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TRACKING SYSTEM FOR CLIMATE EXPENDITURE IN THE POST-2013 EU BUDGET: MAKING IT OPERATIONAL

Final summary report

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Table of Contents

Synthesis 4

Executive summary 6

List of acronyms 14

1. Introduction 15

2. Relevance of EU funding instruments for climate mitigation and adaptation action.....17

3. Key principles for tracking climate expenditure 19
3.1 Important considerations for a tracking methodology.....19
3.2 What to track? 20
3.3 What level of budgetary aggregation to track? 21
3.4 When to track? 21
3.5 How to track? 24

4. Proposed definitions and criteria for tracking climate related expenditure.....26
4.1 Proposed definition and criteria for tracking climate change mitigation expenditure 26
4.2 Proposed definition and criteria for tracking climate change adaptation expenditure 30
4.3 Tracking synergies between climate mitigation and adaptation expenditure 34
4.4 Similarities with the OECD and MDB approaches 35

5.Tracking climate related expenditure of relevant EU funding instruments: proposed options for refinement over time.....37
5.1 Approach to tracking centrally managed instruments 37
5.2 Approach to tracking instruments under shared management 43
5.3 Approach to tracking EU financial instruments 47
5.4 Common principles and cross-cutting issues 53

6. Overall conclusions and recommendations 57

Synthesis

The EU Multiannual Financial Framework (MFF) for 2014 - 2020 includes a commitment to 'mainstream' climate change across different policy areas and for at least 20 per cent of the EU budget to support climate change related activities, whether for mitigation or adaptation. This gives rise to new tracking and reporting requirements to assess progress towards this commitment. At the same time, developing a coherent and credible tracking system for climate change related expenditure will contribute to the **modernisation and greening of the EU budget**. It will also support the EU's commitments at the global level relating to multilateral agreements on climate change.

However, **operationalising an approach to tracking this expenditure which is both practical and reasonably accurate is challenging**. The tracking methodology should be well-defined and straightforward to apply, suiting the specificities of different EU funding instruments to the extent possible while remaining **coherent and manageable for the range of EU spending as a whole**. Common principles are needed, with the methodology relying to the extent possible on existing or proposed data exchange mechanisms and reporting requirements. Differences between the management modes of different funds need to be reflected in the tracking methodology as this influences the modus operandi of each instrument including the actors involved and the availability of information on expenditure. The system needs to be simple and not create additional administrative burdens, while at the same time providing **meaningful, credible information for policy makers and stakeholders. Striking a balance between simplicity and accuracy is critical.**

The current approach to tracking being developed within the Commission is based on a modified version of the OECD Rio markers methodology. This has proved a practical approach which builds on existing practices at international level and has already been used by DG DEVCO and DG ELARG for reporting on international climate (and biodiversity) related expenditure. In order to transform the Rio markers into financial data, the Commission applies a weighting system with reduction factors in the form of codes (100, 40 and 0 per cent) This permits the categorisation of expenditure depending on whether climate is the principal (primary) objective (to be counted as 100 per cent climate related); where climate is a significant, but not predominant objective (to be counted as 40 per cent climate related); and expenditures not targeted at climate objectives (to be counted as 0 per cent climate related).

Discussions on the best means of tracking climate related expenditure under the EU budget from 2014 onwards are underway among the Commission services. In some cases a common understanding was reached in 2013 among DGs on an approach suited for particular funds, notably those under shared management. This study seeks to support DG CLIMA in considering how the emerging tracking methodology could be further elaborated and refined to make it as robust and useful as possible over the period of the MFF.

