

1. Background
2. What is different in the proposal
3. Climate action in NDICI: Observations, concerns & recommendations

1. Background:

On June 14th 2018, the European Commission (DG DEVCO and ECHO) and the European External Action Services (EEAS) launched their proposed Regulation for external action funding in the next EU Multiannual Financial Framework.¹

The Regulation proposes to have a broad instrument – called the *‘Neighbourhood, Development and International Cooperation Instrument’* – which sets out to promote the EU’s interests, objectives and values in neighbouring and partner countries.

Part of those interests and objectives is the implementation of international agreements such as the SDGs, the Paris Agreement and the Addis Ababa Action Agenda. It also states that the instrument will be guided by European objectives and policies such as the Partnership Framework on migration and the European Consensus on Development. As a result, the instrument is guided by numerous objectives and priorities of the EU, namely foreign affairs and development cooperation.

The proposed for entire external financing is €123 billion over the multi-year period; for the NDICI instrument, the proposed budget is €89.2 billion over the seven year budget period.

6. Neighbourhood and the World

15. External Action

- Neighbourhood, Development, Int. Cooperation Instrument
- Humanitarian Aid
- Common Foreign and Security Policy (CFSP)
- Overseas Countries and Territories (including Greenland)
- Other
- Decentralised agencies

16. Pre-accession assistance

- Pre-Accession Assistance

Margin

123,002		
	105,219	
		89,200
		11,000
		3,000
		500
		1,070
		149
	14,500	
	3,283	14,500

EC proposal MFF 2021-2027, Heading 6, EUR – million, current prices

¹ https://ec.europa.eu/commission/publications/neighbourhood-and-world_en

Neighbourhood, Development Int. Cooperation Inst

Geographic Programmes

Thematic Programmes

- Global Challenges

Rapid Response

Emerging Challenges & Priorities Cushion

89,200		
	68,000	
	7,000	
		3,000
	4,000	
	10,2000	

The new proposal seeks to include the European Development Fund (EDF) in the next budget. The EDF currently has a budget of €30.5 billion for the current budget period (2014-2020), and until now it has been operating outside the EU budget.

The proposed change would see an overall increase in the external financing budget due to the budgetisation of the EDF.

2. What's different in the proposal, compared to the current funding period?

Focus: A notable difference between the proposed Regulation and the current 2014 – 2020 budget is the strong focus on migration, security and peace, as well as the overall priorities and interests of the EU. It will be a shared competency of foreign affairs, humanitarian assistance and development cooperation.

Flexibility: There is more emphasis on flexibility of the external action instrument. This change is largely due to the view that financing should be more easily accessible for unanticipated circumstances or events, such as the resources demands stimulated by migration into and across Europe in recent years.

The 'Broad Instrument': The Regulation seeks to substantially reduce the number of financing instruments that exist under the External Action banner through **merging the instruments into one** - 'Neighbourhood, Development and International Cooperation Instrument' NDICI, including the EDF which until now sits outside of the EU budget;

Structure: The structure of the instrument is a breakdown of support to be allocated for:

1) Geographic programmes (GPs), with pots of finance distributed to the following regions: Neighbourhood, Sub-Saharan Africa, Asia and the Pacific, as well as Americas and the Caribbean. The GPs will receive the most amount of funding from the NDICI and are set to be carried out through multiannual and multi-country programmes.

The programming documents for the GPs should be built on strategies and objectives, for example national or regional development plans.

2) Thematic programmes, which will provide financial support to Human Rights & Democracy, CSOs, Stability & Peace, and Global Challenges – it is under this theme that climate change and environment falls. TPs will be carried out through so-called multiannual indicative programmes (MIPs) which exist

in the current EU financing framework for external action. The MIPs are developed on the basis of shared priorities and objectives as well as with clear results and indicators in mind.

3) Rapid response actions, which will address challenges associated with humanitarian crises and needs.

