Mainstreaming of climate action in the EU budget

Impact of a political objective

IN-DEPTH ANALYSIS

EPRS | European Parliamentary Research Service

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Members' Research Service
PE 642.239 – October 2019

EN

Presenting concisely the three main categories of climate-related initiatives in the broader field of EU finances, this paper focuses on the mainstreaming of climate action across the EU budget. In the context of the significant investment required for the fight against climate change, the analysis looks at how the political objective of devoting 20 % of the 2014-2020 resources of the EU budget to climate action has been implemented so far, as well as at possible developments for the post-2020 period.

A draft version of this paper was prepared for the 49th Annual Conference of the University Association for Contemporary European Studies (UACES). The author would like to thank fellow panellists and participants for their excellent contributions to the debate.

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This paper has been drawn up by the Members' Research Service, within the Directorate-General for Parliamentary Research Services (EPRS) of the Secretariat of the European Parliament.

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LINGUISTIC VERSIONS

Original: EN

Translations: DE, FR

Manuscript completed in October 2019.

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PE 642.239
ISBN: 978-92-846-5683-7
DOI:10.2861/469
CAT: QA-04-19-622-EN-N

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Executive summary

The European Union (EU) has developed many legislative measures related to climate change, and is on track to meet its 2020 targets for the reduction of greenhouse gas (GHG) emissions, the improvement of energy efficiency and the increased use of renewables. However, analysts estimate that more demanding targets in the medium- and longer-term require significant financial investments in mitigation and adaptation measures. Public resources can play an important role in financing such investment needs, not only directly but also in attracting funding from other sources.

In the broader field of EU finances, three main categories of climate-related initiatives can be identified: relevant projects and activities across a broad range of funding instruments in the EU budget; programmes for the demonstration of innovative technologies, funded by the EU's Emissions Trading System; and climate finance from the European Investment Bank. While the EU budget represents only 2 % of public spending in the Union, it has features that can amplify its impact and make it particularly relevant for climate-related objectives, including the greater predictability of long-term investments ensured by its Multiannual Financial Framework (MFF).

In the 2014-2020 MFF, the EU decided to step up the contribution that the EU budget makes to action on climate change, by committing to spending 20 % of its financial resources on relevant measures. This political objective sets the broader framework for mainstreaming of climate in the EU budget, which consists of the incorporation of climate considerations and objectives across the major EU funding instruments. Climate mainstreaming takes place at different levels: a political objective and a tracking methodology for the overall budget; the design and implementation of specific funding instruments; and monitoring, reporting and evaluation, both for the overall budget and for specific instruments. Decision-makers and actors involved differ, depending on the phase.

According to the latest data, the EU should almost be able to reach the objective of spending 20 % of its 2014-2020 resources on climate by the end of the programming period. Some of the largest EU programmes under shared management with Member States are also the largest contributors to the objective in absolute figures: agricultural funds, the European Regional Development Fund and the Cohesion Fund. However, some smaller instruments have significant climate-relevance.

Assessments of the tracking methodology and of its impact have identified both achievements and shortcomings. The creation of a broad political objective is deemed to have triggered ambitious work and a greater focus on climate. Climate spending in instruments such as the European Regional Development Fund and the Cohesion Fund has increased both quantitatively and qualitatively. However, other areas such as the common agricultural policy have not shown significant progress, despite the emergence of some good practices. Criticisms have included: the absence of a common mechanism to assign sub-targets to individual instruments; some inconsistencies in the methodology with over-estimations in some areas and under-representation in others; and a performance framework more focused on outputs than on results and impact.

The adoption of an overall objective for climate expenditure in the EU budget contributes to the establishment of a general framework against which to assess progress and areas for improvement in climate-related activities. For the post-2020 MFF, the European Commission has proposed to raise the objective to 25 % of the EU budget, while the European Parliament has called for an even more ambitious approach. Elements in the MFF proposals, such as the creation of some links to National Energy and Climate Plans, could reinforce the effectiveness of climate mainstreaming. The revenue side of the EU budget also has the potential to contribute to climate objectives, but its reform is considered extremely difficult due to the requirement for unanimity in the Council.

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1. Introduction

The European Union (EU) is widely recognised as a pioneer and a frontrunner in the fight against climate change at international level. Under Article 191(1) of the Treaty on the Functioning of the European Union (TFEU), combating climate change is an explicit objective of EU environmental policy.

The EU has been developing its climate policies since the 1990s, when the United Nations Intergovernmental Panel on Climate Change (IPCC) published its first report, which highlighted the negative impact that human activities producing greenhouse gas (GHG) emissions can have on the climate, and subsequently on social and economic wellbeing across the world.

The increased presence of GHG such as carbon dioxide (CO_2) in the atmosphere results in global warming, which is expected to have various adverse consequences, such as melting of ice caps and higher frequency and intensity of extreme weather phenomena, as well as the resultant damage. The 2009-2018 period is the warmest decade on record, since the global temperature (land and ocean) reached a level between 0.91°C and 0.96°C above the pre-industrial average (+1.6/1.7°C for the European land area).[1]

EU action on climate change is extensive and varied. On the global stage, the Union plays a prominent role in pushing for the achievement of multilateral solutions, as shown by the EU's contribution to the widespread adoption of the 2015 Paris Agreement, the long-term goal of which is to keep the average global temperature increase well below 2°C, and as close as possible to 1.5°C, as compared to pre-industrial levels.

Internally, the EU and its Member States agree common strategies that set targets to mitigate climate change, e.g. in terms of reduction of GHG emissions, increase in the share of renewable sources in the energy mix, and improvements in energy efficiency.[2] Many legislative measures are designed and implemented with a view to setting targets and contributing to their achievement. Major cross-cutting examples[3] are:

- the EU Emissions Trading System (ETS), the first and largest carbon market in the world, that encompasses sectors responsible for 45 % of EU emissions, such as power stations, energy-intensive manufacturing sectors, and aviation within the European Economic Area (EEA, i.e. the EU Member States, plus Iceland, Liechtenstein and Norway);
- the effort-sharing legislation, that sets binding emissions targets for Member States in most sectors not covered by the ETS (e.g. agriculture, buildings, and road transport); and
- the directives[4] that promote the use of energy from renewable sources, and measures in the fields of energy efficiency.

1 European Environment Agency, Global and European Temperature, website, May 2019.

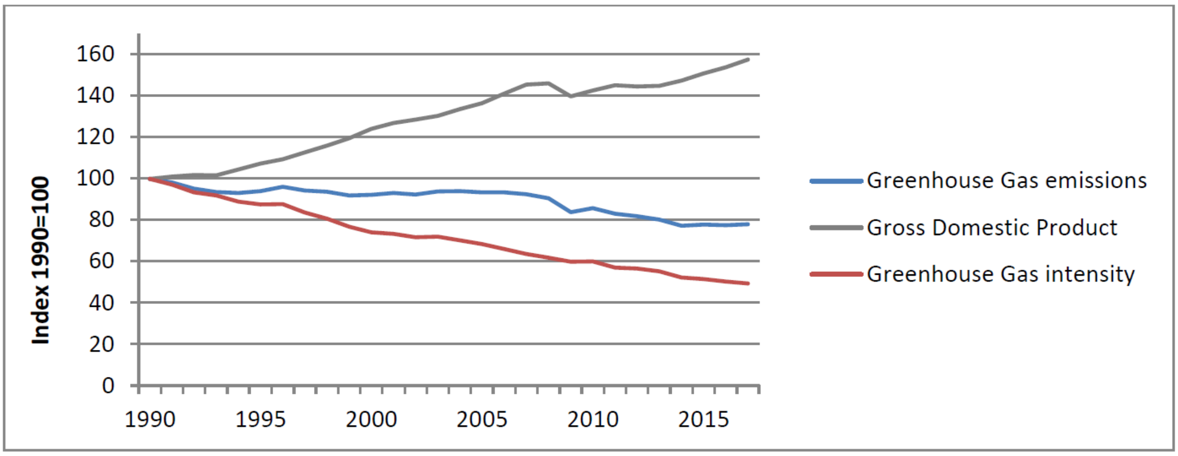
2 For example, the current targets for GHG emission are to cut at least 20 % by 2020 and 40 % by 2030 as compared to 1990 levels.

