Section 3.4 explores how climate finance is distributed by recipient country and actor. Section 3.5 looks at private resources mobilised in the context of the EU's climate finance. Finally, section 3.6 assesses how much of the EU's climate finance adheres to the UNFCCC principle referred to as "new and additional".

3.1 | Total climate finance per year from 2010 to 2016

3.1.1 | Climate finance reported to the UNFCCC

The EU has compiled comprehensive information on its climate finance through its Biennial Reports submitted to the UNFCCC since 2011.

This reporting has generally been similar to the reporting by Annex 1 countries, including many EU Member States, and uses the Common Tabular Format (CTF) defined by the UNFCCC.

Table 3-1 below presents the overall amounts reported by the EC as climate finance in the First Biennial Report (BR1) for 2011-2012, the Second Biennial Report (BR2) for 2013-2014, and the Third Biennial Report (BR3) for 2015-2016.

Climate finance reported to the UNFCCC by EC - Commitments, EUR millions		Year					
		BR1		BR2		BR3	
		2011	2012	2013	2014	2015	2016
European Commission + European Development Fund	Mitigation	86	185	292	195	525	892
	Adaptation	89	79	318	187	537	1,190
	Cross-cutting	454	470	354	295	455	649
	<i>Total EC + EDF</i>	<i>628</i>	<i>734</i>	<i>964</i>	<i>677</i>	<i>1,517</i>	<i>2,730</i>
European Investment Bank	Mitigation	-	-	1,874	2,002	2,092	1,868
	Adaptation	-	-	23	24	184	80
	Cross-cutting	-	-	150	73	0	0
	<i>Total EIB</i>	<i>0</i>	<i>0</i>	<i>2,047</i>	<i>2,098</i>	<i>2,276</i>	<i>1,948</i>
Total reported		628	734	3,011	2,775	3,793	4,678

Table 3-1: Climate finance commitments reported by the EU to the UNFCCC in the first, second and third biennial reports (2011-2016).

The EU Biennial Reports to the UNFCCC include projects both directly under the EC and projects supported by the EDF. Furthermore, they report on climate finance provided as part of the lending mechanisms in the EIB.

Climate finance is reported as commitments using the Rio marker methodology on EC and EDF finance, and using the joint methodology developed by the MDBs on EIB finance (see further description in Annex 1). The EIB's commitments are based on signed finance contracts in a given financial year (as stated in BR3).

3.1.2 | Climate finance reported to OECD-DAC

Climate finance provided by EU institutions is also assessed based on the information on project level activities found in OECD-DAC's CRS database and data provided by the EIB. For finance from the EC and EDF, this report calculates climate finance based on the information on finance and Rio markers found in the CRS. The calculation followed a method similar to the one used by the EC in its biennial reporting to the UNFCCC, where projects are counted as either 0%, 40% or 100% climate finance, depending on their Rio markers.

Rio markers in the CRS system are only applied to projects funded by the EC and EDF and not to those funded by the EIB. Climate finance from the EIB is instead calculated based on climate project date provided directly by EIB. This includes climate shares of loan commitments assessed using the joint methodology developed by the MDBs for the years 2013 to 2016.

Table 3-2 below shows the climate finance commitments for the EC and EDF for the period 2010-2016, and commitments from the EIB for the period 2013-2016.

Climate finance based on CRS and EIB data- Commitments, EUR millions		Year							2013-2016 aver.
		2010	2011	2012	2013	2014	2015	2016	
European Commission + European Development Fund	Mitigation	319	194	246	309	262	525	892	497
	Adaptation	158	162	285	389	199	522	1,191	575
	Cross-cutting	74	297	427	371	220	468	649	427
	<i>Total EC + EDF</i>	<i>551</i>	<i>654</i>	<i>959</i>	<i>1,068</i>	<i>681</i>	<i>1,515</i>	<i>2,732</i>	<i>1,499</i>
European Investment Bank (based on their dataset)	Mitigation	-	-	-	2,006	1,872	1,869	1,838	1,896
	Adaptation	-	-	-	98	52	184	72	101
	<i>Total EIB</i>	-	-	-	<i>2,103</i>	<i>1,923</i>	<i>2,053</i>	<i>1,910</i>	<i>1,998</i>
Total	-	-	-	3,171	2,605	3,569	4,642	3,497	

Table 3-2: Climate finance commitments by EU institutions between 2010/2013 and 2016, calculated based on CRS and EIB data.

The total amount of climate finance commitments from EC and EDF are calculated on the basis of the OECD's CRS is very close to the figure reported by the EC in the BR3, but is somewhat higher in BR1 and BR2. While there are changes in the method applied by the EC from BR2 to BR3, it has *not* been possible to determine the exact reason for the differences between the figures in the BRs and the figures derived from the OECD's CRS.²⁸

Information on the EIB's climate finance is also reported in the annual joint reporting by the MDBs,²⁹ but this reporting includes projects funded by the EIB, including in developed countries within the EU (so-called EU12). Fortunately, it has been possible to get access to the EIB's own data (concerning the bank's own resources), which is the point of departure for the calculations in this report regarding climate finance from the EIB. There is a slight difference in the figures calculated based on EIB's own data and the figures reported for EIB in BR3. It has not been possible in this study to find the reason for this difference, but based on project level comparison, it seems that some projects might be evaluated slightly differently in EIB and BR3.³⁰

Since it is possible to calculate climate finance commitments from the data provided by the EIB, and for the EC and the EDF from CRS data, most of the results presented in this report are based on commitment figures.

This calculation and the figures reported in Tables 3-2 and 3-3 count all financial instruments (including loans, investments etc.) at *face value*. This approach is in line with the calculation method that the EU applies when reporting to the UNFCCC, but it can result in considerable overestimation of the actual value of EIB-provided climate finance. Section 3.2.2 elaborates on this, presenting estimates of the total grant

28 It is possible that there is a difference between the data used for reporting in the biennial reporting and the data found in CRS. CRS is updated with project information from donors annually, but later changes to, for instance, policy marker designation might not be reflected/reported by donors.

29 The latest for 2016 can be found here: <http://www.worldbank.org/en/news/press-release/2017/09/11/mdbs-increase-2016-financing-to-tackle-climate-challenge>.

30 Specifically, BR3 covers a number of projects that have not been included in the data provided by EIB, primarily in Africa.

value of the climate finance provided. The analysis of climate finance in Section 3.3 and 3.4 is based on climate finance commitments with EIB loans calculated at face value.

To illustrate the difference between commitments and disbursements, Table 3-3 below shows the disbursements figures for the EC and the EDF for the period 2010-2016.

Climate finance based on CRS data - Disbursements, EUR millions		Year							2010-2016 aver.
		2010	2011	2012	2013	2014	2015	2016	
European Commission + European Development Fund	Mitigation	231	257	142	173	162	185	229	197
	Adaptation	34	52	295	163	252	225	343	195
	Cross-cutting	68	121	165	193	256	275	426	215
	<i>Total EC + EDF</i>	<i>333</i>	<i>431</i>	<i>602</i>	<i>529</i>	<i>670</i>	<i>685</i>	<i>998</i>	<i>607</i>

Table 3-3: Climate finance disbursements by EC and EDF between 2010 and 2016, calculated based on CRS data.

The climate finance calculated in Tables 3-2 and 3-3 include only Official Development Aid (ODA) for the EC and EDF. For EIB in Table 3-2, only climate finance provided to recipients on the DAC recipient countries list³¹ is included, but it is unknown to what degree this support is ODA or Other Official Flows (OOF).^{32 33}

3.1.3 | Development in climate finance from the EC, EDF and EIB, 2010-2016

Climate finance reported by the EC consists of funds taken directly from the EC budget, as well as finance from the EDF and the EIB. As shown in Figure 3-1 below, more than two-thirds of climate finance *commitments* provided between 2013 and 2016 are from the EIB. The share of EU climate finance disbursed by the EC and EDF has increased, as the EIB's share fell from 66% in 2013 to 41% in 2016.

31 A list of countries eligible for ODA under DAC rules can be found here: <http://www.oecd.org/dac/stats/dacelist.htm>

32 OECD defines Other Official Flows as "official sector transactions that do not meet official development assistance (ODA) criteria". This includes bilateral grants and transactions that are primarily provided for commercial or export-facilitating purposes, as well as other instruments with a grant-equivalent value of less than 25% of the credit provided (minimum threshold to qualify as ODA).

33 For the period 2013 to 2016, 83% of all EIB finance reported in CRS was classified as ODA, while OOF constituted 17%. It is not known if this split is representative for EIB climate finance to DAC recipient countries.

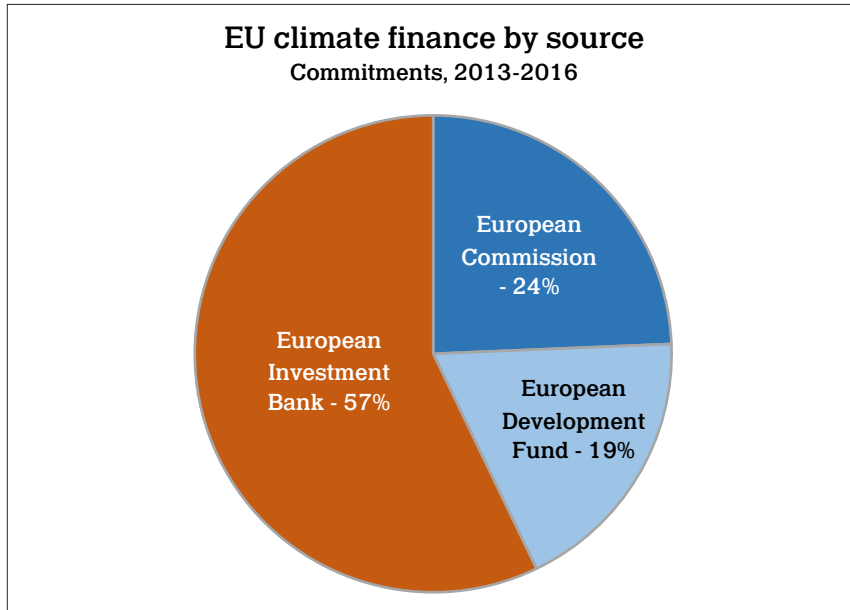


Figure 3-1: Climate finance commitments 2013-2016 divided by source of funding. Figures for EC and EDF are based on CRS data and on EIBs figures are based on EIB's data calculated at *face value*.

Figure 3-2 below shows the development in climate finance *commitments* by EU institutions between 2010 and 2016 and by the EIB between 2013 and 2016. The bar chart presents EC and EDF finance along the same bar, since the type of finance (ODA grants) is comparable. EIB figures (covering both equity and various loan mechanisms) are indicated separately.