4) Emerging challenges & priorities cushion, which will provide for easily accessible support for the EU to address unforeseen circumstances, and the promotion of newer priorities.

3. Climate action in NDICI: Observations, Concerns & Recommendations

A) Climate mainstreaming:

Broadly speaking, there is a view from the European Commission that climate mainstreaming in EU financing has been relatively successful.

Therefore, similar to other Regulations of the EU budget, the NDICI proposes to continue to pursue climate mainstreaming, without going into further detail on how it will be strengthened. The General Principles [Article 8] of the Regulation state that climate action and environmental protection will be mainstreamed in the Programmes supported by the Regulation. Building on that, it states that in action plans and measures [Article 21], there will be environmental screening, including climate change and biodiversity ‘at the level of actions’. Such a screening will include environmental impact assessments for environmentally sensitive actions eg. Infrastructure.

Concerns:

However, there is no mention of climate proofing funded actions and programmes in neighbourhood and partner countries. The Article does not include Climate Impact Assessments or the provision to ensure that actions need to be screened for compatibility with international (and where applicable regional/national) climate objectives.

While mainstreaming climate and environment is mentioned in certain parts of the proposal, that will not be enough to guarantee that actions under the Geographic Programmes or the other Thematic Programmes will effectively address the growing vulnerability of partner countries to climate change. In the mid-term review² of the current Development Cooperation Instrument (DCI), it was found that outside of the targeted support under the Global Public Goods and Challenges Programme (GPGC), the prioritisation, funding and effective integration of climate and environment across Geographic Programmes were very limited. The trend exists despite the explicit identification in the DCI Regulation to support climate and environment objectives through the Geographic Programmes. The effort to properly integrate climate change and environmental actions in the post-2020 Regulation needs to be drastically improved.

B) Climate earmarking:

The proposal for NDICI sets out an aspirational target of 25% of the Regulation for contributing to climate objectives. It does not indicate if that 25% will target projects where 100% of the financing can be earmarked as contributing to climate action; or whether it is 25% funding with climate co-benefits, eg. <100% climate relevant but where it can still be counted as climate finance.

The difference between how much is really addressing climate and environment needs can be very significant for Geographic Programmes which are set to receive the lion’s share of NDICI funding, and which have contributed less to climate and environment objects through EU funding.

² https://ec.europa.eu/europeaid/sites/devco/files/dci-final-report-vol-i-main-report_en.pdf

The proposed target is almost aligned with the objective of the whole budget proposal (May 2) to allocate 25% of EU budget finance to climate action. In addition, the target is aspirational and not binding.

It must also be acknowledged that the use of Rio Markers is not consistent across EU Member States and institutions in terms of measuring interventions.

The **quality and effectiveness of public financing is essential to achieving long-term sustainable development and climate objectives**. Without consistent, coherent and more robust reporting of climate relevant support, there is a clear risk of inflating the level of support that targets climate change.

Recommendation on climate mainstreaming and earmarking:

The instrument will need to coherently demonstrate how it will **climate proof all support** provided through the Geographic and Thematic Programmes, **in addition to the 25% support going to climate objectives**. CAN Europe also asserts that there is great potential to increase the climate target to 50% and deliver greater and deeper benefits for climate action. This means that more targeted and explicit support for climate action through the Geographic Programmes should be guaranteed through cooperation on strategy cycles of partner countries as well as multiannual and multi-country indicative programmes.

The 25% climate target:

It is **crucial to make the 25% climate action target binding** in order to contribute to the EU's overall climate finance target beyond 2020, and to guarantee that sufficient support will go to climate resilience and adaptation in partner countries through the GPs. Measuring the relative level of support for climate action and biodiversity on the basis of the programming documents should help to assess the extent to which both broader and more specific climate action targets are met.