3 Other examples concern the control of emissions from fluorinated greenhouse gases (EU legislation on F-gases) and the contribution of the land use sector to emissions reduction targets (Land use and forestry regulation for 2021-2030).

4 Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018; and Directive (EU) 2018/2002 of the European Parliament and of the Council of 11 December 2018.

Data show that the EU has succeeded in increasingly decoupling economic growth from GHG emissions and energy consumption. While the EU's gross domestic product (GDP) grew by 58 % in real terms between 1990 and 2017, GHG emissions decreased by 22 % over the same period (see Figure 1). A strong climate and energy framework is expected to provide predictability for planning and investing in relevant activities.

Figure 1 – Changes in EU gross domestic product (in real terms), EU greenhouse gas (GHG) emissions, and GHG-emissions intensity of the EU economy



Source: European Commission, Fourth report on the State of the Energy Union, COM(2019) 175, 9 April 2019.

In addition to mitigation measures, the EU is also addressing climate adaptation, i.e. activities that aim to adapt and increase resilience to climate change, by preventing or minimising its negative consequences. The 2013 EU adaptation strategy from the European Commission encourages Member States to adopt comprehensive national strategies, promotes enhanced resilience in key vulnerable sectors ('climate-proofing'), and seeks to address knowledge gaps in adaptation.

The EU is on track to achieve or exceed its climate targets for 2020, but progress is slowing, in particular due to rising energy consumption. The European Environment Agency (EEA) notes that efforts need to be stepped up significantly if the EU is to meet its longer-term ambitions.[5]

Both mitigation and adaptation measures require considerable investments. According to a 2017 study carried out for the European Commission, over the 2021-2030 period additional resources amounting annually to €178 billion (2015 prices) are needed for mitigation measures alone, to achieve the EU climate and energy targets for 2030.[6] Comprehensive scenarios, evaluation and estimates for climate adaptation are not available, but the costs are expected to be equally significant.[7]

5 European Environment Agency, Trends and projections in Europe 2018: Tracking progress towards Europe's climate and energy targets, November 2018.

6 The additional resources are on top of the 'business-as-usual' scenario. The total annual investment required for mitigation measures is estimated at €1 123 billion (2015 prices).

7 Ricardo Energy & Environment, Institute for European Environmental Policy (IEEP) and Trinomics, Climate mainstreaming in the EU Budget: Preparing for the next MFF, Study for the European Commission, September 2017.

Public finances can play a crucial role in addressing the long-term investment needs for climate policies, not only through direct funding but also by leveraging additional resources from private sources. After giving an overview of the contribution of EU finances to climate objectives (Chapter 2), this paper focuses on the political objective of investing 20 % of the EU budget for the 2014-2020 period in climate-related measures ('climate mainstreaming'), and examining how it has been incorporated into budgetary processes and across different policy areas (Chapter 3). The current estimates of climate expenditure in the EU budget are presented, with an overview of how the approach to climate tracking has been assessed to date, including strengths and main criticisms (Chapter 4). The final section gives an outlook of possible developments for mainstreaming of climate in the EU budget for the post-2020 period (Chapter 5).

2. EU finances and climate change

EU finances, in their broader sense,[8] contribute to funding investment needs for the transition to a low-carbon and climate-resilient economy in different ways. Three main categories of interventions, which are variously interlinked, can be identified. The EU budget has funding programmes and instruments in many policy areas that are relevant to the fight against climate change. In addition, part of the revenue from the ETS is assigned to EU-level initiatives that are focused on climate-specific objectives, but are carried out outside the EU budget. Finally, the European Investment Bank (EIB) supports EU policy priorities and objectives through its financing activities, and is committed to specific targets for climate action.

2.1. EU budget

The EU budget represents only 2 % of public spending in the EU, but it has features that can amplify its impact and make it particularly relevant for climate-related objectives. Its transnational nature fits the cross-border nature of the issues at stake in this policy area, where pooling of resources can increase effectiveness in the provision of international common goods.

Contrary to national budgets, which tend to devote most resources to transfers and consumption, the EU budget is mainly an investment budget. Since it must comply with a long-term planning tool usually established for a period of seven years (the Multiannual Financial Framework or MFF), the EU budget is often criticised for its rigidity. However, this feature has positive implications in terms of predictability of investment in domains, such as climate policy, characterised by long-term targets and needs.

In addition, the EU budget finances projects and activities in many policy areas that, having an impact and/or depending on climate, can make a contribution to the achievement of climate-related objectives. Such policy areas include research and innovation, cohesion, agriculture, energy, transport, infrastructure, and development cooperation. For this reason, it is important that the design and implementation of related funding instruments take climate considerations and targets appropriately into account.

For example, Horizon 2020, the EU framework programme financing research and innovation activities, has one component specifically devoted to 'Climate action, environment, resource

[8] R. Crowe, The European budgetary galaxy, *European Constitutional Law Review*, Vol. 13, September 2017, pp. 428-452.

efficiency and raw materials' and others involving environmental aspects (e.g. 'Secure, clean and efficient energy' and 'Smart, green and integrated transport'). The European Agricultural Fund for Rural Development (EAFRD) includes expenditure to protect ecosystems dependent on agriculture and forestry, as well as to support the shift towards a low-carbon and climate-resilient economy in these economic sectors. Likewise, the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) have significant thematic investments in low-carbon economy, climate adaptation and energy efficiency across a wide range of sectors.[9]

Another feature that makes the EU budget attractive for climate-related investments is its ability to leverage additional financing. The projects supported through grants and/or innovative financial instruments (e.g. equity, loan and guarantees) attract additional resources from other public and/or private sources. For example, over 2014-2020, the European structural and investment (ESI) funds are projected to invest EU resources worth €44.58 billion in low-carbon economy projects, and Member States will match that with an additional €18.79 billion (co-financing).[10] Therefore, there is capacity to orient national expenditure towards climate-relevant investment. Support channelled through innovative financial instruments, many of which are managed by the EIB (see below), aims to also leverage significant resources from the private sector.

Until the 2007-2013 MFF, there was, however, no methodology in place to track climate-related expenditure across the EU budget. The European Commission has, ex-post, estimated that 6 to 7 % of the 2007-2013 MFF went to climate-relevant measures, which would correspond to an amount between €58 billion and €68 billion. For the current programming period, which covers the years 2014 to 2020, the EU has decided to step up financial efforts for this policy area, by streamlining and mainstreaming climate action across all the major EU funding instruments. Climate mainstreaming in the EU budget includes a political objective of investing 20 % of the 2014-2020 resources in measures relevant to climate mitigation and adaptation (see Chapter 3).