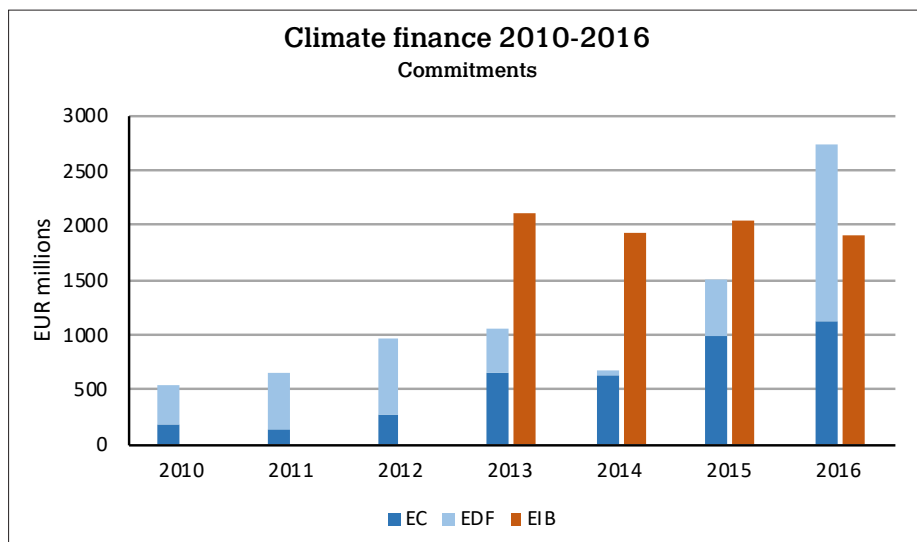


Figure 3-2: Commitments of climate finance by EU institutions, 2010-2016. Figures are based on CRS data for EC and EDF. The figures for EIB commitments are based on data received from the EIB using the face values of loans. This is a graphical representation of the figures found in Table 3-2.

The total climate finance committed by the EC, EDF and EIB has increased from 2013 to 2016 by approximately 45%. While the EIB's climate commitments have fluctuated around EUR 2 billion each year, commitments by the EC and EDF have increased by almost 400% from 2010 to 2016, from EUR 550 million to EUR 2.7 billion. The upward trend has been particularly pronounced in recent years, with an increase in commitments of EUR 830 million between 2014 and 2015,³⁴ and a further increase of EUR 1.2 billion between 2015 and 2016.

The considerable increase in climate finance commitments by the EC and EDF seems to reflect higher priority to climate concerns in policy and portfolio development. This trend becomes even clearer when compared to the slightly falling level of climate finance commitments provided by EIB. In 2016 grant commitments by the EC and EDF overtook the face value of the EIB's loans commitments, signifying a considerable shift in the balance between grants and loans provided by EU institutions as a whole.

Figure 3-3 below illustrates the development in climate finance disbursements by the EC and EDF between 2010 and 2016. Climate finance disbursements have increased notably over the period (by an annual average of 22%), but not as steeply as commitments. Considering the large increases in climate finance commitments seen in 2015 and 2016, disbursements are likely to increase considerably over the next 3 to 5 years.

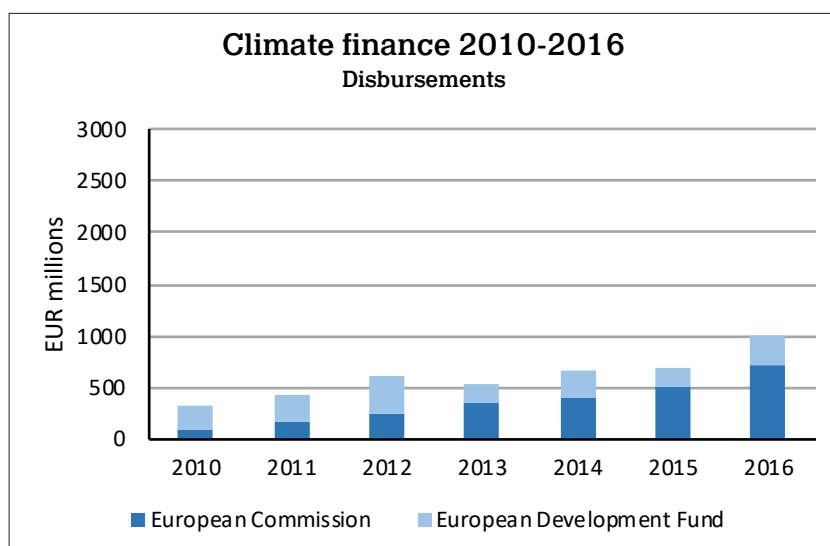


Figure 3-3: Climate finance disbursements by EC and EDF for the period 2010-2016. Figures are based on OECD CRS data. This is a graphical representation of the figures found in Table 3-3.

Climate finance as a share of total ODA disbursements³⁵ by the EC and EDF combined has increased from 3% in 2010 to 8% in 2016. In the case of commitments, a more pronounced increase is seen, with climate finance by the EC and EDF having tripled, from 6% in 2010 to 18% of ODA in 2016. This is especially due to a higher share of climate finance commitments by the EDF, which has risen from 5% in 2010 to 24% in

34 It should be noted that the commitment level in 2014 was uncommonly low compared to 2012 and 2013. We assume that the low commitments in 2014 are because it is the first year of the seven year MFF budget, and therefore less contracts were signed this year.

35 Total ODA disbursements as reported to OECD-DAC in CRS.

2016. For the EC, the share of climate finance in terms of commitments has increased from 5-8% between 2010-2014, to around 12% in 2015 and 2016.

For EIB, the average climate share (percentage of spending on climate purposes) of *all* commitments was 26% between 2013 and 2016. However, most of this was provided to countries that are not recognized as aid recipients on the OECD-DAC's list. Looking only at DAC recipients, climate finance amounted to an average of 30% of committed EIB loans, albeit decreasing from 35% in 2013 to 27% in 2016.

3.2 | Loans versus grants from the EC, EDF and EIB

3.2.1 | Shares of grants and loans

EU climate finance consist of grants, loans and equity investments. The inclusion of loans is contested, and several developing countries and international NGOs have criticised this practice. However, there is currently no agreed definition of climate finance, and each party, among them the EU, is therefore including its own particular mix of climate finance instruments in its reporting.

Table 3-4 below shows the shares of grants and loans in climate finance from EC, EDF and the EIB between 2013 and 2016. The finance provided by the EC and EDF is composed of grants only. The climate finance provided by the EIB is almost exclusively in the form of different types of loans (98%), while the rest is provided as equity investment (2%, only in 2013). Overall, loans accounted for the largest share of climate finance committed between 2013 and 2016, making up 57% of all funding. The grants from the EC and EDF accounted for about 43% of total climate finance from all EU institutions. The relative share of grants increased from 2013 to 2016, while the share of loans fell in the same period. This development came about because the commitment levels of climate grants provided by the EC and EDF increased, while the amount of climate loans provided by EIB remained constant.

Shares of grants and loans in climate finance by the EC, EDF and EIB Commitments, EUR millions	Year				2013-2016 aver.
	2013	2014	2015	2016	
Grants (EC + EDF)	34%	26%	42%	59%	43%
Loans (EIB)	64%	74%	58%	41%	57%
Equity (EIB)	2%	0%	0%	0%	0%

Table 3-4: Shares of grants and loans in climate finance from EC, EDF and EIB between 2010-2016, divided on type of finance instrument. Figures are based on CRS data and EIBs dataset with face values of loans. Loans include loan guarantees.

3.2.2 | Grant equivalent of loans

It is noted that grants, loans and equity investments are *not* directly comparable, since both loans and investments have an element of repayment. According to an MDB report for 2016, USD 27.4 billion of the MDBs' own funds was transferred to developing countries in 2016. Of this, only 4% was provided as grants, while 73% of climate finance was committed in the form of investment loans. The remaining part was used for equity, guarantees and other instruments, such as purchase agreements for carbon finance projects.

In April 2016, the OECD/DAC approved a directive³⁶ that is redefining the concessionality threshold for loans registered as ODA from a minimum of 25% grant equivalence across all recipients in 2013, to a variable with thresholds between 10-45%, depending on the income group of recipients. This will enter into force for countries reporting their 2018 flows, which will make it possible to see the grant equivalent of concessional loans in the CRS database.

The EIB and MDB annual reports are not informing the grant equivalent of their loans. With the new OECD method yet to be put in place, this report estimates the grant equivalent based on the OECD's calculation of the grant element of ODA loans for each donor country. The OECD has no estimate of the grant equivalent of EIB loans, but the average grant element in concessional OECD donor loans in 2015-2016 was 67%. This figure has been used here for EIB concessional climate loans.³⁷ Non-concessional loans are counted as 0% grant value. This study estimates that approximately 85% of EIB climate loans are concessional, while it assumes that the remaining 15% are non-concessional loans.³⁸

The grant equivalent value calculation is shown in Table 3-5 below.

Grant equivalent estimate of EIB loans Commitments, EUR millions	Year				2013- 2016 aver.
	2013	2014	2015	2016	
Face value – both concessional and non-concessional	2,103	1,923	2,053	1,910	1,998
Grant equivalent estimate (67%)	1,198	1,095	1,169	1,088	1,138

Table 3-5: Face values of EIB loans are found in the dataset provided by the EIB. The grant equivalent value is estimated based on the OECD's calculation of grant elements of ODA loans, assuming that 85% of loans are concessional and 15% are non-concessional.

In Figure 3-4 below, climate finance from the EC, the EDF and the EIB are presented with their estimated grant equivalent value. Since the EC and the EDF provide all of their finance as ODA grants, the figures for these are the same as presented in Figure 3-2. As regards the EIB, the grant equivalent value is smaller than the face value of the climate finance reported to the UNFCCC.

36 Converged statistical reporting directives for the CRS and the annual DAC questionnaire. OECD. April 2016.

37 The OECD's Table 20. Financial Terms of ODA Commitments, 2015-2016 average. Loans to climate change. <http://www.oecd.org/dac/stats/statisticsonresourceflowstodevelopingcountries.htm>

38 This is based on 83% of the overall EIB loan portfolio reported in CRS between 2013 and 2016 being classified as ODA (which, according to the OECD/DAC reporting directive, includes a minimal grant element), while 17% of loans were classified as OOF. It is here assumed that the distribution of EIB climate loans between concessional and non-concessional follows the overall distribution of EIB loans reported to the OECD in CRS.

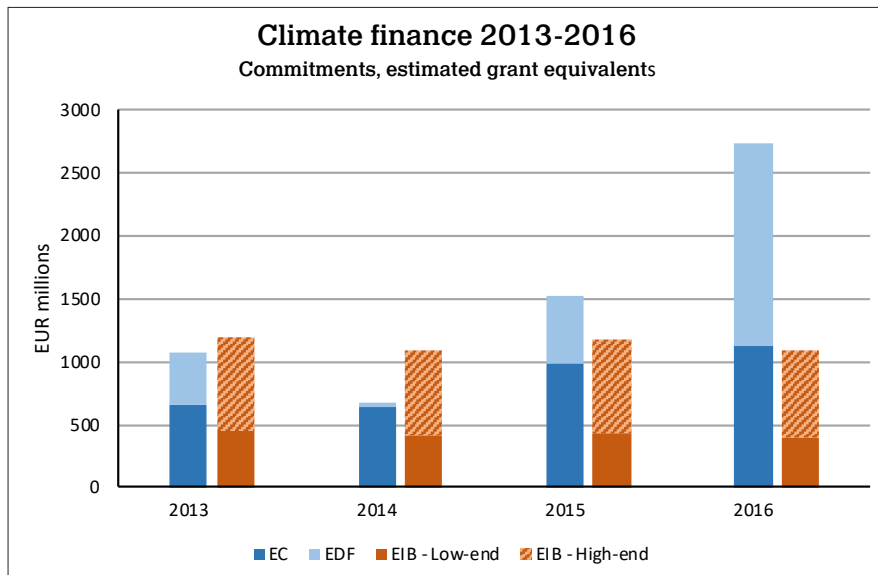


Figure 3-4: Grant equivalent value of climate finance provided by the EC, EDF and EIB. Figures for the EC and EDF are based on CRS data. Face values for loans are found in the EIB dataset and the grant equivalent is estimated based on OECD's calculation of grant elements of ODA loans, assuming 85% of loans are concessional and 15% are non-concessional. Non-concessional loans are counted as 0% grant value. This graph is an illustration of the figures in Table 3-2 (EC+EDF) and 3-4 (EIB).