To this end, the GPs must identify and **earmark specific spending – quantitatively on the basis of the 25% climate target and qualitatively – for climate change mitigation and adaptation**. This effort should include, where possible environmental protection that brings about multiple co-benefits for climate action.

For example, **the Principles for the Geographic Programmes should explicitly reference implementation of the Paris Agreement** on climate change and the Sustainable Development Goals. In particular, it should condition its support to the development and implementation of Nationally Determined Contributions (NDCs), SDG plans, National Adaptation Plans (NAPs), disaster risk reduction and resilience building, the development of long-term decarbonisation plans and tackling environmental degradation. National Programmes should be developed accordingly.

Climate Action in Thematic Programmes

It is appreciated that climate action and environmental protection will be supported through the Global Challenges budget of the Thematic Programmes. The level of support for Global Challenges – at 3 billion over a seven year period – is comparatively small, so it must be well targeted and build on best practices of support from the current funding period. The Global Public Goods and Challenges programme of the EU budget has been a valuable programme for partner countries to integrate adaptation and resilience into development planning, and for supporting smaller scale projects. It is important to continue and improve such programmes and support for measures that build the longer term resilience to climate impacts in vulnerable developing countries; in particular LDCs and SIDs.

C) European Fund for Sustainable Development & External Guarantee Scheme **Observations & Concerns**

The Regulation proposes to finance the European Fund for Sustainable Development + (EFSD+) which is a continuation of the EFSD guarantee in the EU External Investment Plan. While the EFSD+ should serve the objectives of Agenda 2030 and poverty eradication, there is no identifiable obligation it to be guided by art 21 and 208 of the EU treaties [objectives of poverty eradication and human rights]. There is limited evidence to demonstrate the effectiveness of the fund to achieve those objectives. It is thus difficult to say how effective these schemes have been for bringing about additional development or climate benefits.

Upon a comparative analysis of the current EFSD and the proposed EFSD+, there is notable weakening of the proposal.

For example, there is no reference to the Paris Agreement and the role of the EFSD+ in helping to achieve those objectives, and there is no reference to the current 28% climate specific support in the EFSD; while the requirement to have an in-depth ex ante assessment of environmental, financial and social aspects is no longer provided for. In addition, there is an absence of eligibility criteria for the use of the EFSD guarantee; for example the *full respect of internationally agreed guidelines, principles and conventions, including the Principles for Responsible Investment, UNGPs, OECD Guidelines for Multinational Enterprises, FAO Principles for Responsible Investment in Agriculture, ILO Conventions and international human rights law* (art 9.2.i).

Recommendations

While blended finance may complement the efforts of public finance towards global environmental benefits, climate objectives and essential development services, these policy objectives are not the top priority for projects and programmes supported through blended and private finance. An increased reliance on blended finance for delivering development objectives puts at risk key services such as climate change adaptation programmes which heavily depend on consistent and effective public finance and support. In addition, blended finance does not guarantee the same levels of transparency and accountability as public finance and grant based support.

Thus the Regulation should address any risks associated with blended finance to achieving the objectives of Agenda 2030 and the Paris Agreement. Given the increased focus on leveraging and blending finance – through the new external investment architecture – a clear set of safeguards and conditions should be established in the architecture.

There is a clear weakening of the EFSD in the proposed Regulation for NDICI; in particular for climate action, transparency, accountability and sustainable development effectiveness. At a minimum, the Regulation should make explicit references to supporting the implementation of the Paris Agreement in partner countries and ensuring that actions and projects funded through the fund and guarantee will not undermine long-term sustainable development and decarbonisation. A higher target for climate related support – at least 40% - should be established for the post-2020 EFSD+, building on the current 28% climate specific support.

The requirement for carrying out appropriate environmental and climate screenings and impact assessments should be fully applied to the EFSD+ and the External Action Guarantee.