The availability of the relevant information and data needed for effective tracking will increase over the course of the 2014-2020 MFF. Currently, the principle regulations governing funds within the MFF are in place. However, information on the final priorities within different funds and programmes and the related allocation of funding is still at a fairly generic level. Further programming and implementation of funds over the coming months and years will give rise to more detailed information about planned and actual expenditure. Tracking at this early

stage is thus, inevitably ex-ante and relies on relatively crude categorisation of anticipated expenditure. It will need to be refined as implementation advances, spending decisions become more concrete and further information becomes available. For example, the **Programme Statements for the 2014 draft budget** presented in June 2013 provide an initial estimate of the aggregate climate related expenditure under different EU funding instruments. Although useful as an initial indication, these figures should be treated with caution given the limited availability of data when preparing these estimates.

As information about the exact rules of different funding instruments is clarified and the availability of actual expenditure data improves, further precision can be phased into the tracking methodology over time. Thus, **tracking should be seen as an on-going, staged process over the period of the MFF** that allows for the development of more detailed and accurate estimates of climate related expenditure from year to year. Such a staged approach can be applied to EU funding instruments under both shared and central management. A suitable tracking methodology for financial instruments will also need to be developed building on existing systems of monitoring and reporting. This will need to utilise both ex-ante evaluations and additional information on supported beneficiaries and selected projects to the extent possible.

It would be valuable to develop detailed, **common guidance on how to track climate related expenditure for use** both within the European Commission and by Member States. This will help to ensure a consistent approach under different EU funding instruments to tracking similar types of activities and projects. In particular this guidance needs to spell out in some level of detail what those activities attracting 100 per cent and 40 per cent markers respectively entail in practice, as this is where there is potential room for differential interpretation. This guidance needs to be accompanied by illustrative, relatively concrete, examples of projects. The development of such guidance is particularly important in the case of tracking under shared management funds where the room for interpretation is more significant.

In addition to the provision of detailed guidance, the Commission could also assign a **contact point on tracking issues for each funding programme**. This official would interact with colleagues in other DGs to discuss approaches being taken to track particular types of expenditure in other areas and ensure a consistent approach to that taken in their own DG.

The immediate focus in the next few years is to **improve and ensure consistency** in the emerging tracking methodology within the Commission and how it is applied between different EU funding instruments. This will help to ensure that expenditure estimates generated are well-founded and comparable between EU funding instruments and can be used to assess overall progress towards the political commitment for at least 20 per cent of the 2014-2020 EU budget to support climate change related activities.

Looking ahead there is a need to **reflect on further improvements and potential extensions to the tracking approach as data availability improves**. This could for example include distinguishing between climate adaptation and mitigation expenditure or complementing the current ex-ante approach to tracking with an ex-post system of performance-based reporting. Such improvements to the tracking methodology would help to strengthen the result-orientation of the 2014-2020 MFF and are options to consider in view of the mid-term review of the MFF and the post-2020 MFF.

Executive summary

Background and objectives of the study

The 2014-2020 EU Multiannual Financial Framework (MFF) includes a commitment to 'mainstream' climate change across different policy areas and for at least 20 per cent of the EU budget to support climate change related activities, whether for mitigation or adaptation. This gives rise to new tracking and reporting requirements to assess progress towards this commitment. Developing a coherent and credible tracking system for expenditure will contribute to the modernisation and greening of the EU budget. It will also support the EU's commitments at the global level relating to multilateral agreements on climate change.

However, operationalising an approach to tracking this expenditure which is both practical and reasonably accurate is challenging. The tracking methodology should be well-defined and straightforward to apply, suiting the specificities of different EU funding instruments to the extent possible while remaining coherent and manageable for the range of EU spending as a whole. Data collection requirements in calls for proposals and project application forms under different funding instruments should be aligned with the tracking methodology to ensure that the necessary data for applying the tracking methodology is available in due course. Thus, common principles are needed, with the methodology relying to the extent possible on existing or proposed data exchange mechanisms and reporting requirements. The system needs to be simple and not create additional administrative burdens, while at the same time providing meaningful, credible information for policy makers and stakeholders. Striking a balance between simplicity and accuracy is critical.