The method to calculate the grant equivalent values of EIB loans and other instruments presented is based on the assumption that the grant element and concessionality is the same in EIB's total portfolio of loans and in the loans for climate finance. Since 2018, following the new OECD directive on grant equivalence, it will be possible to see more accurately what the grant element of climate finance amounts to as a percentage of overall ODA. Chapter 4 looks at the same issue for France, Germany and other countries with a high share of loans in their reported climate finance.

There is an obvious need for credit to finance renewable energy projects, e.g. low-cost concessional loans (with long grace periods), thus reducing the capital costs and investment risks of windmill parks and solar energy plants. However, there is also a need to increase transparency by calculating the grant equivalent of such loans, to ensure that figures on climate finance are interpreted correctly by decision-makers.

3.3 | Distribution between mitigation and adaptation

The Paris Agreement seeks to achieve a "balance" between adaptation and mitigation finance. Climate finance from EU institutions can be divided into what is provided for mitigation, for adaptation and for cross-cutting projects, i.e. projects in pursuit of both mitigation and adaptation. For climate finance provided by the EC and EDF, this breakdown is defined based on the Rio markers given for mitigation and adaptation, respectively. Regarding climate finance from the EIB, the mitigation and adaptation shares of each loan is assessed by the EIB using the joint MDB methodology, with only minor amounts classified as cross-cutting.

The breakdown by mitigation, adaptation and cross-cutting for EC, EDF and EIB is provided in Table 3-6 below.

According to the BR3, the climate support of EU institutions (EC, EDF and EIB) was 34% for adaptation and 66% for mitigation in 2016 (when cross-cutting is divided equally between the two categories). The overall adaptation share increased considerably in 2016, from a 15-25% level in 2013-2015. This is primarily due to a large increase in EDF commitments, with a high level of adaptation (based on CRS data, it is assessed that the adaptation share of EDF climate commitments in 2016 was 54%).

Climate finance from the EIB is overwhelmingly provided towards mitigation projects, with only 4% going to adaptation in 2016. Due to the mitigation focus of the EIB finance, the mitigation share for all climate finance provided by EC, EDF and the EIB combined was 66% in 2016.

Climate finance based on CRS and EIB data- Commitments, EUR millions		Year				2013- 2016 aver.
		BR2		BR3		
		2013	2014	2015	2016	
European Commission (EC) + European Development Fund (EDF)	Mitigation	30%	29%	35%	33%	32%
	Adaptation	33%	28%	35%	44%	38%
	Cross-cutting	37%	44%	30%	24%	30%
European Investment Bank (EIB)	Mitigation	92%	95%	92%	96%	94%
	Adaptation	1%	1%	8%	4%	4%
	Cross-cutting	7%	3%	0%	0%	3%
Total (EC+EDF+EIB)	Mitigation	80%	86%	75%	66%	75%
	Adaptation	20%	14%	25%	34%	25%

Table 3-6: Shares of mitigation, adaptation and cross-cutting finance for EC+EDF and EIB. Figures are based on BR2 and BR3 reporting. Overall, cross-cutting grants have been counted as 50% mitigation and 50% adaptation. Corresponds to percentage shares of the figures in Table 3-1.

Figure 3-5 shows the development over time in the adaptation-mitigation share for EC-EDF and EIB finance. The EC-EDF's adaptation share has stayed around 50%, with a slight increase to 55% in 2016. There is no similar change in the EIB's climate finance, whose adaptation share has remained close to an average of 4% over the 2013-2016 period (data only available between 2013 and 2016). Even though the overall increase in climate finance from the EC and EDF has led to a more balanced overall mix of climate finance, adaptation funding will have to increase by an additional EUR 1.5 billion per year to strike a 50-50 balance between adaptation and mitigation in climate finance from EC, EDF and the EIB. Such a change would require firm decisions by the senior management of the EC, EDF and EIB.

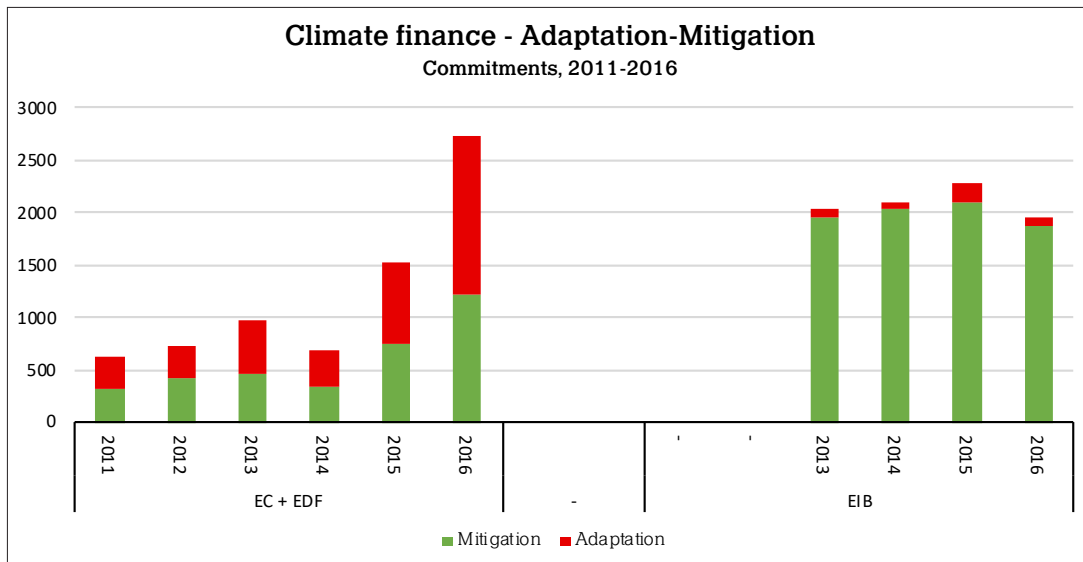


Figure 3-5: Distribution between mitigation and adaptation in climate finance between 2010 and 2016. Cross-cutting projects are divided equally between mitigation and adaptation. Figures based on data reported in BR2 and BR3.

3.4 | Breakdown by implementation channel, share and country

3.4.1 | Climate finance implementation channels

Figure 3-6 below illustrates the breakdown by implementation channel of EC and EDF climate commitments to developing countries (DAC list). The chart is based on calculations of climate finance as is presented in the CRS data, where projects with Rio markers are divided into funds from multilateral institutions, public sector institutions and governments, and NGOs.

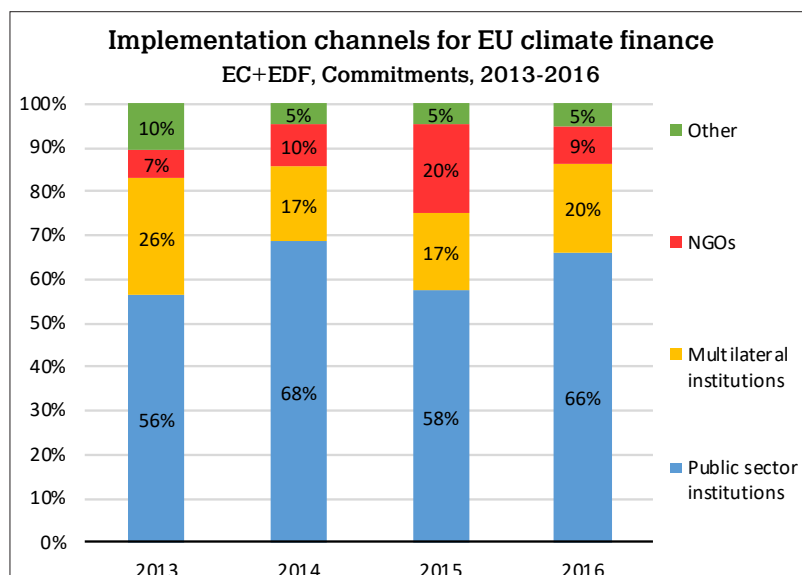


Figure 3-6: Commitments of climate finance by the EC and EDF between 2013 and 2016 broken down by channel of implementation. Figures are based on CRS data.

As shown in Figure 3-6, public sector institutions and governments are the primary implementation channels for climate finance from EU institutions (63% annual average between 2013 and 2016), while multilateral organizations also receive significant amounts (20% annual average). Only an average of 11% of climate finance was channelled through NGOs, though this share was slightly higher in 2015-2016 than in 2013-2014. NGOs could be a relevant channel for adaptation projects in LDCs and vulnerable states, and the reason for the low (and decreasing) share of climate finance being channelled through NGOs is unknown.

The EC has provided this study with its own figure for finance channelled through NGOs, which the EC estimates at 21% in 2016. The reason for the discrepancy between this number and the figure calculated in Figure 3-6, is not clear, but could stem from the classification of channels in CRS data.

The data on climate finance provided by the EIB does not include information on implementation channels. Based on the data of overall EIB commitments reported to CRS between 2013 and 2016, it seems likely that most of the climate loans were channelled through multilateral institutions. In addition, considerable amounts of EIB finance were provided bilaterally, through public institutions and channelled through private sector partnerships and networks. None of the EIB commitments registered in CRS between 2013 and 2016 were channelled through NGOs.

3.4.2 | LDC share of climate finance from EC, EDF and EIB

The Paris Agreement seeks to attend to the special needs of least developed countries (LDCs) and small island developing states (SIDS), which are vulnerable and have insufficient capacity to take action without international support.

According to BR3, the EU's financial support for LDCs increased from EUR 288 million in 2013 to EUR 960 million in 2016.

Table 3-6 below shows the distribution of climate finance from the EC, EDF and EIB between 2013 and 2016, broken down by income group of recipient countries.

Recipient country income group - Commitments, 2013-2016	LDCs	Other Low-income Countries	Lower-middle Income Countries	Upper-middle Income Countries
European Commission (EC)	17%	1%	34%	49%
European Development Fund (EDF)	70%	11%	15%	4%
European Investment Bank (EIB)	8%	1%	46%	46%
Total	19%	2%	39%	39%

Table 3-6: Climate finance provided by the EC, EDF and EIB between 2013-2016, broken down by income group of recipient countries. Only finance for identified, individual recipient countries is included. Regional and global projects are not included. Figures are based on CRS data and data provided by EIB. Loans and investments have been counted at *face value*.

LDCs received 19% of overall climate finance provided by the EC, EDF and EIB between 2013 and 2016. Most of the climate finance to LDCs comes from the EDF, with only 17% of the EC climate finance and 8% of the EIB climate finance provided to LDCs.³⁹

Figure 3-7 below illustrates the development in climate finance from EU institution and EIB over time, broken down by income group of recipient countries, including LDCs, other Low-income Countries (LICs), Low-middle Income Countries (LMICs) and Upper-middle Income Countries (UMICs) (only finance with a clear recipient has been included, whereas regional and global projects have been assumed to have the same distribution as the finance with identified recipient countries). The share of climate finance from the EC and EDF going to LDCs has increased considerably from approximately 20-40% between 2010-2015 to 60% in 2016. This is mostly due to considerable expansion of the EDF's climate finance, with a clear focus on LDCs, while the share of finance going to middle-income countries has stayed more or less constant.