Specific recommendations on the quality, effectiveness and accountability of the EFSD+ and External Action Guarantee:

- **Ensure a common standard of reporting is established** for all providers using blended finance instruments. This common standard should ensure data is timely, comparable, accessible and

disaggregated enough to be used for tracking blended finance to the destination country and receiving entity, and reporting its impact. It is also important to agree on a way of reporting information on investee companies (such as their jurisdiction and size) - this is essential to understand whether or not ODA used in blending is complying with established standards of 'untied aid', or whether it is causing any distortions to local markets.

- **Establish and make public a scoreboard of indicators** to be used in the selection of projects supported through the architecture, covering all three dimensions of sustainable development (i.e. social, environmental and economic), to ensure an independent and transparent assessment of the potential and actual use of guarantees.
- **Establish regular monitoring and evaluation systems** to demonstrate the development additionality of the external investment architecture (and its related pillars), ensuring that it is not only additional in the financial sense.
- Ensure all procurement **follows open clean global contracting principles**.
- **Involve local communities**, including CSOs, in the monitoring and evaluation of proposed programmes and projects through annual consultations.
- Ensure transparency at governing bodies' level: **publish all information** related to investments carried out in the investment architecture, including for example the framework of the European External Investment Plan (EIP).
- Any new initiative should **report to the International Aid Transparency Initiative (IATI)** to ensure full transparency whether it is using some or all ODA.

The EIB's External Lending Mandate (ELM) should also be subject to the same principles laid out above. In addition, as the EIB is an investment bank and sets out to provide loans and guarantees, it is understood that these mechanisms focus more on climate mitigation, particularly in Middle Income Countries (MICs) and High Income Countries (HICs). Therefore, the ELM should concentrate on full climate mainstreaming across its portfolio and commit to end all support to fossil fuels in EU partner countries.

D) Monitoring & Reporting:

Observation & Concerns

The Regulation sets out to regularly monitor the actions of its funding against the overall objectives that it has set out; results should be monitored on the basis of transparent and measurable indicators [Article 31]. It also plans to submit an annual report to the European Parliament, the EEAS and the Committee of the Regions from 2022. In relation to climate change, environment and biodiversity, funding should be tracked annually based on the OECD Rio Markers. However, the Regulation also provides for the potential to use more precise methodologies.

There is a recognition that monitoring of implementation needs to be improved across external financing, including better streamlining across the different actors and institutions involved in development cooperation and climate finance; for example, the EIB's External Lending Mandate reporting procedures.

Recommendation

Building on the recognition that more precise methodologies can be applied to monitoring and tracking climate and environment related support, we recommend that the European Commission pursues a specific action plan to identify more robust methodologies for tracking and reporting climate

finance. This will be essential to ensure that climate financing reported to the UNFCCC and OECD will not be overstated.

We also recommend that the Regulation for the **NDICI can be strengthened to make a specific provision for achieving more consistency in the methodology** used to report climate financing in order to honour and deliver on the EU's commitments to provide and mobilise \$100 billion per year up to 2025. For example, countries can review the existing benchmarks – e.g. the 40% for significant and 100% for principal – and discuss whether the Markers are accurate or reflective enough of climate action on the ground.

Additional considerations

Support to LDCs:

While the direction of the NDICI points towards greater promotion of EU interests overseas, the instrument states the intention to prioritise and channel support to LDCs in the form of grants, regardless of geographical locations. While this is an important commitment, it does not guarantee that a minimum level of support to climate-relevant action in LDCs will be provided.

Flexibility of funding and climate support:

The increased flexibility may have some positives, for example freeing up resources for extraordinary events, including those linked to climate change. However, **it brings about a number of risks; for example, to ensuring guaranteed and consistent support for global public goods and challenges** (environmental and climate support).

It prioritises the foreign policy objectives of the EU (i.e. migration, security, defence) over supporting progress towards SDGs and Paris Agreement objectives. The geographic priorities may mean that countries with acute needs regarding support for climate change mitigation and adaptation risk being under-funded.

- ENDS -

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