2.2. Use of revenue from the EU Emissions Trading System (ETS)

In the framework of the Emissions Trading System (ETS), revenue from auctioning carbon allowances goes to Member States, which are encouraged to use it to fund climate-relevant actions. Phase 3 of the ETS, which covers 2013-2020, introduced a new feature in this respect, setting aside 300 million allowances in the new entrants' reserve (NER) to finance the demonstration of innovative technologies for carbon capture and storage (CCS) and in the field of renewable energy (RES) through the NER 300 programme.[11]

While the programme is financed outside the EU budget and Member States themselves have a range of responsibilities, it is managed and implemented by the European Commission and the EIB. Under two calls for proposals, the Commission awarded total grants of €2.1 billion to 39 projects, all but one relating to renewable energy. The European Court of Auditors (ECA) identified a number of weaknesses in the design of NER 300, including a limited ability to respond effectively to changing

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9 Updated budgetary figures by themes can be consulted on the Cohesion Data Portal.

10 Source: Cohesion Data Portal (consulted on 22 July 2019).

11 Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009.

circumstances, which prevented the programme from achieving the progress intended. The ECA made recommendations to improve the effectiveness of the programme's successor.[12]

Building on the experience of the NER 300 programme, the EU has reinforced this action under phase 4 of the ETS,[13] establishing an Innovation Fund that extends the scope of the projects supported in all Member States (e.g. to include projects from energy-intensive industries), increases the share of financing to up to 60 % of the expected costs, and seeks to strengthen synergies with other EU programmes and instruments. The allowances set aside for the Innovation Fund amount to 450 million over 2020-2030. The European Commission estimates that these allowances could generate resources worth around €10 billion. Final figures will depend on the actual carbon price, since revenue comes from the auctioning system.

Confirming the interlinkages between the different strands of EU financial support to climate-related expenditure, unused resources from the NER 300 programme have been earmarked for reinvestment in the current and the next programming periods, both in existing EU financial instruments relevant to climate action that the EIB manages on behalf of the EU, and in the forthcoming Innovation Fund.

2.3. European Investment Bank (EIB)

The European Investment Bank (EIB) supports the objectives of the EU, offering a wide range of financial products to the public and private sectors as well as advisory services. Using its own resources and money raised on international capital markets, the EIB invests both inside and outside the EU. The financial activities of the EIB are separate from the EU budget, which however supports various financial instruments managed by the bank.

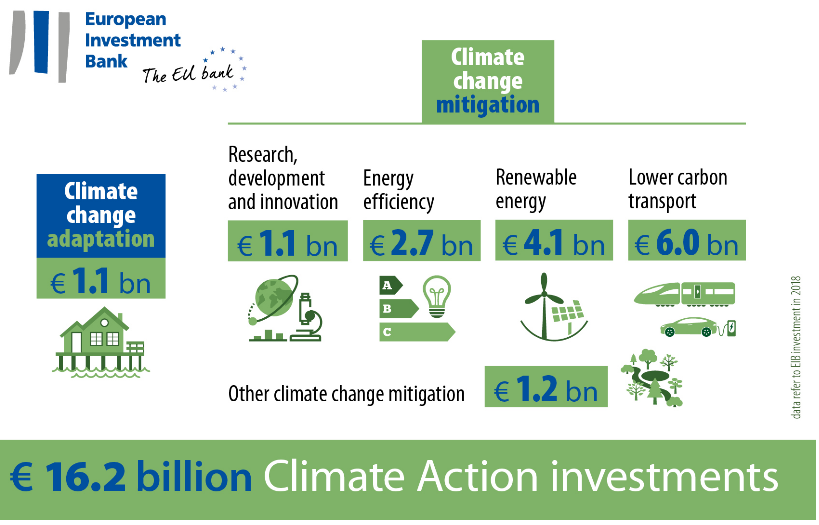
[12] European Court of Auditors, Special report No 24/2018: Demonstrating carbon capture and storage and innovative renewables at commercial scale in the EU: intended progress not achieved in the past decade, 23 October 2018.

[13] Directive (EU) 2018/410 of the European Parliament and of the Council of 14 March 2018.

Climate action is a cross-cutting priority for the EIB's four main areas of activities: infrastructure, the environment, small and medium-sized enterprises (SMEs), and innovation. Since 2011, the bank has been committed to using at least 25 % of its lending for projects with special climate mitigation impacts or contributing to climate adaptation. In addition, under its climate strategy, the EIB aims to boost the integration of climate consideration across all its standards, methods and processes, which results, for example, in the screening of climate change impacts at the appraisal stage of all the EIB's investments.

In 2018, the EIB reported it had exceeded the target, since climate-relevant investment amounted to €16.2 billion, which corresponds to almost 30 % of its lending. Figure 2 shows that the bulk of climate funding went to mitigation. In particular, projects in lower carbon transport and renewable energy accounted for almost two-thirds of the total. According to the *Financial Times*, the EIB is the world leader in climate finance among multilateral banks.[14]

Figure 2 – EIB investments in climate action in 2018



Source: EIB website.

3. Climate mainstreaming in the EU budget for 2014-2020

In the current programming period, covering the years 2014 to 2020, the EU has decided to step up the contribution that the EU budget makes to action on climate change through climate mainstreaming, which consists of the incorporation of climate considerations and objectives across its major spending areas. Climate mainstreaming takes place at different levels: a political commitment and a tracking methodology for the overall budget; the design and implementation of sector-specific funding instruments; and monitoring, reporting and evaluation for both the overall budget and for specific sectors and instruments. Decision-makers and actors involved differ, depending on the phase.

3.1. Multiannual financial planning and tracking expenditure

In June 2011, the European Commission presented its proposals for the 2014-2020 MFF, including overall resources, headings and priorities. In the accompanying documents, the Commission expressed the intention to devote 20 % of the total resources to climate action, thanks to contributions from various policy areas, alongside a specific instrument for climate under the LIFE

[14] R. Toplensky and A. Barker, European Investment Bank: the EU's hidden giant, in: *Financial Times*, 15 July 2019.

programme. Policy areas identified for the proposed climate mainstreaming approach included: cohesion, energy, transport, research and development, agriculture, and development cooperation.[15]

The negotiations for the MFF Regulation, which requires unanimity in the Council as well as Parliament's consent, proved lengthy, taking more than two years. While not having a formal role in the legislative procedure, the European Council was instrumental in reaching an agreement between EU Member States on the amounts to be allocated to the various policy areas. The European Council's conclusions of February 2013 included endorsement of the mainstreaming approach and of the 20 % objective for investment in climate action.[16] Unsatisfied with the total level of resources agreed for the MFF, which for the first time were lower than in the previous programming period, the European Parliament called for such changes as higher flexibility and increases in resources for a number of policies, including climate and energy objectives.[17]

Eventually adopted in December 2013, following negotiations between Parliament and Council, the text of the MFF Regulation for 2014 to 2020[18] does not refer to climate mainstreaming or the 20 % objective. In its reporting documents, therefore, the Commission defines the latter as an objective endorsed at political level rather than a budgetary target.

If the 2014-2020 MFF is fully implemented, the 20 % objective corresponds to around €217 billion. Since no distinction is made between mitigation and adaptation, the objective includes both types of measures and does not assign sub-targets to either of them.

On this basis, the European Commission has developed a methodology to track climate expenditure across the EU budget, adapting the 'Rio Markers' for climate that the Organisation for Economic Co-operation and Development (OECD) promotes to monitor and report relevant flows in development finance.[19] The EU climate markers take the features of each EU policy area into account, dividing its activities into three categories depending whether they make a significant, moderate or insignificant contribution to climate objectives. For those classed as significant, 100 % of their commitment appropriations are counted as climate finance, for those classed as moderate, 40 %, and for those classed as insignificant, 0 %. The methodology shows a number of differences in the level of detail across funds.[20] Within the Commission, the Directorates-General for Budget and for Climate Action jointly monitor progress towards the political objective.