For EIB, climate finance to LDCs only constitutes 8% of finance committed between 2013 and 2016, with a higher share in 2015 (14%) and a steep drop in 2016 to only 1%.

The OECD estimates⁴⁰ bilateral climate-related finance donated to LDCs to be only 14% of total development aid.⁴¹ However, it is evident that finance to LDCs is increasingly prioritised by the EC and EDF. The same prioritisation is absent from the climate finance of the EIB.

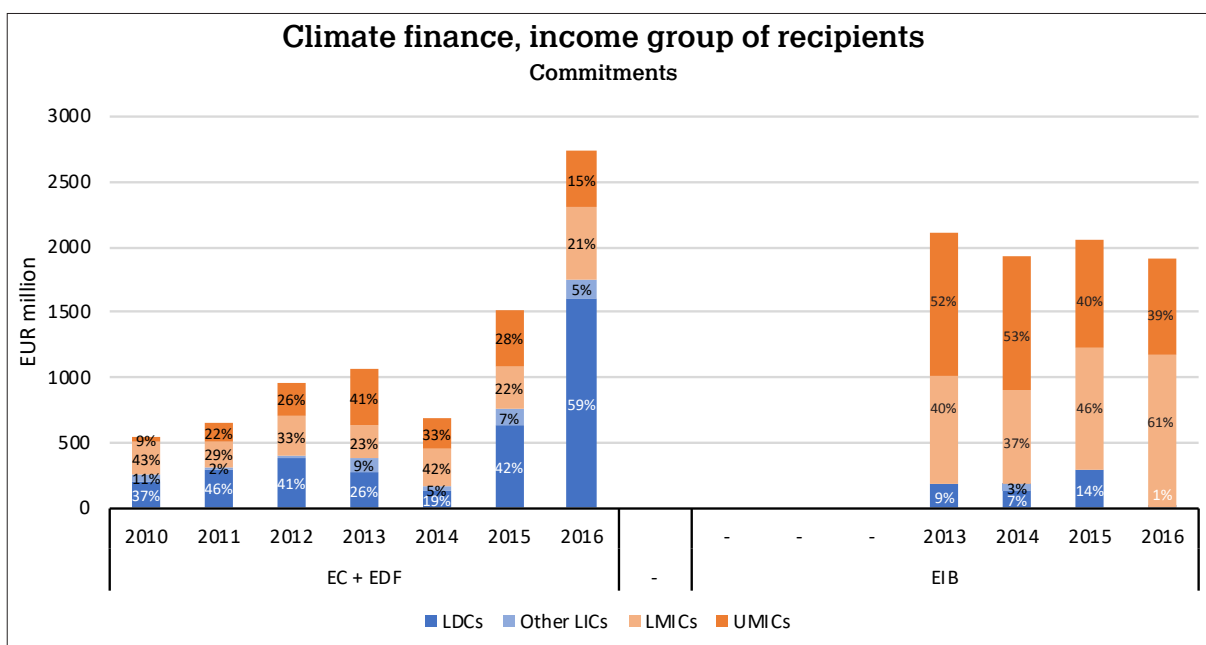


Figure 3-7: Commitments of climate finance from EC+EDF and EIB broken down by income

39 The EC has provided slightly different shares of climate finance going to LDCs, with 43% and 70% for EC and EDF for the period 2014-2016. This is close to the results calculated in Table 3-6, but inconsistencies may be due to a considerable number of EC and EDF projects (40% in 2016) that are reported as "Unspecified".

40 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)*.

41 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.

group of recipient countries. Includes finance to LDCs, other LICs, LMICs and UMICs. Regional and global projects have been assumed with same distribution as finance with identified recipient countries. Figures are based on CRS and EIB data and loans are counted at face value.

Figure 3-8 below shows the total climate finance commitments to LDCs, other LICs, LMICs and UMICs for the EC, EDF and EIB, combined and divided into mitigation and adaptation.

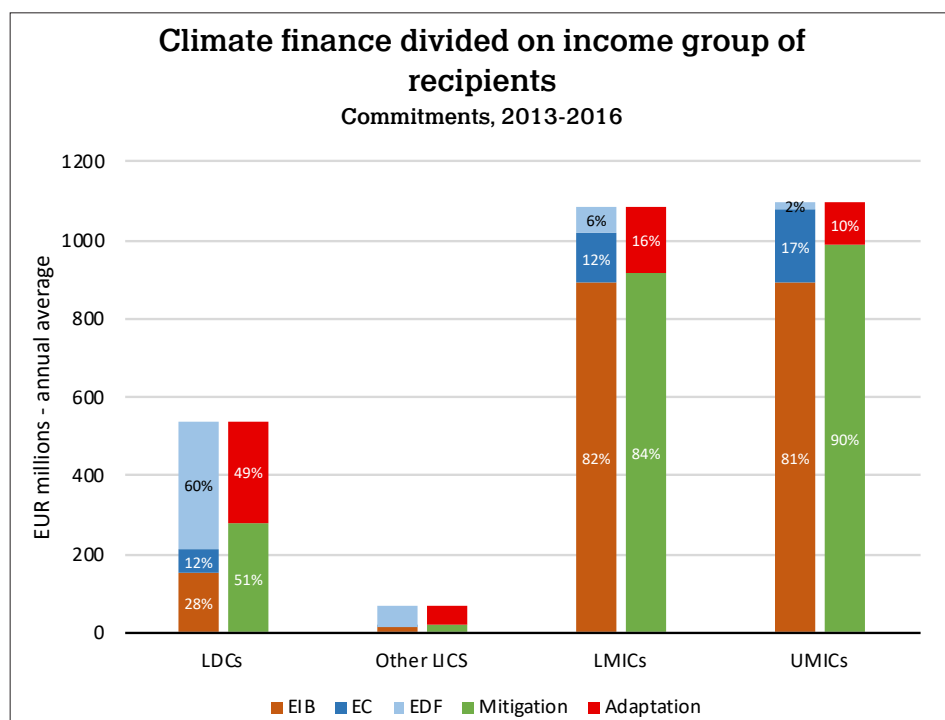


Figure 3-8: Average annual commitments of climate finance from EU institutions between 2013-2016 broken down by income group of recipient countries. Shows the breakdown by funding agency and the distribution between mitigation and adaptation. Only finance with identified, individual recipient countries has been included. Regional and global projects are not included. Spending on cross-cutting projects has been divided equally between mitigation and adaptation objectives. Figures are based on CRS and EIB data and loans are counted at face value.

As shown in the figure, most of the climate finance for lower- and upper-middle income countries focuses on mitigation with only 16% and 10%, respectively, spent on adaptation. The adaptation share for LDCs is considerably higher, with 49% on average between 2013 and 2016 (for the EC, EDF and EIB combined).

3.4.3 | Geographical distribution of climate finance from EC, EDF and EIB

The overall geographical distribution of commitments of climate finance from EU institutions between 2013 and 2016 is shown in Table 3-7 below. The table is based on CRS and EIB data on recipient regions, and it excludes climate finance marked as “unspecified” recipients/regions.

As shown in the table, Africa receives the largest share of climate finance coming from the EC and EDF, while most of the finance provided by the EIB goes to Europe. Both the EC and EIB also provide a considerably part of their climate finance to Asia. Compared to Africa, Asia and Europe, other regions of the world receive considerably smaller shares of the climate finance provided, including Oceania, which receives as little as 1% of the finance.

Recipient regions - Commitments, 2013-2016	Africa	Asia	Oceania	North & Central America	South America	Europe (Non-EU countries and Turkey)
European Commission (EC)	36%	25%	1%	6%	4%	28%
European Development Fund (EDF)	68%	10%	3%	6%	4%	9%
European Investment Bank (EIB)	19%	23%	0%	5%	6%	47%
Total	35%	20%	1%	5%	5%	33%

Table 3-7: Geographical distribution of climate finance commitments from EU institutions between 2013 and 2016. The distribution only includes figures with identified recipient regions. The regions are based on the designation in the CRS database. The category 'Europe' only includes funds given to non-EU countries, but it does include funds provided to Turkey. Projects with "unspecified" recipient regions are not included. Figures are based on CRS and EIB data. Loans and investments have been counted at face value.

The geographical focus on Africa, Asia and Europe is also evident when looking at the top recipients of climate finance from the EC, EDF and EIB combined in Figure 3-9 below. By far the two largest individual recipients, Turkey and Ukraine, are in Europe.⁴² Four of the ten largest recipients are in Africa and three in Asia, with only Brazil in 10th place found in Latin America. It is noticeable that Turkey is the largest direct recipient both of climate loans from EIB and of climate grants from the EC and EDF.

The only LDC found among top recipients is Bangladesh, primarily due to a considerable amount of climate loans being extended to the country.

42 Turkey can be classified as either European or Asian, but is here considered part of Europe, following CRS data classification.

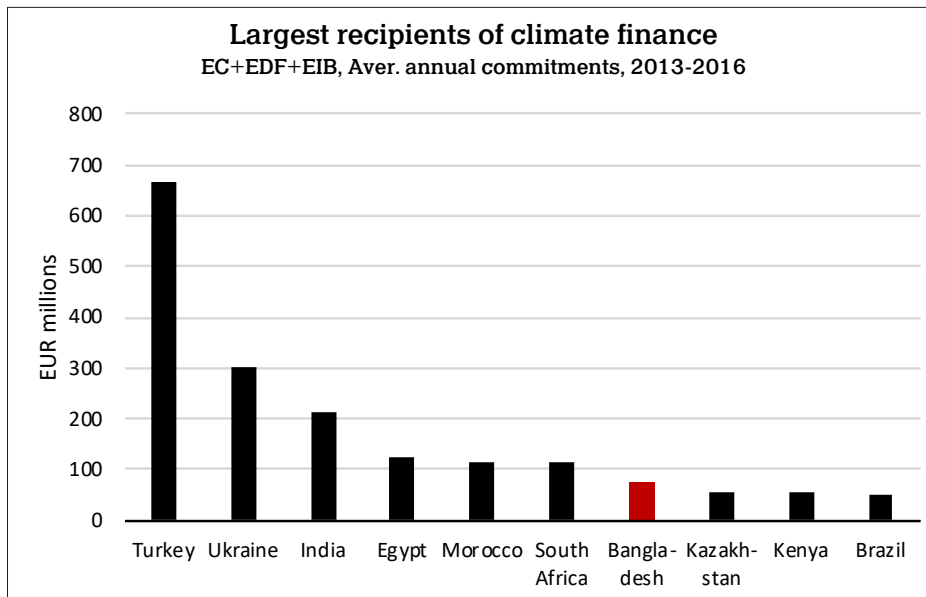


Figure 3-9: Top 10 country recipients of direct climate finance from the EC, EDF and EIB between 2013 and 2016. LDCs are marked with red. Loans and investments have been counted at *face value*. Figures for EC/EDF are based on CRS data and for the EIB on the bank's own dataset.

3.5 | Mobilised private resources

3.5.1 | Private climate finance mobilised through EU projects and initiatives

The measurement and reporting of mobilised private finance is a work in progress. 2016 was the first year in which the OECD collected data from member countries where Rio markers had also been applied to private amounts mobilised by public climate finance. This is *not* a requirement in the UNFCCC reporting format.

As an example, the EIB is funding several equity investments to leverage private finance. In the Third Biennial Report, the EC lists a number of policies and programmes that are climate related, including some with aspects of mobilised private finance.⁴³ These include:

- Blended finance facilities used to leverage financing from private and public sources, including investment grants and interest rate subsidy, technical assistance, risk capital and guarantees. These include the African Investment Facility, Scale-Up (African Renewable Energy Scale-Up facility) and the External Investment Plan. The EC expects the volume of blended grants to double between 2014 and 2020, to EUR 2 billion, with the aim of mobilizing approximately EUR 50 billion.
- Support for middle-ranged electrification projects through ElectriFI. The 290 proposals are expected

⁴³ These are listed on pp. 283-286 in 7th National Communication & 3rd Biennial Report from the European Union under the UN Framework Convention on Climate Change.

to request EUR 800 million, in order to leverage total investment of approximately EUR 8.5 billion for improved renewable energy capacity in 55 countries

- The establishment of the Global Energy Efficiency and Renewable Energy Fund. The fund invests in private equity, primarily with a focus on private sector renewable energy and energy efficiency projects. The fund manages a total of EUR 222 million and is expected to mobilise more than EUR 10 billion.

3.5.2 | Private resources for climate mobilised by EIB

Private resources mobilised in relation to the MDBs is a topic that calls for further study. The EIB does not provide detailed information on private resources mobilised for climate purposes, but general figures are found in the annual joint reporting on climate finance by the MDBs. In the 2016 report, private resources mobilised by the EIB are reported as “Private direct mobilisation” of USD 323 million and “Private indirect mobilisation” of USD 521 million.⁴⁴

These figures are for all finance signed by the EIB in 2016, and only a fraction of this can be expected to go to DAC countries. Using the information on ‘signed’ projects provided on the EIB’s webpage⁴⁵ makes it possible to calculate that 11.2% of all EIB projects signed in 2016 went to DAC countries. Therefore, it is estimated in this report that EUR 85 million of private climate finance mobilised by the EIB goes to DAC countries (both directly and indirectly mobilised).

3.6 | New and additional climate finance

As Annex 2 parties,⁴⁶ OECD countries are required to provide a description in their reports of what ‘*new and additional*’ financial resources they have provided pursuant to Article 4.3 of the UNFCCC (1992) and, furthermore, to clarify how they have determined such resources to be new and additional.

The Cancun Agreements (2010) stated that

“scaled up, new and additional, predictable and adequate funding shall be provided to developing country Parties”⁴⁷ and reiterated developed countries’ commitment in the Copenhagen Accord to “[mobilise] jointly USD 100 billion per year by 2020”.

In its Third Biennial Report, the EC presents this definition:

“The financial resources reported in this Biennial Report are considered ‘new and additional resources’, meaning that they were committed after and not included in the previous National

44 Table 9 on page 18 in MDBs (2017): 2016 - Joint Report on Multilateral Development Banks’ Climate Finance.

45 <http://www.eib.org/projects/loan/list/index.htm>

46 Annex 2 Parties consist of the OECD members of Annex 1 (the industrialized countries that were members of the OECD in 1992, plus countries with economies in transition, including the Russian Federation, the Baltic States, and several Central and Eastern European States.

47 Paragraph 2 in UNFCCC. 2010. The Cancun Agreements - UNFCCC Decision 1/CP.16.

Communication or Biennial Report (i.e. committed in either 2015 or 2016). As EU budgets are determined on an annual basis, each annual commitment cycle represents new and additional resources.”

The definition used by the EC does *not* fall within the nine possible definitions for funds to qualify as ‘additional’ that have been identified by the UNFCCC’s Standing Committee on Finance in the 2016 Biennial Assessment.⁴⁸ Through a literature review, the committee found that at least one of the following nine criteria should hold true for funds to qualify as ‘additional’:

- (a) Only funds mobilized from new sources, such as a levy on emissions trading;
- (b) Only funds delivered through new channels, such as the Green Climate Fund;
- (c) Only funds for ODA in excess of 0.7% of gross national income;
- (d) Only funds in excess of current ODA;
- (e) Only funds in excess of the ODA level at a specified baseline year;
- (f) Only funds in excess of projected ODA calculated using a specified formula;
- (g) Only a specified share of the increase in ODA;
- (h) Only funds in excess of current climate finance;
- (i) Only climate finance that is not reported as ODA.

It is a problem that there is *no* internationally agreed definition of what constitutes “*new and additional*” resources under Article 4.3 of the UNFCCC convention. It has become a common practice to merge climate-related finance with development aid (ODA) budgets at the EC and among EU Member States.

As explained in a report from Adaptation Watch 2016,⁴⁹ a key exclusion from the 2015 Paris Agreement is the phrase “*new and additional*” in reference to climate finance, breaking with two decades of environmental treaty-making (including Copenhagen and Cancun). As expressed by LDCs,⁵⁰

“climate change is a challenge which is both additional to and exacerbates existing development challenges, so to ensure all countries have the tools and resources to reduce their emissions and protect their communities it is important that the finance counted towards the \$100bn minimum target represents new and additional finance that goes beyond Official Development Assistance.”

Without any internationally agreed definition of the term ‘*new and additional*’ resources, it is necessary to look at the level of total ODA provided. In 2016, only five EU Member States provided 0.7% or more of their Gross National Income (GNI) in ODA: Luxembourg (1.00%), Sweden (0.94%), Denmark (0.75%), Germany (0.70%) and the United Kingdom (0.70%).

48 Annex Q in UNFCCC SCF. 2016a. 2016 Biennial Assessment and Overview of Climate Finance Flows Report - Technical Report.

49 Adaptation Watch. 2016. Towards Transparency - The 2016 Adaptation Finance Transparency Gap

50 Press release: Least Developed Countries Group at COP23 November 17, 2017

4

REPORTED CLIMATE FINANCE FROM EU MEMBER STATES

Section 4.1 presents the overall climate finance figures published by the EU. Section 4.2 compares the climate finance/Gross National Income (GNI) ratio from different Member States, and section 4.3 presents the finance used on adaptation and the adaptation share of total climate finance. Finally, section 4.4 illustrates the different financial instruments used by Member States, and reports on the grant equivalent of climate finances provided through loans.

The climate finance data for the 28 Member States is found in the Biennial Reports (BRs) to the UNFCCC and the Monitoring Mechanism Regulation (MMR) reports submitted to the EU. The figures do *not* include core funding to multilateral institutions, as there are no specifications in BR3 on how the climate funding to these should be calculated.

4.1 | Total climate finance from the EU and Member States

Each year in October, the EU's total climate finance is published after the meeting of the Economic and Financial Affairs Council (ECOFIN), which contains the total climate finance from the EU and the Member States.⁵¹ See Table 4-1 below.

A significant increase can be observed between 2013 and 2016, where the total amount of climate finance from EU institutions and Member States reached EUR 20.2 billion. The largest share comes from Member States, totalling EUR 15.5 billion and the remaining portions of EUR 2.7 billion climate finance coming from the EU budget and the European Development Fund, with EUR 1.9 billion from the EIB.

Year	EU Member States - Total climate finance, EUR Billion	EU Institutions (EC/EDF+EIB) Total climate finance, EUR Billion
2013	9.5	-
2014	12.4	2.1 (EIB only)
2015	13.9	3.7
2016	15.6	4.6

Table 4-1: Total climate finance from the EU and Member States. Figures from the press release of the ECOFIN finance minister each year in October. Most countries and the EC/EDF have applied Rio markers, often with 40-50% discount for "Significant".

⁵¹ The European Commission takes these data from MMR reporting in September each year. As showed in Annex 1, the difference is only about 1% between ECOFIN (MMR) and figures in BR3 to the UNFCCC.

In Table 4-2 below, climate finance from each country in 2014 and 2016 can be found. It shows that the biggest contributors are Germany, France, the UK, Spain, the Netherlands and Sweden. The total contribution from Member States is EUR 15.4 billion in 2016, which correspond to the above figures from ECOFIN.

Member States	Reported climate finance - EUR million	
	2014 (BR2)	2016 (BR3)
Germany	5,135.4	8,345.9
France	2,767.2	3,334.8
United Kingdom	1,197.9	1,280.5
Spain	463.1	595.0
Netherlands	371.3	471.9
Sweden	228.8	402.4
Italy	54.7	263.0
Austria	101.1	189.3
Denmark	224.9	173.7
Luxembourg	38.7	129.5
Belgium	95.4	100.9
Finland	116.2	43.0
Hungary	2.7	40.6
Ireland	34.0	-
Czech Republic	7.7	13.7
Poland	3.7	5.4
Slovakia	1.1	3.0
Slovenia	2.3	-
Portugal	9.2	2.0
Romania	0.0	0.8
Lithuania	0.3	0.6
Estonia	0.6	0.4
Greece	0.0	0.2
Malta	0.1	0.1
Latvia	0.4	0.0
Bulgaria	0.1	-
Croatia	0.0	-
Cyprus	-	-
Member States	10,856.9	15,396.7
EC (+EDF)	677.0	2,730.2
EIB	2,098.5	1,947.7
Member States + EU	13,632.4	20,074.6
(Norway)	729.0	382.9
(Switzerland)	225.4	306.1

Table 4-2: Reported climate finance from EU and EU Member States in 2014 and 2016 (also included Norway and Switzerland). Source: BR2 and BR3.

4.2 | Country climate finance allocation in relation to GNI

There are many ways to compare and analyse commitments of climate finance. The possibilities for different countries to contribute will depend on their GNI and on competing domestic priorities. At the same time, the general debate around effort sharing often focuses on the “*polluter pays principle*”, linking financial contributions to emissions. This is for example the approach taken by the Greenhouse Development Rights (GDR) project,⁵² where effort sharing is based on historic emissions, current capacity and a development threshold.

In this section, EU Member States are compared in relation to their allocations of climate finance as a ratio of each country’s GNI. This approach gives an overview of current contributions, which is inspired by similar calculations of development aid (ODA). The agreed UN target for ODA states that developed countries should devote 0.7% of GNI to ODA. There is no agreed target for climate finance allocations.

Table 4-3 below presents a ranking of EU Member States by climate finance in relation to GNI, with Norway and Switzerland in 2014 and 2016 also incorporated (being the last year of BR2 and BR3 respectively). The table compares specific climate finance reported in BR3 reports in percentage of GNI in order to compare with other aid figures that usually use GNI instead of GDP. The 2016 ranking shows whether a Member State has climbed or dropped on the percentage of the GNI ladder. It also illustrates how vast a difference there is between the level of climate financing of Member States, and that only a few countries are providing above 0.1% of GNI for financing of climate projects. Calculations are done using figures reported to the UNFCCC.

The level of climate finance from Germany, Luxembourg and France (and Norway) are consistently high. Other countries with relatively high levels of climate finance compared to GNI are Sweden, Denmark, the Netherlands and the United Kingdom. The most remarkable increases in level of climate finance compared to GNI between 2014 and 2016 are from Luxembourg, Sweden and Austria, who all increased the relative level of their climate finance considerably. However, we also find other countries, including Denmark, Finland and Norway who have dropped their level of climate financing. Ireland and Slovenia have not yet submitted their BR3 reports; however, it was possible to find these figures in their MMR reports to the EU.