3.2. Design and implementation of sector-specific programmes

The proposals for the programmes implementing the MFF were negotiated in parallel with the MFF itself. Parliament and the Council are co-legislators for most of them, and different parliamentary committees and Council configurations are involved, depending on the policy areas. There was no

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[15] European Commission, A budget for Europe 2020, COM(2011) 500, 29 June 2011.

[16] European Council, Conclusions of 7-8 February 2013 (Multiannual Financial Framework), point 10, EUCO 37/13.

[17] European Parliament, Resolution on the European Council conclusions of 7/8 February 2013 concerning the Multiannual Financial Framework (P7_TA(2013)0078), 13 March 2013.

[18] Council Regulation (EU, Euratom) No 1311/2013.

[19] OECD, OECD DAC Rio Markers for Climate Handbook.

[20] COWI, Mainstreaming of climate action into ESI Funds, 2016.

common mechanism to assign specific targets to the individual policy areas, defining their expected contributions to the overall 20 % objective.

Different approaches to climate mainstreaming can be observed in the legal bases for the sector-specific programmes. Some instruments include climate-related targets either for the entire programme or for some of its components in the recitals or in the articles of their respective regulations. The European Court of Auditors (ECA) estimated that the targets enshrined in the legal bases underpinning internal policy instruments (all but the Development Cooperation Instrument in Table 1) would contribute 38 % of the amount needed to achieve the global objective for 2014-2020.[21] Legal bases for other funding programmes are silent in respect of specific targets.

Table 1 – Climate targets in regulations for sector-specific programmes and funds

Heading	Programme/Fund	Target	Reference
1a	Horizon 2020	At least 35 % for climate action	Regulation (EU) No 1291/2013 Recital 10
1b	European Regional Development Fund	At least 20 % in more developed regions, 15 % in transition regions and 12 % in less developed regions for supporting the shift towards a low-carbon economy in all sectors	Regulation (EU) No 1301/2013 Article 4
2	European Agricultural Fund for Rural Development	At least 30 % for climate action and environment	Regulation (EU) No 1305/2013 Article 59.6
	LIFE	25 % for climate action	Regulation (EU) No 1293/2013 Article 4.2
4	Development Cooperation Instrument	At least 25 % of the 'Global Public Goods and Challenges' programme for climate action and environment	Regulation (EU) No 233/2014 Recital 20

Source: EPRS, mainly based on European Court of Auditors' Special Report No 31/2016, p. 20.

Likewise, the budgetary instruments participating in the climate mainstreaming exercise integrate climate considerations to varying degrees in terms of general and/or specific objectives, provisions that facilitate the focus on climate, and performance measures. Differences in this respect are also observed in the implementation phase.

With regard to instruments under shared management (by EU Member States with the Commission), for example, the Common Provisions Regulation that governs the five European structural and investment (ESI) funds[22] is deemed to provide a wide set of provisions that can support climate mainstreaming objectives. Such provisions include: its Article 8 on sustainable development; the obligation for Member States to outline the intended use of resources in

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[21] European Court of Auditors, Special report No 31/2016: Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short, 22 November 2016.

[22] Regulation (EU) No 1303/2013. The ESI funds are: the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EARDF), and the European Maritime and Fisheries Fund (EMFF).

Partnership Agreements; two thematic objectives directly related to climate; and climate-related ex-ante conditionalities.[23] Furthermore, major projects under the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) are subject to additional requirements for information on climate change considerations that managing authorities in the Member States must provide.[24]

As far as budgetary instruments directly managed by the European Commission are concerned, a study concludes that the process of identifying and prioritising areas for climate action was stronger for some programmes (Horizon 2020 and the Development Cooperation Instrument, DCI) than for others (e.g. the Connecting Europe Facility, CEF). The production of guidelines on climate mainstreaming for the preparation and implementation of the DCI is provided as an example of good practice.[25]

Within the current European Commission, the Directorates-General responsible for the instruments expected to provide the largest contributions to the 20 % objective include: Agriculture and Rural Development, Regional and Urban Policy, Research and Innovation, Development Cooperation, Mobility and Transport, and Energy. The Directorate-General for Climate Action is in charge of coordinating the mainstreaming efforts.

3.3. Monitoring, reporting and evaluation

The existence of the 20 % objective appears to trigger increased monitoring, evaluation and reporting of climate-related expenditure at various levels, which may lead to recommendations and corrective actions. In its resolutions on budgetary affairs, the European Parliament looked at the implementation of the objective, calling for improvements and reinforced action at key stages of the EU budgetary cycle, such as the mid-term revision of the MFF.[26] When presenting its 2016 proposals for the mid-term revision, the European Commission examined progress thus far on climate mainstreaming, arguing that some proposed modifications such as reinforcements for Horizon 2020 and the extension of the European Fund for Strategic Investments would contribute to the overall objective for climate.[27]

In addition, in 2015 and 2016, Parliament suggested that the ECA should audit how the objective was being achieved. The ECA followed up the suggestion, producing Special Report 31/2016, which highlighted a number of weaknesses and included nine recommendations to seize untapped opportunities for climate mainstreaming and to facilitate the achievement of the objective (see Section 4.2).[28] The European Parliament subsequently considered the ECA's report in the framework

[23] Ricardo Energy & Environment, IEEP and Trinomics, op. cit..

[24] Commission Implementing Regulation (EU) 2015/207.

[25] Ricardo Energy & Environment, IEEP and Trinomics, op. cit..

[26] See for example: European Parliament, Resolution on the preparation of the post-electoral revision of the MFF 2014-2020: Parliament's input ahead of the Commission's proposal (P8_TA(2016)0309), 6 July 2016.

[27] European Commission, Staff working document accompanying the communication on the mid-term review/revision of the multiannual financial framework 2014-2020, An EU budget focused on results (SWD(2016) 299), 14 September 2016.

[28] European Court of Auditors, op. cit., 22 November 2016.

of the discharge procedure for the EU budget 2016 and addressed a number of observations and recommendations to the Commission.[29]

In each annual budgetary procedure, the European Commission reports on the progress towards the overall investment objective of 20 % of the current MFF in the working documents accompanying the draft budget for the following year (usually published in June). At more or less the same time, the Commission produces an annual management and performance report on the previous year's achievements, including information on climate expenditure across the different policy areas.

The Commission's Directorates-General involved in the exercise provide more detailed information on climate action and/or expenditure in their respective areas of responsibility in their annual activity reports (AARs), which may include performance indicators for climate expenditure, in particular if programme-specific targets are set in the legal basis. The same applies to interim evaluations of major programmes that are used to adjust action in the remaining part of the programming period and to inform the design of the next generation of funding instruments.

For example, over 2014-2018 the framework programme for research and innovation is reported to be lagging behind the 35 % target for climate expenditure set in the Horizon 2020 Regulation. Identifying the bottom-up nature of some strands of the programme and some methodological issues as possible drivers of the gap, the Directorate-General for Research and Innovation decided to place special focus on climate action in the work programme for 2018-2020, to help close the gap.[30]

4. Progress towards the 2014-2020 objective

The objective of spending 20 % of the EU budget on climate is not annual, but applies to the entire 2014-2020 programming period. According to the latest Commission data, the EU should almost be able to reach the objective by the end of 2020. Some of the largest EU programmes and funds under shared management with Member States are also the largest contributors to the climate objective in absolute figures. The picture of contributions in relative terms (share of the individual fund or programme which is climate-relevant) is to a certain extent different, suggesting that some smaller instruments have a significant climate dimension. Assessments of the tracking methodology and of its impact have identified both achievements and room for improvement.