According to the OECD, climate-related bilateral ODA constitutes 21% of the total bilateral ODA commitments in 2015 and 2016 from DAC members.

52 Approach developed by ECO Equity and Stockholm Environmental Institute <http://gdrights.org/>

Ranking 2014	Member States	% of GNI	Ranking 2016	Member States	% of GNI	2016 climate finance (EUR Million)
1	(Norway)	0.276%	1 [^]	Luxembourg	0.354%	130
2	Germany	0.175%	2	Germany	0.225%	8,346
3	Luxembourg	0.140%	3 ^v	(Norway)	0.131%	383
4	France	0.136%	4	France	0.131%	3,335
5	Denmark	0.107%	5 [^]	Sweden	0.090%	402
6	Finland	0.067%	6 [^]	(Switzerland)	0.076%	306
7	Sweden	0.066%	7 ^v	Denmark	0.067%	174
8	United Kingdom	0.062%	8 [^]	Netherlands	0.061%	472
9	Netherlands	0.060%	9 ^v	United Kingdom	0.052%	1,280
10	(Switzerland)	0.059%	10 [^]	Austria	0.047%	189
11	Spain	0.039%	11	Spain	0.039%	595
12	Austria	0.032%	12 [^]	Belgium	0.021%	101
13	Belgium	0.025%	13 ^v	Finland	0.020%	43
14	Ireland	0.022%	14	Ireland	0.017%	53
15	Slovenia	0.005%	15 [^]	Hungary	0.017%	41
16	Portugal	0.004%	16 [^]	Italy	0.012%	263
17	Italy	0.003%	17 ^v	Slovenia	0.005%	3
18	Czech Republic	0.003%	18	Czech Republic	0.004%	14
19	Estonia	0.002%	19 [^]	Slovakia	0.002%	3
20	Hungary	0.001%	20 ^v	Estonia	0.001%	0
21	Latvia	0.001%	21 [^]	Lithuania	0.001%	1
22	Slovakia	0.00095%	22 ^v	Portugal	0.00071%	2
23	Malta	0.00074%	23 [^]	Poland	0.00057%	5
24	Poland	0.00052%	24 ^v	Malta	0.00053%	0
25	Lithuania	0.00042%	25 [^]	Romania	0.00019%	1
26	Bulgaria	0.00007%	26 [^]	Greece	0.00009%	0
27	Croatia	0.00004%	27 ^v	Latvia	0.00002%	0
28	Greece	0.00002%	28 ^v	Bulgaria	0.00000%	0
29	Romania	0.00001%	29 ^v	Croatia	0.00000%	0
30	Cyprus	0.00000%	30	Cyprus	0.00000%	0

Table 4-3: Ranking of EU Member States (and Norway and Switzerland) according to climate finance compared to GNI. Figures for 2014 (from BR2) and 2016 (from BR3). Calculations made by Mikkel Frederiksen.

4.3 | Distribution between Mitigation and Adaptation

4.3.1 | EU Member State shares of adaptation and mitigation

Level of adaptation finance is an important issue, which has received considerable attention in international discussions. The Paris Agreement states that climate finance should “be balanced” between mitigation and adaptation actions, but previous analysis has shown that existing finance favours mitigation activities.⁵³

According to UNEP's Adaptation Gap report from 2016,⁵⁴ the cost of adapting to climate change in developing countries is in the range of USD 140 and USD 300 billion per year in 2030, rising to USD 280 and USD 500 billion per year in 2050. With the increasing impacts of climate change affecting in particular the poorest and most vulnerable countries, including LDCs and small island states, there is a need to assess and reconsider the distribution between mitigation and adaptation.

It is a concern of many developing countries that the majority of public finance, and even more of private investment, is being spent on renewable energy and other mitigation projects in better-off countries, while the vast adaptation needs of poor countries predominantly go unaddressed, despite the assertions of the Paris Agreement.

One method to analyse the adaptation figures of the Member States is to calculate the percentage share between mitigation and adaptation projects. In Table 4-4 below, key countries are singled out to show their mitigation and adaptation shares. Figures for ‘cross-cutting’ actions are split 50-50 between mitigation and adaptation. EU Member States with the highest share spent on adaptation in 2016 are Belgium, the Netherlands, Sweden, the Czech Republic, Luxembourg, Italy, the United Kingdom and Ireland with over 50%.

Developments from 2014 and 2016 show some positive trends, as most countries allocate a higher share of their climate finance to adaptation in 2016 - with a weighted adaptation- average increasing from 26% in 2014 to 30% in 2016 (when including finance from EU institutions). Countries like Belgium, the Netherlands and Sweden have all increased their share of adaptation, while other countries like Austria, France, Italy and Spain show significant increases despite their total percentage still being below 50%. Hungary stands out, with almost all of the 2016 climate finance being counted as adaptation (98%), but it is noted that Hungarian aid is primarily devoted to a large water and sanitation project in Indonesia through a loan with a very low grant equivalent. The Czech Republic, Finland, Germany and Poland are Member States where adaptation percentage decreased.

The adaptation share of the EC and EDF is 55% in 2016. For the EIB, the adaptation share is on the other hand relatively small, at only 5% between 2013 and 2016. In 2016 the adaptation share for EIB was only 4%.

53 OECD-CPI. 2015. Climate Finance in 2013–14 and the USD 100 Billion Goal; UNFCCC SCF. 2016. *Summary and Recommendations of the Standing Committee on Finance on the 2016 Biennial Assessment and Overview of Climate Finance Flows*.

54 http://web.unep.org/adaptationgapreport/sites/unep.org/adaptationgapreport/files/documents/Press-Release_AdaptationGap2016.pdf

Member States	2014			2016		
	Adaptation (EUR million)	% Mitigation	% Adaptation	Adaptation (EUR million)	% Mitigation	% Adaptation
Austria	17.9	82%	18%	50.4	73%	27%
Belgium	59.4	38%	62%	72.3	28%	72%
Czech Republic	4.7	39%	61%	7.4	46%	54%
Denmark	97.7	56%	44%	79.7	54%	46%
Finland	54.8	53%	47%	18.9	56%	44%
France	407.1	85%	15%	702.5	79%	21%
Germany	1,531.6	70%	30%	1,829.9	76%	24%
Hungary	1.1	59%	41%	36.1	2%	98%
Ireland	27.7	19%	81%	45.7	13%	87%
Italy	22.1	60%	40%	147.6	44%	56%
Luxembourg	20.0	48%	52%	20.0	48%	52%
Netherlands	216.6	42%	58%	255.7	34%	66%
Poland	1.7	53%	47%	2.7	50%	50%
Spain	29.3	94%	6%	109.1	82%	18%
Sweden	138.0	40%	60%	263.4	35%	65%
United Kingdom	508.3	51%	49%	490.8	49%	51%
Member States	3,138.1	71%	29%	4,132.2	71%	29%
EC and EDF	334.5	51%	49%	1,514.1	45%	55%
EIB	60.5	97%	3%	79.7	96%	4%
Total	3,533.1	74%	26%	5,726.1	70%	30%
(Norway)	350.6	52%	48%	39.4	85%	15%
(Switzerland)	123.5	45%	55%	154.7	49%	51%

Table 4-4: Total adaptation finance and mitigation-adaptation shares for key EU Member States in 2014 and 2016. The figures are based on BR2 (2014) and BR3 reports (2016). ‘Cross-cutting’ figures are split equally between adaptation and mitigation.

4.3.2 | Financing adaptation in relation to GNI

Table 4-5 beneath illustrates adaptation finance as a % of GNI, and the figures in 2016 showcase the development of adaptation aid compared to 2014. It should be reemphasised that calculations are based on face value amounts for those countries including loans in their climate finance. The result would be different if a grant equivalent approach for loans was used.

Luxembourg is outstanding in the 2016 ranking for attributing 0.2% of GNI to adaptation. The considerable levels of support for adaptation demonstrated by Sweden, Germany, the Netherlands, Denmark, France and the UK is also positive. The largest drop in ranking from 2014 to 2016 is by Finland, Norway and Denmark, who experience a decline in adaptation as a % of GNI. Meanwhile, other countries like the Netherlands, France, the United Kingdom, Belgium, Austria, Italy and Spain climb the ladder due to small increases coupled with decreasing adaptation aid by other Member States.

Ranking 2014	Member States	% of GNI	Ranking 2016	Member States	% of GNI	Total Adaptation (EUR million)
1	(Norway)	0.133%	1^	Luxembourg	0.201%	73.5
2	Luxembourg	0.072%	2^	Sweden	0.059%	263.4
3	Germany	0.052%	3	Germany	0.049%	1829.9
4	Denmark	0.046%	4^	(Switzerland)	0.038%	154.7
5	Sweden	0.040%	5^	Netherlands	0.033%	255.7
6	Netherlands	0.035%	6v	Denmark	0.031%	79.7
7	(Switzerland)	0.032%	7^	France	0.028%	702.5
8	Finland	0.032%	8^	United Kingdom	0.020%	490.8
9	United Kingdom	0.026%	9^	Hungary	0.015%	36.1
10	France	0.020%	10^	Belgium	0.015%	72.3
11	Ireland	0.018%	11	Ireland	0.015%	45.7
12	Belgium	0.016%	12v	(Norway)	0.013%	39.4
13	Austria	0.006%	13	Austria	0.013%	50.4
14	Slovenia	0.003%	14v	Finland	0.009%	18.9
15	Spain	0.002%	15	Spain	0.007%	109.1
16	Czech Republic	0.002%	16^	Italy	0.007%	147.6
17	Estonia	0.002%	17v	Slovenia	0.00327%	2.0
18	Italy	0.00134%	18v	Czech Republic	0.00239%	7.4
19	Slovakia	0.00072%	19	Slovakia	0.00067%	1.0
20	Hungary	0.00061%	20v	Estonia	0.00058%	0.2
21	Latvia	0.00049%	21^	Poland	0.00029%	2.7
22	Portugal	0.00039%	22	Portugal	0.00020%	0.6
23	Poland	0.00024%	23^	Malta	0.00013%	0.0
24	Malta	0.00018%	24^	Lithuania	0.00010%	0.1
25	Romania	0.00001%	25^	Greece	0.00009%	0.2
26	Bulgaria	0.00001%	26v	Romania	0.00001%	0.1
27	Croatia	0.00000%	27v	Bulgaria	0.00327%	2.0
28	Cyprus	0.00000%	28v	Croatia	0.00000%	-
29	Greece	0.00000%	29v	Cyprus	0.00000%	-
30	Lithuania	0.00000%	30	Latvia	0.00000%	-

Table 4-5: EU Member States ranked according to adaptation finance as % of GNI in 2014 and 2016. Figures are based on BR2 (2015) and BR3 reports (2015). Calculations made by Mikkel Frederiksen.

4.4 | Grants versus Loans for Member States

Climate finance reported by EU Member States includes not only grants, but also concessional and non-concessional loans and other financial instruments, such as equity investments. To accurately compare climate finance from different countries, it is therefore necessary that the grant equivalents of financial instruments are assessed, to interpret what could be considered as grants and what can be considered as loans.