4.1. Data on climate finance in the 2014-2020 MFF as of June 2019

The EU budget is projected to devote €209.8 billion to climate finance over the years 2014 to 2020, according to the latest figures published by the European Commission.[31] Based on actual expenditure for the initial five years of the framework and on estimates for the remaining two, the amount corresponds to 19.7 % of the commitment appropriations for the entire period, which is

[29] European Parliament, Resolution on the Court of Auditors' special reports in the context of the 2016 Commission discharge (P8_TA(2018)0122), 18 April 2018.

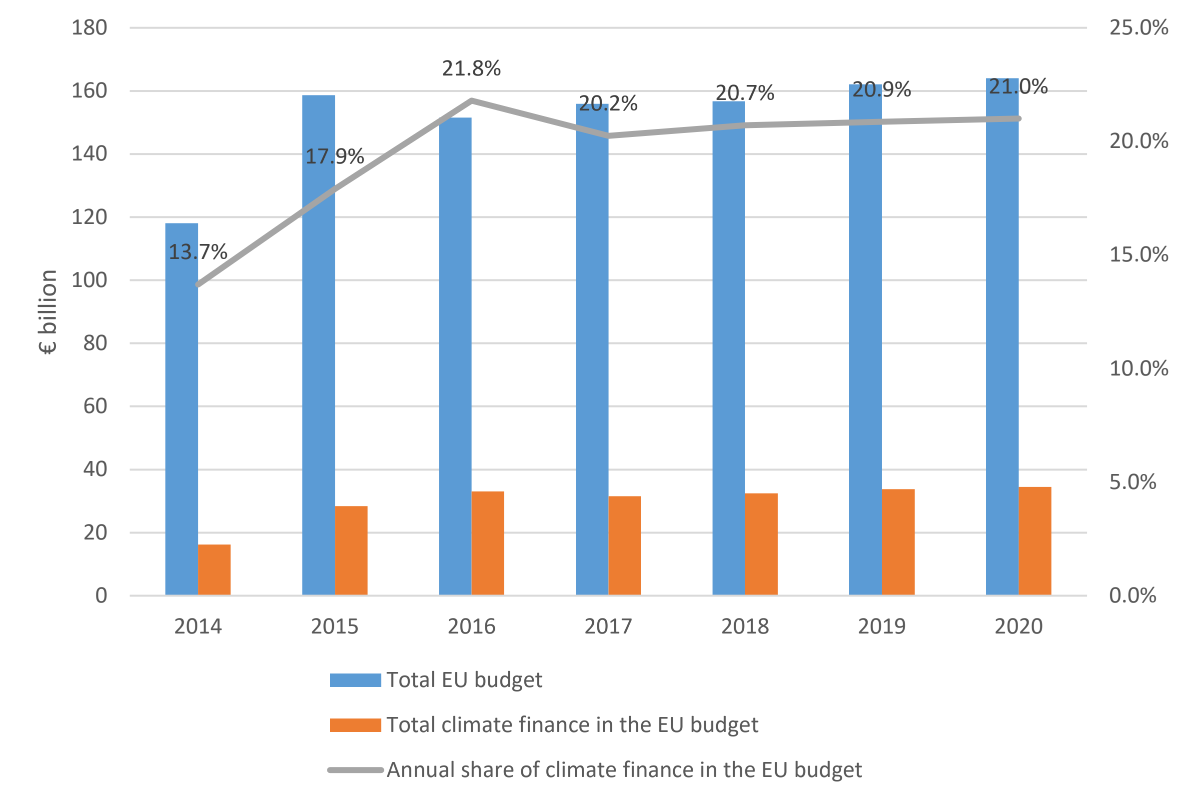
[30] European Commission, Interim evaluation of Horizon 2020, Commission staff working document, August 2017; and European Commission, Directorate-General for Research and Innovation, Annual Activity Report 2018, June 2019.

[31] European Commission, Draft general budget 2020, Statement of estimates and working documents, June 2020.

slightly below the 20 % objective set at political level. The EU budget would need additional climate action financing worth €3.5 billion to reach the objective.[32]

Figure 3 shows that the share of climate finance was well below 20 % in the EU budgets for both 2014 and 2015. The late adoption of the 2014-2020 MFF and the delayed start of its implementing programmes had a series of negative consequences, which included a slow uptake of the objective for climate expenditure. Since 2016, once the implementation of the new generation of EU funds and programmes reached full speed, each annual EU budget has devoted slightly more than 20 % of its resources to climate expenditure (i.e. between €31.5 billion and €34.5 billion).

Figure 3 – Annual climate change finance in the EU budget (€ billion, share of total, 2014-2020)



Data source: Statement of estimates of the European Commission for the financial year 2020, SEC(2019) 250.

The fact that the EU budget tends to grow in size during a programming period has contributed to progressively reducing the initial gap between the 20 % objective and relevant budget appropriations, especially significant in 2014. Examining the figures in terms of cumulative expenditure since 2014 (Figure 4), the share of resources devoted to climate has constantly increased, exceeding the 18 % threshold in 2016, and 19 % in 2018, which should enable the EU budget to close the funding gap almost completely by the end of the current MFF.

By broad category of EU expenditure, heading 2 'Natural resources' accounts for more than half of climate finance in the EU budget, exceeding its share of resources in the 2014-2020 MFF. It is

32 Total commitments implemented over the period are estimated at €1 066 billion, i.e. slightly lower than the total MFF.

followed by subheading 1b, 'Economic, territorial and social cohesion', which represents 29.1 % of the climate allocations. The data show that traditional areas of EU spending under shared management jointly contribute to around four-fifths of the expected climate finance, while the other three operational headings of the MFF are responsible for the remainder (Table 2).[33]

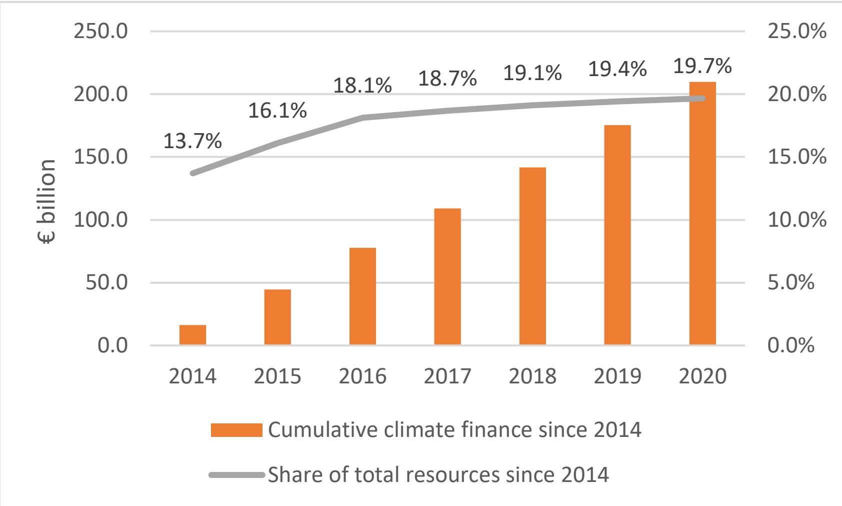
Table 2 – Share of total resources and of climate finance by expenditure heading (2014-2020)

Heading/Subheading	Share of MFF resources	Share of total EU climate finance
1a – Competitiveness for growth and jobs	14.3 %	15.7 %
1b – Economic, territorial and social cohesion	33.2 %	29.1 %
2 – Sustainable growth: natural resources	38.0 %	50.4 %
3 – Security and citizenship	2.2 %	<0.1 %
4 – Global Europe	6.4 %	4.7 %
5 – Administration	6.0 %	-
Total	100.0 %	100.0 %

Source: EPRS, based on Statement of estimates of the European Commission for the financial year 2020, SEC(2019) 250, June 2019.

At the level of individual funds and programmes, 23 out of around 60 funding instruments that implement the 2014 to 2020 MFF contribute to climate objectives. In particular, 13 such instruments are expected to finance climate-related investments worth at least €1 billion over the seven-year period: taken together, they are responsible for 99.5 % of the total climate finance for the current MFF. In absolute figures, four of the largest funds under shared management (the European Agricultural Fund for Rural Development, the European Agricultural Guarantee Fund, the European Regional Development Fund, and the Cohesion Fund) provide the largest contributions to the climate objective (in total €160 billion or 77 % of the total).

Figure 4 – Cumulative climate change finance in the EU budget since 2014 (€ billion, share of total resources, 2014-2020)



Source: EPRS, based on European Commission data.

Table 3 sets out the main funding instruments contributing to the climate mainstreaming objective, detailing their climate allocations in absolute figures, as a share of their total resources and in terms

[33] The €11.3 billion contribution from the Cohesion Fund to the Connecting Europe Facility (CEF) for the 2014-2020 period has been considered part of subheading 1a for the calculations. See also footnote 34.

of their contribution to the overall objective.[34] The share of resources devoted to climate within the different funds and programmes varies quite significantly, depending on various elements, such as their overall objectives and design. For example, in absolute figures the Development Cooperation Instrument (DCI) makes a larger contribution to climate finance than the European Social Fund (ESF), despite the fact that the DCI's total resources are one fifth those of the ESF. A climate focus appears to characterise some relatively small programmes such as LIFE and Copernicus, which have a high share of climate-relevant allocations (respectively 47 % and 34 %).

Table 3 – Estimated climate finance by individual 2014-2020 spending programme

2014-2020 programmes – Heading	Climate finance (€ billion)	Climate finance as share of the programme	Contribution to the overall objective
European Agricultural Fund for Rural Development – H2	57.7	59 %	28 %
European Agricultural Guarantee Fund (EAGF) – H2	45.5	15 %	22 %
European Regional Development Fund (ERDF) – H1b	36.7	19 %	17 %
Cohesion Fund (CF) – H1b	20.6	33 %	10 %
Horizon 2020 – H1a	19.9	27 %	9 %
Connecting Europe Facility (CEF) – H1a	11.5	39 %	5 %
Development Cooperation Instrument (DCI) – H4	4.6	23 %	2 %
European Social Fund (ESF) – H1b	3.7	4 %	2 %
European Neighbourhood Instrument (ENI) – H4	2.8	17 %	1 %
Instrument for Pre-accession Assistance (IPA II) – H4	1.6	13 %	1 %
Environment and Climate Action (LIFE) – H2	1.6	47 %	1 %
European Earth Observation Programme (Copernicus) – H1a	1.4	34 %	1 %
European Maritime and Fisheries Fund (EMFF) – H2	1.0	16 %	1 %
Others	1.1	N/A	1 %
Total	209.8	19.7 %	100 %

Source: EPRS, based on statement of estimates of the European Commission for the financial year 2020, SEC(2019) 250, June 2019. All figures are rounded.

4.2. Assessments and impact of mainstreaming

In 2016, the European Court of Auditors audited climate mainstreaming in the EU budget, with a view to assessing whether this approach was likely to increase and improve spending on climate-related measures.[35] The audit focused on the overall objective and its integration in internal policies, since climate mainstreaming in external policies had already been kick-started under the 2007-2013 MFF, and the Court had examined progress in this domain in a previous report.[36]

34 With regard to climate allocations as share of the total resources of a fund or a programme, the calculations for the Connecting Europe Facility (CEF) include the €11.3 billion contribution that the CEF receives from the Cohesion Fund, as mentioned by the Commission in Working Document I (programme statements) of the draft EU budget for 2020. Likewise, the amount of this contribution is subtracted from the total resources of the Cohesion Fund in the calculations for the latter to avoid double counting of the same resources, although the programme statements do not explicitly mention that this is the case. As for the Instrument for Pre-accession Assistance (IPA II), there is a discrepancy between its 2014-2020 climate-related resources in the statement of estimates (€1.61 billion) and in the programme statements (€1.88 billion). The statement of estimates has been used for all the calculations.

35 European Court of Auditors, op. cit., 22 November 2016.

36 European Court of Auditors, Special report No 17/2013: EU climate finance in the context of external aid, 2013.

The Court found that ambitious work was under way and progress had been made, particularly in certain areas. The implementation of the objective was deemed to have triggered a quantitative and qualitative increase in the financing of climate-related measures under the European Regional Development Fund and the Cohesion Fund. However, the Court concluded that other spending areas such as the common agricultural policy, the European Maritime and Fisheries Fund, and the European Social Fund, did not show significant progress, despite the emergence of some good practices.

As regards the tracking methodology, the auditors concluded that it presented a number of weaknesses in terms of reporting and completeness. Criticisms included: the absence of differentiation between mitigation and adaptation measures;[37] possible over-estimations of climate finance in some programmes such as the European Agricultural Fund for Rural Development, which provides a significant contribution to the overall objective; and the under-representation of the level of climate finance provided by innovative financial instruments.

The absence of a common mechanism to assign sub-targets to individual programmes was deemed to weaken the possibility of deploying appropriate action plans and corrective actions should the EU budget lag behind its overall climate objective. In addition, the Court recommended that the performance framework be improved through the establishment of climate-related results indicators, with a view to making it possible to assess the improvements triggered by EU-funded measures (e.g. in terms of GHG reductions).

Another comprehensive analysis of the EU's experience with climate mainstreaming in the budget was carried out during the preparations of the proposals for the post-2020 MFF. To this end, the European Commission outsourced a study to Ricardo Energy & Environment, IEEP and Trinomics.[38] According to this study, the political objective appears to have triggered an increased focus on climate considerations in the EU budget, especially as far as programmes under shared management are concerned. This progress happened notwithstanding the absence of a specific coordinating mechanism at the stage of designing the MFF proposals.

The introduction of a tracking methodology for climate finance across a budget of this size and complexity is described as a major undertaking and a pioneering exercise. The study concludes that the methodologies devised have ensured a high level of detail and reasonable consistency.

Focusing on possible improvements for the next MFF, the authors' recommendations include: the development of further guidance to increase consistency (e.g. through common investment guidelines for climate mainstreaming); the introduction of new requirements such as earmarking of climate finance in individual instruments and separate targets for mitigation and adaptation; and the enhancement of the links between climate finance in the EU budget and other climate-related requirements established at EU and national level (e.g. through the national energy and climate plans, see Section 5.1).

With regard to performance frameworks, the study concluded that these tended to focus on outputs rather than on results and impact. No results indicators were identified for climate adaptation

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37 A 2017 study estimated that 63 % of climate finance in the 2014-2020 MFF is relevant to adaptation measures: Eichler, K. Rademaekers, C. van den Berg, J. van der Laan and H. Bolscher, Assessing the state-of-play of climate finance tracking in Europe, Trinomics, 2017.