As explained in Chapter 3, in April 2016, the OECD-DAC approved making the grant equivalent of all concessional loans available in the CRS database for flows starting in 2018. However, as the new OECD method has yet to be put in place, this report uses Oxfam 's method from its 2016 Climate Finance Shadow Report for downgrading to the grant equivalent rather than the face value of concessional loans from Member States. The method calculates the grant equivalent of concessional loans to be between 25% to 67% of face value.

This calculation of the grant element of climate-related loans is particularly important for countries with a low percentage of climate finance provided as grants, e.g. France (6% grants), Hungary (12% grants), Spain (23% grants) and Germany (38% grants). Table 4-6 below presents the reported climate finance to UNFCCC of key EU Member States in 2016, followed by the percentage given as grants, concessional loans, non-concessional loans, through other financial instruments and finally what the range of the estimated grant value of the provided finance. The countries and EU institutions included in Table 4-6 cover 98% of the total finance reported by EU and EU Member States in 2016.

Country	Climate Finance 2016 (EUR million)	Grants	Concessional non-grant instrument	Non-concessional instruments	Other instruments	Estimated total grant value of climate finance (EUR million)	Grant share of reported climate finance
France	3,335	6%	78%	16%	0%	845 - 1,943	25% - 58%
Spain	595	23%	38%	0%	39%	195 - 288	33% - 48%
Germany	8,346	38%	58%	4%	0%	4,374 - 6,412	52% - 77%
United Kingdom	1,280	94%	8%	0%	0%	1,224 - 1,265	96% - 99%
Denmark	174	97%	3%	0%	0%	170 - 172	98% - 99%
Netherlands	472	100%	0%	0%	0%	472	100%
Sweden	402	100%	0%	0%	0%	402	100%
Finland	43	81%	17%	0%	1%	37 - 40	86% - 93%
Italy	263	85%	15%	0%	0%	233 - 250	89% - 95%
Hungary	41	13%	0%	0%	87%	5	13% - 13%
EIB	1,948	0%	85%	15%	0%	414 - 1,109	21% - 57%
EC (+EDF)	2,730	100%	0%	0%	0%	2,730	100%
(Norway)	383	95%	2%	0%	4%	364 - 367	95% - 96%
(Switzerland)	306	97%	3%	0%	0%	300 - 304	98% - 99%
Total	20,318	46%	47%	6%	1%	11,764 - 15,759	58% - 78%

Table 4-6: Face value for concessional loans as reported in BR3s. The calculation of grant equivalent value assumes the grant equivalent of concessional non-grant instruments to be between 25% and 67%, based on the method used in the 2016 Climate Finance Shadow Report from Oxfam. Non-concessional instruments are counted as 0% grant. Equity investments have been counted as "Concessional non-grant instrument". EIB loans are not reported as concessional/non-concessional in BR3, so for the purposes of this report it is estimated that 85% of EIB loans are provided as concessional loans.

The overall grant-equivalent is estimated between 58% and 78% of the EUR 20.3 billion face value reported to UNFCCC (grants and loans) for the countries and EU institutions listed in the above table. This reduces the reported climate finance by between EUR 4.6 billion and EUR 8.6 billion. This has implications for the understanding of the 100 billion USD promise in the Paris Agreement.

By calculating the grant value of the climate finance provided by France and Spain it becomes clear that the grant equivalent from those countries is notably low. This implies for France that instead of the EUR 3.3 billion reported to the UNFCCC, the estimated grant value with EUR 0.8 - 1.9 billion is only 25%-58% of what is reported in BR3.

Loans also constitute a significant amount of the climate finance provided by countries like Germany and Luxembourg, but it should be noted that both of these countries also provide a considerable amount of climate finance compared to GNI. Other countries like the UK, Denmark, the Netherlands, Sweden and Norway are all offering either all or a very high share of climate finances as grants.

ANNEX 1 METHODOLOGY FOR DATA ANALYSIS

This annex presents the research methods used in this report to find and calculate the climate finance figures of European Commission (EC), European Development Fund (EDF), European Investment Bank (EIB) and EU Member States.

The calculations of various aspects of EU climate finance in this report are based on four main sources:

- i) The EC's Biennial Reports (BRs) to the UNFCCC,
- ii) Project data in the Creditor Reporting System (CRS) within the OECD Development Assistance Committee (DAC),
- iii) Information on the climate share of the EIB's activities provided by the OECD, which was found in the annual reporting on climate finance from the Multilateral Development Banks (MDBs).
- iv) A dataset provided by the EIB, which contains project level information between 2010 and 2016.

The detailed project information found in the OECD CRS data is used as the primary resource for the calculation of climate finance presented in Chapter 3 of this report, including the distribution of finance between the implementation channels, and recipient countries and regions.

A.1 | Extraction of data from UNFCCC and OECD-DAC reporting

A.1.1 | Climate finance data from UNFCCC reporting

Reporting of climate finance from the EC and the EDF to the UNFCCC is done both in the National Communications (reported every four years) and the BRs (every two years). The reporting on climate finance provided in the BRs is the most comprehensive, using the Common Tabular Format (CTF) developed by the UNFCCC, and figures included in this report are based on these.

Table 7 of the CTF in the BRs is a UNFCCC standard that includes figures in both national currencies EUR (for the EU) and USD, with the funding divided into climate-specific finance and core/general funding of multilateral institutions. The climate-specific finance is further divided into mitigation, adaptation and cross-cutting. Table 7(a) of the CTF includes a more detailed breakdown of multilateral climate finance and core funding to individual institutions, though this has only been used by the EC in the Third BR, and the information provided is very limited. Table 7(b) specifies climate-specific bilateral Official Development Assistance (ODA) provided to individual projects and countries, with finance provided from the EIB marked separately.

Reporting of climate-specific finance from the EC and the EDF is based on the Rio markers reported to the OECD DAC. Projects receive markers indicating that mitigation and/or adaptation is either a 'principal' objective (identified by a score of 2), a 'significant' objective (score of 1), or not an objective of the project (score of 0).

Reporting of climate finance from the EIB is based on information of the individual projects'/loans'

climate shares, estimated using the joint principles developed by the MDBs. The BRs include only sparse information of the criteria used under the joint principles and no specific information on the climate shares of individual projects or loans.

In the BRs, the EC reports exclusively on committed climate finance. Regarding finance from the EC and the EDF, the finance is limited to include only ODA, but for climate finance from the EIB, Other Official Flows (OOF) is also reported together with ODA.

To date, the EU has presented three BRs to the UNFCCC; the First Biennial Report covering 2011-2012, the Second Biennial Report covering 2013-2014, and the Third Biennial Report covering 2015-2016.⁵⁵

An overview of the EU's climate finance reported through the BRs to the UNFCCC can be found in Chapter 3 of this report.

There is information about EU climate finance in Table 7(b), with finance being divided on individual projects. While each project is described briefly under "Additional Information", it is more difficult to access a clear identification of each project, e.g. in the form of a Project ID number or the CRS ID number. Information on the climate share used for each project is also missing in the CRS. So the calculations should be based on the use of Rio markers. It is assumed that each project has used Rio markers in their calculations."

A.1.2 | Data from OECD-DAC

The EU reports on ODA and other financial flows, to the OECD-DAC, including detailed project-level reporting found in the CRS database. The total amount of climate-related finance is not reported separately, but can be calculated based on the Rio markers assigned to projects in CRS, with scores of 'significant' and 'principal' objective in pursuit of mitigation and/or adaptation.

Information is submitted annually to the OECD, so that the data for each calendar year is available in June of the following year.

The CRS database includes information on both commitments and disbursements of bilateral finance and on finance transferred to multilateral organisations that is not core funding (earmarked multilateral finance and "multi-bi" finance). This includes both grants, loans and other instruments that are part of ODA, as well as OOFs, Export Credits, and other types of financial flows. The amounts are in current nominal values, i.e. they are not adjusted for inflation to a reference year. Information covers funds which are transferred to "DAC countries"; i.e. countries identified as eligible for receiving ODA.⁵⁶

To access information on the projects reported to the CRS, the full raw data was downloaded as csv-files and separated to only include flows from EU institutions and the EIB. Data is available for every year from 2010 to 2016, and the 15-01-2018 file version has been used for this report.

55 Biennial Reports submitted to the UNFCCC can be found here: http://unfccc.int/national_reports/biennial_reports_and_iar/biennial_reports_data_interface/items/10132.php

56 List of countries eligible for receiving ODA can be found here: http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC_List_ODA_Recipients2014to2017_flows_En.pdf

Data is divided according to donor agency,⁵⁷ and to ensure the CRS data is limited to include only relevant transfers of climate finance, aid classified as “Imputed student costs”, “Debt relief”, “Administrative costs not included elsewhere”, “Development awareness”, and “Refugees in donor countries” has not been included.⁵⁸

Data on finance provided by the EC and the EDF is assessed to be complete, including both commitments and disbursements of funds and with Rio markers reported for the majority of projects.

Analysts in the Economics Department of the EIB inform this study that data on EIB funds are only reported to OECD-DAC when disbursements are made. The information on committed funds found in CRS is therefore incomplete for the EIB, since some projects/loans may have been committed (“signed”), but without disbursements made. The data available in CRS is therefore only to be used on assessing the level of disbursements made from the EIB to DAC countries, but not the annual level of commitments.

Furthermore, disbursements from the EIB are not marked with policy markers, including the Rio markers on climate change. Rio markers can therefore not be used to assess climate finance from the EIB.

It is possible to see the amounts for coal projects in the OECD CRS database registered as public climate finance. The climate finance data provided by the group to the OECD/Climate Policy Initiative (CPI) report from 2015 did *not* include finance related to coal projects. However, Japan and Australia consider that financing for high efficiency coal plants should also be considered as a form of climate finance and Japan provided a separate estimate of the amount of finance for such projects.

A.1.3 | Data from EIB and the MDB’s joint annual reporting

The study has applied two methods for calculation of climate finance from the EIB:

- 1) The EIB has kindly provided a copy of the EIB dataset for 2010-2016 for climate action data (with EIBs own resources). The dataset has commitments from each year’s loan signings, including information on each project funded and its percentage of climate finance. The dataset does not contain information about disbursements. The EIB gives two remarks:
 - Data before 2012 corresponds to early years in the development of tracking methodologies and application and therefore, are not of the same quality as data for the following years.
 - No mitigation categories were reported before 2012. Afforestation & Waste and Wastewater have been reported only since 2014.
- 2) Calculated from the information provided in the EC’s reporting to the UNFCCC, and based on information on disbursements of finance found in OECD CRS.

Since the EIB informs that the data on commitments found in OECD CRS is incomplete, it was decided

57 For EU, this includes: European Commission (“Commission of the European Communities”), European Development Fund and European Development Bank.

58 This exclusion has been made based on the categories excluded for Rio marker application according to the Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire - DCD/DAC(2016)3/FINAL.

not to calculate commitments of climate finance from the EIB based on CRS data.⁵⁹

Information on the mitigation-adaptation distribution of the EIB's climate finance is found in the joint annual reporting of climate finance from the MDBs, which has been published since 2011.^{60 61} It should be noted that the mitigation and adaptation shares reported for the EIB in the joint annual reports are for a larger group of recipient countries (including some European countries), and *not* just for the projects in the "DAC countries". The shares are therefore *not* precise for DAC countries, and the results should be taken as estimates, rather than precise calculations of the mitigation and adaptation finance provided by the EIB.