38 Ricardo Energy & Environment, IEEP and Trinomics, op. cit..

measures. The authors estimated the GHG emissions reductions produced by the parts of the European Regional Development Fund and Cohesion Fund for which relevant data were available at 122 Mt CO_2 per year by 2020. However, they stressed that the estimate was tentative and did not capture the overall impact of the 2014-2020 MFF on GHG emissions reductions.

Other problems in performance frameworks concerned possible inconsistencies in the aggregation, reporting and comparison of results. While acknowledging the technical challenges of developing results indicators, the authors recommended harmonising the methodologies for the calculation of GHG impact across programmes.

5. Perspectives for the post-2020 period

Building on the current experience with climate mainstreaming in different areas of expenditure, the European Commission and the European Parliament would both like to increase climate finance in the 2021-2027 MFF, both in absolute figures and as a share of total resources. Commission proposals in the package for the post-2020 MFF include a number of new features relevant to climate mainstreaming. In addition to expenditure, the revenue side of the EU budget offers opportunities for climate mainstreaming, but its reform has historically proven very difficult due to the unanimity requirement in the decision-making process.

5.1. Proposal for a more ambitious quantitative objective

Against the background of the Paris Agreement and of the United Nations' Sustainable Development Goals, the European Commission has proposed that climate mainstreaming in the EU budget be confirmed and that the share of climate-related expenditure be raised from the current 20 % to 25 % in the next MFF. In absolute figures, this more ambitious objective would represent total climate finance worth some €320 billion (current prices) in the 2021-2027 programming period, i.e. a more than 50 % increase (or +€111 billion) on the estimated climate allocations of the current MFF.[39] The introduction of the tracking methodology as of 2014 makes this comparison more meaningful than that with pre-2014 frameworks. The objective again refers to the entire programming period, and does not distinguish between mitigation and adaptation measures.

In its November 2018 resolution on the interim report on the MFF proposal, the European Parliament supported increasing efforts in the course of the next programming period. Parliament said that the EU budget's contribution to climate-related objectives should be no lower than 25 % of total expenditure over the 2021-2027 period, adding that the annual share should reach 30 % as soon as possible, and at the latest by the final year of the framework.[40]

[39] European Commission, A Modern Budget for a Union that Protects, Empowers and Defends: The Multiannual Financial Framework for 2021-2027, COM(2018) 321, 2 May 2018.

[40] European Parliament, Resolution on the Multiannual Financial Framework 2021-2027 – Parliament's position with a view to an agreement (P8_TA(2018)0449) , 14 November 2018.

Table 4 – Climate mainstreaming objectives envisaged by the European Commission for individual 2021-2027 spending programmes

2021-2027 programmes	Climate finance (€ billion)	Climate finance as share of the programme	Contribution to the overall objective
Common agricultural policy	146.0	40 %	46 %
European Regional Development Fund (ERDF)	67.9	30 %	21 %
Horizon Europe	32.9	35 %	10 %
Neighbourhood, Development and International Cooperation Instrument	22.4	25 %	7 %
Cohesion Fund (CF)	17.3	37 %	5 %
Connecting Europe Facility (CEF)	14.7	60 %	5 %
ITER (International Thermonuclear Experimental Reactor)	6.1	100 %	2 %
InvestEU Fund	4.4	30 %	1 %
LIFE (environment and climate action)	3.3	61 %	1 %
Pre-accession assistance	2.3	16 %	1 %
European Maritime and Fisheries Fund	1.8	30 %	1 %
Total	319.1	25 %	100 %

Data source: Climate Action Network (CAN) Europe, Climate mainstreaming and climate proofing: The horizontal integration of climate action in the EU budget, August 2018. All figures are rounded.

An overview of how the European Commission intends to meet the objective has been published (Table 4). Singling out the 2021-2027 spending programmes that would be of particular relevance to climate finance in the relevant legislative proposals, the European Commission estimated how much each of them would contribute to the 25 % objective. Other instruments, where climate-related elements are less visible, are not listed, but could provide additional finance, helping to exceed the objective. Significant contributions are again expected from major instruments under shared management: together, the common agricultural policy, the European Regional and Development Fund, and the Cohesion Fund would represent 72 % of the total (down from 77 % in the current MFF).

Climate Action Network (CAN) Europe noted that, apart from a few provisions that earmark resources for climate in some of the proposed legislative texts (e.g. for the European Agricultural Fund for Rural Development and the InvestEU Fund, as well as through thematic concentration in the European Regional Development Fund), most targets are aspirational estimates, based on expected implementation. The CAN Network of non-governmental organisations (NGOs) called for an increase in legally binding provisions that allocate specific financial envelopes to climate within the individual programmes.[41]

Stakeholders and analysts have identified both positive elements and areas for improvement, when looking at the climate mainstreaming elements of the proposals in the package for the post-2020 MFF. Setting and increasing the quantitative objective for climate expenditure in the EU budget is deemed to provide an important signal of the priorities and direction of the EU in the next decade.[42] New features assessed positively include: the creation of a number of links between cohesion

[41] Climate Action Network (CAN) Europe, Climate mainstreaming and climate proofing: The horizontal integration of climate action in the EU budget, August 2018.

[42] A. Hedberg, The next EU budget: firmly rooted in the past?, European Policy Centre, 7 May 2018.

funding and the new national energy and climate plans (NECPs) that Member States have to develop under the recently established governance framework of the Energy Union;[43] the consideration of emission-reduction efforts in the calculation of the national allocations for cohesion policy;[44] the almost complete exclusion of fossil fuels from the list of interventions supported by the European Regional Development Fund and the Cohesion Fund; and an increased emphasis on environment and climate in agricultural policy, e.g. through the establishment of strategic plans.[45]

Examples of recommendations for modifications focus on: setting a more ambitious quantitative objective to match the significant transformation required by the Paris Agreement; addressing inconsistencies and weaknesses in the tracking methodology (e.g. by distinguishing between funding for mitigation and adaptation); reinforcing the performance framework through appropriate indicators of output, results and impact in the various policy areas; creating stronger links to national energy and climate plans; designing financial incentives to help meet climate targets; and extending the exclusion of support to fossil fuels more widely across the EU budget.[46] As regards the common agricultural policy, the European Court of Auditors has expressed doubts that the proposed reform would reinforce its link to climate objectives.[47]

The final design of climate mainstreaming in the post-2020 MFF will depend on the outcome of the negotiations on the MFF and its implementing programmes. The next European Commission, which should take office in late 2019, is expected to redouble the EU's efforts in the fight against climate change. In her July 2019 statement in the European Parliament, Commission President-elect Ursula von der Leyen devoted much attention to climate change, expressing her intention to put forward several proposals in this domain. Climate finance was an integral part of the vision outlined, since the speech included references to the launch of a sustainable Europe investment plan, the transformation of part of the EIB into a climate bank, and the introduction of a carbon border tax. A European green deal is one of the six priorities identified by Commission President-elect von der Leyen in her political guidelines.[48] How mainstreaming of climate in the EU budget will fit into this picture remains to be seen.

In October 2019, the European Parliament adopted a resolution to confirm and update the negotiating mandate for the post-2020 MFF and own resources already detailed in its interim report of November 2018.[49] The new resolution drew attention to the added value of investing in climate action at EU level, arguing that this aspect should be a central feature of the modernisation of the EU budget. Reaffirming its full support to the principle of climate mainstreaming in the EU budget,

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43 Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018.

44 Commission proposal, COM(2018) 375, 29.5.2018, Annex XXII.

45 See for example: M. Duwe, Bringing Paris into the future MFF: How to maximise the benefits of EU funding for the achievement of EU climate objectives, Ecologic Institute, 2018; and E. Yrjö-Koskinen and M. Nesbit, Aligning EU resources and expenditure with 2030 objectives, Green Budget Europe and IEEP, November 2018.

46 See for example: Climate Action Network (CAN) Europe, op. cit.; M. Duwe, op. cit.; E. Yrjö-Koskinen and M. Nesbit, op. cit.; and M. Giuli and R. Huguenot-Noël, The EU will not meet its climate goals unless it makes smarter use of its financial resources, European Policy Centre, 12 November 2018.

47 European Court of Auditors, ECA remarks in brief on the Commission's legislative proposals for the next multiannual financial framework (MFF), February 2019.

48 Ursula von der Leyen, Candidate for President of the European Commission: Opening Statement in the European Parliament Plenary Session, 16 July 2019; and A Union that strives for more. My agenda for Europe: Political guidelines for the next European Commission 2019-2024, 16 July 2019.

49 European Parliament, Resolution on the Multiannual Financial Framework 2021-2027 – Parliament's position with a view to an agreement (P8_TA(2018)0449), 14 November 2018.

Parliament underscored the need for another quantum leap of political and financial efforts to achieve climate objectives and facilitate a just transition to a carbon-neutral economy. Expecting MFF resources to be commensurate to the ambitions of the European green deal announced by President-elect von der Leyen, Parliament called for improvements in the methodology for climate mainstreaming, including a reform of its performance indicators, the prevention of financial support for harmful measures, and the monitoring of the medium- to long-term impact of mainstreaming.[50]

5.2. The revenue side of the EU budget

The contribution of the EU budget to the fight against climate change could be stepped up not only through more ambitious expenditure targets and a strengthened methodology for mainstreaming, but also by means of a reform of its revenue side (the 'own resources system'). Theoretically, the EU budget could be fit to also mainstream climate considerations in revenue policy.

In its final report, the interinstitutional High-level Group on Own Resources[51] tasked with an in-depth review of the EU budget highlighted that, in addition to the ability to reduce national contributions from Member States, new own resources should be considered for their potential to contribute to the achievement of EU policy objectives. Among possible bases for new own resources, levies or taxes related to energy, environment and climate change were deemed to feature prominently in this respect. Their clear cross-border dimension means that these taxes and levies would be more effective in creating incentives if set in a coordinated manner at EU level rather than individually at national level. Part of the proceeds could be assigned to the EU budget and contribute to financing climate-related expenditure.[52]

At present, the EU budget is mainly financed by own resources that Member States perceive as national contributions. Deeming the system opaque and unfair, the European Parliament has long pushed for its reform and for the introduction of new genuine own resources. The three new revenue streams proposed by the European Commission in 2018 include an own resource linked to the Emissions Trading System. This proposal is in line with the idea of linking the revenue side more closely to EU policy objectives, but would in principle result in the transfer of part of already existing proceeds to the EU level, without creating new incentives to change practices that have a negative impact on the climate. Over time, reforming the own resources system has proved to be extremely difficult, since it requires unanimity in the Council and ratification by all Member States. The European Parliament is only consulted, but has argued that the expenditure and revenue sides must be negotiated together, making its consent to the post-2020 MFF conditional on progress in the reform of own resources.[53]

Among Member States, significant differences of view persist on the Commission proposals for the post-2020 own resources system. However, the Council is considering the possibility of exploring other new own resources beyond those proposed by the Commission, including one linked to

[50] European Parliament, Resolution on the 2021-2027 Multiannual Financial Framework and own resources: time to meet citizens' expectations (P9_TA-PROV(2019)0032), 10 October 2019.

[51] The European Parliament, the Council and the European Commission designated three members each to the group. In addition, the three institutions jointly appointed Professor Mario Monti as chair of the group.

[52] High-level Group on Own Resources, Final Report and Recommendations, December 2016.

[53] A. D'Alfonso, Own resources of the European Union: Reforming the EU's financing system, EPRS, November 2018.

carbon.[54] Commission President-elect von der Leyen has evoked the introduction of a carbon border tax (see Section 5.1), without specifying whether part of its proceeds could contribute to financing the EU budget.

In 2019, the European Association of Environmental and Resource Economists (EAERE) prepared a statement on carbon pricing, arguing that a price on carbon offers the most cost-effective lever to reduce carbon emissions. The text calls for the establishment of a carbon tax to reduce GHG emissions in the housing and transport sector, suggesting that 'revenues could be used to support innovation and to address social and distributional impacts of carbon pricing'.

5.3. Outlook

An overall objective for climate-related expenditure in the EU budget appears to act as a driver of increased focus on climate considerations across different policies. While mainstreaming of climate considerations in individual spending areas such as cohesion[55] and development cooperation[56] had already taken place in previous programming periods, the political objective of devoting 20 % of the 2014-2020 MFF to climate-related measures has triggered the progressive development of a common framework against which efforts can be measured and assessed.

Mainstreaming of climate action poses numerous challenges, for example in terms of complexity and knowledge gaps, including in individual policy areas.[57] The challenges are necessarily even greater when attempts are made to apply the concept across a budget that deals with many policy areas that are different in nature and objectives.

Analysts have identified a number of strengths and weaknesses in the methodology developed to track the EU budget's progress against the overall objective for climate finance. There were recommendations for it to be reinforced in future programming periods, which suggests the perceived usefulness of a general objective for the EU budget.

The development of a common framework for climate expenditure suits the cross-cutting nature of climate issues and appears to be in line with the efforts to increase the EU budget's focus on results. It can be seen as part of the endeavours to create tools that seek to reinforce performance-informed budgeting in EU finances. The increased focus on climate issues at the broader level may provide decision-makers and stakeholders with useful information on good practices and areas for improvement as far as climate objectives are concerned.

In addition, possible links to activities and assessments of investment needs at national level (e.g. through the national energy and climate plans) have the potential to strengthen the complementarity between the EU budget and national budgets.

54 Council of the European Union, MFF 2021-2027: Own Resources legislative package – Progress report (9911/19), Brussels, 7 June 2019.

55 Cohesion Policy and Paris Agreement Targets, Policy Department for Structural and Cohesion Policies, European Parliament, 2017.

56 European Court of Auditors, Special report No 17/2013: EU climate finance in the context of external aid, 2013.

57 For example, for an overview of the issues in applying the concept in development cooperation, see: R.A. Price, Mainstreaming climate and environmental considerations into existing development programmes, K4D Helpdesk Report 541, Institute of Development Studies, 2019.

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Facilitating the transition to a climate-friendly and resilient economy requires huge investments. The EU has committed to spending 20 % of its 2014-2020 financial resources on climate-related measures. Against the backdrop of the Paris Agreement and of the Sustainable Development Goals set by the United Nations, such a high-level political objective acquires new salience in the negotiations for the post-2020 EU budget. The European Commission has proposed to raise this objective to 25 % of the EU budget in the next programming period, while the European Parliament has called for an even more ambitious approach.

Tracking and reporting climate-related expenditure pose several challenges. This analysis describes how climate action has been mainstreamed in the EU budget so far, as well as possible developments for the 2021-2027 period. The EU appears on track to almost reach its 20 % objective by 2020. Assessments of the tracking methodology and of its impact have identified both achievements and shortcomings. The creation of a broad political objective is deemed to act as a driver of increased focus on climate considerations across different policies. Recommendations for improvements include the development of a stronger performance framework.

QA-04-19-622-EN-N

This is a publication of the Members' Research Service
EPRS | European Parliamentary Research Service

PE 642.239
ISBN 978-92-846-5683-7
doi:10.2861/469