To conclude, this method of using OECD DAC data for calculating climate finance from the EIB is crude and with considerable uncertainty attached to the precise figures.⁶²

Therefore, it has been very important to get access to EIB's own dataset for commitments in the period 2010 to 2016, which makes the figures much more accurate.

2 | Data Processing and Calculation of Climate Finance from EU institutions

A.2.1 | Total climate finance provided by the EC and the EDF

Data on total climate finance from EU institutions is drawn from UNFCCC reporting, and is also calculated based on CRS data. The UNFCCC data is divided into funding agencies (the EC and the EDF), based on information available in Table 7(b) of the UNFCCC reporting (only for 2013-2016), but is otherwise directly quoted in Table 4-1.

Figures for total climate finance are calculated based on CRS data. Regarding climate finance from the EC and the EDF, the team used a method similar to that used in the EC's biennial reporting to the UNFCCC. This means that projects with a Rio marker, indicating that mitigation or adaptation is a 'principal' objective (score of 2), have 100% of their budget counted as climate-specific, while projects with a marker indicating that mitigation or adaptation is a 'significant' objective (score of 1) have 40% of their budget counted as climate-specific. The result of such calculation is presented in Chapter 3 for commitments of climate finance and for disbursements. Figures calculated for commitments can be compared directly to figures reported to the UNFCCC.

The calculations were made by creating a database that used the OECD data in Excel and PowerPivot. Calculated fields were used to identify all projects with a Rio marker of 1 and 2 for mitigation, adaptation or both. Based on the database, pivot tables were created, extracting the results for each method, including the distribution between adaptation, mitigation and cross-cutting finance (method described further below).

59 Based on suggestion from EIB, the report has tried to make calculations using the Imputed Multilateral Contributions method and information of the "signed" finance for each year found at EIB's webpage (<http://www.eib.org/projects/loan/list/index.htm>). The results from this calculation are still different from what is reported in the biennial reporting, and due to uncertainty about the exact limitations in the EIB data, they are not included in Chapter 4 (but can be found in chapter 3).

60 The joint reports can be found on EIB's website (www.eib.org) or on the websites of the other MDBs.

61 The mitigation and adaptation shares for 2010 have been assumed to be equal to 2011.

62 When comparing the figures for EIB commitments reported in the biennial reports (Table 4-1) with the calculations of EIB disbursements (Table 4-3), the results are somewhat different, with the disbursements being considerably lower than the commitments reported. It cannot be assessed to which degree this difference is due to difference in the methods (with the Imputed method being less accurate) or because one set of figures is for commitments and the other for disbursements.

A.2.2 | Distribution between adaptation, mitigation and cross-cutting

To determine the share of climate finance spent on adaptation, mitigation and projects targeting both adaptation and mitigation (“cross-cutting” projects), data was taken directly from BR1, BR2 and BR3. EC calculates climate finance using Rio markers, so that projects with a Rio marker of “Significant” (2) or “Principal” (1) in adaptation and a marker of “Not relevant” (0) in mitigation are counted as adaptation, and vice versa for mitigation.⁶³ Projects scoring either “Significant” or “Principal” in both adaptation and mitigation are counted as cross-cutting.⁶⁴

Mitigation and adaptation for EIB finance was also taken directly from BR2 and BR3, but corresponds well with the figures found in the data set provided by the EIB.

The breakdown of calculations of disbursements on adaptation, mitigation and cross-cutting is provided in Chapter 3.

A.2.3 | Determining extending agencies, implementing channels, geographical distribution, and income category of recipient countries

Different aspects of the EC’s and EDF’s climate finance were explored based on the constructed database and the information provided in the CRS data. Pivot tables were created with a breakdown of climate finance disbursements by implementing channel (using the ‘ParentChannelCode’ category⁶⁵), geographical distribution (using the ‘RegionName’ category⁶⁶), and income category of recipient countries (using the ‘Incomename’ category⁶⁷).

For the EIB data set, information was provided on recipient country. This information was used to make a breakdown of provided climate finance on geographical distribution (global regions) and income groups. The classification of countries in income groups follow the DAC recipient classification, which makes it comparable to the CRS data.⁶⁸ EIB data did not include implementing channel, and this has therefore only been found for EC/EDF climate finance. The results are presented in Chapter 3.

A.2.4 | Data processing and calculations of climate finance from EU Member States

Several sources have been used to gather and analyse climate finance data from the 28 Member States of the EU. Figures in the report are sourced from the BRs submitted by Member States to the UNFCCC,

63 A complete description of the method used by the EC and different project categorization is found in Table 6.1 in the EC’s Third Biennial Report (p. 288 in *7th National Communication & 3rd Biennial Report from the European Union under the UN Framework Convention on Climate Change*).

64 Projects with a score of “Principal” in one Rio marker and “Significant” in the other have been counted as solely belonging to the Rio marker with the “Principal” score. This means that a project with “Principal” in mitigation and “Significant” in adaptation is counted as mitigation and not as cross-cutting (vice versa for adaptation).

65 Channel codes have been divided into the groups ‘Public Sector Institutions’ (10000), ‘NGOs’ (20000), ‘Multilateral institutions’ (40000), and ‘Other’. ‘Other’ include Public-Private Partnerships and Networks (30000), Universities and research (50000), and the Private sector (60000).

66 The different geographical regions have been combined to continent scale, so the division includes Africa, Asia, Europe, Oceania, North & Central America, and South America.

67 The income group ‘More advanced developing countries and territories’ has not been included, since this constitutes only 0.01% of the provided climate finance.

68 Using the DAC list of recipient countries: <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/daclist.htm>

the Monitoring Mechanism Regulation reports (MMR) submitted to the EU, and data presented in a report created by ECOFIN regarding the 2016 climate finance figures. The data is used to create an overview of the contributed climate finance to developing countries from the Member States, to present the share of climate finance used on adaptation and to estimate the grant equivalent of the climate finance loans. In the sections below, the sources are briefly presented to understand the differences between the reports and their figures. BRs are submitted every second year in January by developed country parties to the UNFCCC. The reports consist of the climate specific finance of each Member State in a two-year period, as well as the progress in achieving emission reductions and the financial, technological and capacity enhancing support to non-annex 1 Parties.⁶⁹

EU Member States also report on climate finance to the European Commission under MMR. The MMR reports assemble greenhouse gas emissions, and other information. One of the goals of the MMR is to gain greater transparency and easier access to information, and the MMR and the BR reports should supplement each other. In both the BR and MMR reports, the submitting countries can use their own interpretation of what should be included in climate finance provisions and how these are calculated. Most developed countries base their reporting of climate finance on the application of Rio markers to relevant projects (described further in Chapter 2).

In addition to reporting of climate specific finance, countries also report in the BRs on core finance going to multilateral institutions, including MDBs. Most countries report the total amount of multilateral core finance in a separate column in table 7, but France includes the imputed climate-relevant contributions to the MDBs in their climate specific figures in BR3. They explain in their methodology that for the first time they include the climate-relevant share of their contributions to concessionary financing instruments such as IDA, IFAD and IDB etc. Such an approach is different from the BR3 reporting of other countries. Therefore, the figures of France are *not* directly comparable to other countries, as they separate the core/general figures with the climate-specific figures. A few other countries like Denmark and Germany also inform the climate specific part of their multilateral core funding in BR3, but only as information in the text and *not* in the actual table 7 reporting of climate specific figures.

In the report from ECOFIN, the figures for climate finance from EU Member States are used to present an overview of the international climate finance of the EU. The ECOFIN Council made this report to create an overview, and also to endorse the contributions prior to the UNFCCC's COP23.

2.5 | Comparing ECOFIN and UNFCCC reporting

EU Member States and institutions provided more than EUR 20 billion to climate finance in 2016, which is showed in the table below. The two columns show the ambiguity in the climate finance figures presented in BR3 and the ECOFIN report. The total difference in the reported figures is EUR 403 million, which is equivalent to 2% of the total reported amounts for 2016. The differences for each Member State are illustrated in the table below, and show that some figures need further scrutiny to understand why they differ. This is the case for e.g. the Czech Republic, Germany, Italy and the UK, where there are significant differences between the figures presented in the BR3 reporting and in the ECOFIN report.

Regarding the differences between BR and ECOFIN figures, this matter is thoroughly analysed⁷⁰ by Öko-Institut in a report to the EC in 2016. The authors of the report highlight that there are various mistakes

69 http://unfccc.int/parties_and_observers/parties/non_annex_i/items/2833.php

70 Öko-Institut e.V. (2016) "Study on climate finance reporting, including methodological issues, producing overview information and assessing emerging requirements".

in the reporting, such as empty tables, different data categories, inconsistency in the multilateral contributions, different reporting of the core/general figures, rounding issues, changing currency conversion rates, summation mistakes and both double accounting and missing figures. To avoid the confusion of the differences in the various reports, e.g. BR3 versus ECOFIN and MMR figures, we solely use the amounts found in the BR3s. In a few cases, those are *not* accessible and therefore we had to adopt the figures from the MMR reports.

Also, the figures for total climate finance do *not* include core funding to multilateral institutions with climate activities (e.g. World Bank), as there are no specifications in BR3 on how the funding to these should be calculated. Therefore, the climate finances that are part of the multilateral core/general support are *not* included in the total climate finance figures in Chapter 4, as the issue with the core/general funding is that the amounts include more fields than just climate finance. Previous reports do also omit the core/general figures, as there is no clear overview of how the funds within core/general support are distributed.

Country	Total ECOFIN (EUR million)	Total BR3 (EUR million)	Total difference	Difference in %
Austria	199.3	189.3	9.9	5.0%
Belgium	100.9	100.9	0.0	0.0%
Bulgaria	0.0	0.0	0.0	0.0%
Cyprus	0.0	0.0	0.0	0.0%
Czech Republic	7.5	13.7	-6.2	-45.4%
Germany	8,534.1	8,345.9	188.2	2.2%
Denmark	173.0	173.7	-0.7	-0.4%
Estonia	0.4	0.4	0.0	0.0%
Spain	595.0	595.0	0.0	0.0%
Finland	43.0	43.0	0.0	0.0%
France	3,334.8	3,334.8	0.0	0.0%
Greece	0.2	0.2	0.0	0.0%
Croatia	0.0	0.0	0.0	0.0%
Hungary	35.3	40.6	-5.3	-13%
Ireland	52.7	Missing	-	-
Italy	243.0	263.0	-20.0	-8%
Lithuania	0.5	0.6	0.0	-9%
Luxembourg	129.5	129.5	0.0	0%
Latvia	0.0	0.0	0.0	0%
Malta	0.2	0.1	0.1	59%
Netherlands	471.9	471.9	0.0	0%
Poland	5.4	5.4	0.0	0%
Portugal	2.0	2.0	0.0	0%
Romania	0.8	0.8	0.0	0%
Sweden	402.4	402.4	0.0	0%
Slovenia	3.0	Missing	-	-
Slovakia	3.0	3.0	0.0	0%
United Kingdom	1,163.6	1,280.5	-116.9	-10%
EU	2,730.2	2,730.2	0.0	0%
EIB	1,947.7	1,947.7	0.0	0%
Total	20,179.3	20,074.6	49.0	0%

Table A-1: Comparison of climate finance for year 2016 reported by EU Member States in the Third Biennial Reports (BR3s) and the ECOFIN report.



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April 2018

Image: Zanzibar, Tanzania

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