The current methodology being developed in the Commission is based on a modified version of the OECD Rio markers which has already been used by the Commission (DG DEVCO and DG ELARG) for reporting on international climate (and biodiversity) related expenditure. In order to transform the Rio markers into financial data, the Commission applies a weighting system with reduction factors in the form of codes (100, 40 and 0 per cent) This permits the categorisation of expenditure depending on whether climate is the principal (primary) objective (to be counted as 100 per cent climate related); where climate is a significant, but not predominant objective (to be counted as 40 per cent climate related); and expenditures not targeted at climate objectives (to be counted as 0 per cent climate related).

Discussions on an approach to tracking climate related expenditure under the EU budget from 2014 onwards are underway among the Commission services. In some cases a common understanding was reached in 2013 among DGs on an approach suited for particular funds, notably the sizeable funds under shared management. This study seeks to build on these existing agreements and discussions, to support DG CLIMA in considering how the emerging tracking methodology could be further elaborated and refined over the MFF. As information about the precise rules of different funding instruments is clarified and the availability of actual expenditure data improves, further precision can be phased into the methodology, allowing a more fine-grained and sophisticated approach to tracking to develop over the period of the MFF.

The study was carried out by the Institute for European Environmental Policy (IEEP) together with ICF GHK and Climate Policy Initiative (CPI) between March and December 2013. It was based on an analysis of the then draft Regulations relating to a selected set of EU funding instruments which were progressing through the decision-making process during 2013. Not all the legislation was agreed by the time the study

was completed in early December 2013. For a number of funding instruments, the study was updated according to draft texts as of 9 December 2013. Some of the analysis is based on information available at earlier dates when the analysis was being carried out, as indicated in the text, as well as on Programme Statements for the 2014 annual EU budget. The study also draws on insights from interviews with officials from several DGs in the European Commission and the OECD as well as discussions at an expert workshop in October 2013 organised in the context of the study.

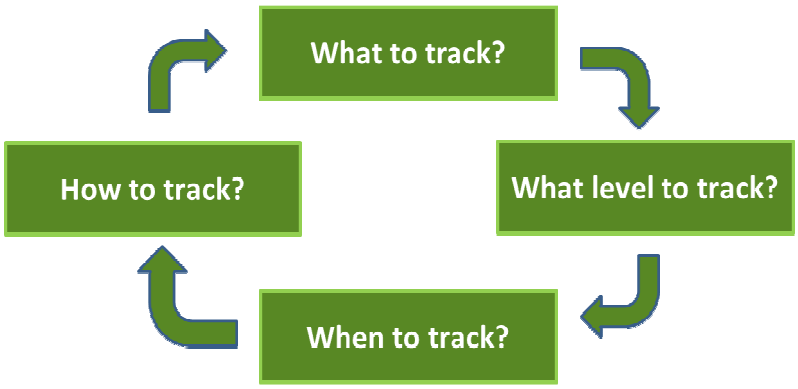
This is the final summary report of the study. Considerable further analytical work on specific funding instruments was undertaken in the course of the study which underpins the assessment in this report. These more detailed assessments have not been published and will remain internal Commission documents.

Key principles for tracking climate related expenditure

A methodology for tracking expenditure under any public sector budget can be characterised in four key dimensions - see Figure E1. These four dimensions must be considered within the overall goal of the methodology, i.e. the underlying reasons for tracking expenditure. In the case of the EU budget, tracking provides a means of assessing progress towards the political commitment to spend 20 per cent of the 2014-2020 MFF on climate-relevant activities and to 'mainstream' climate change across different policy areas.

When developing a methodology for tracking, one priority is the need for overall consistency in the approach taken. Another is to be sufficiently adaptable to meet the specificities of different EU funding instruments, within which there are significant variations in structure, process, activities funded, reporting requirements, and other relevant parameters. At the same time the tracking methodology should not disproportionately increase the administrative burden for those managing EU funding instruments. Thus, common principles are needed and the tracking methodology should rely on existing or proposed data exchange mechanisms and reporting requirements to the extent possible.

Figure E1: Key dimensions of a public expenditure tracking methodology



Source: Own compilation

Differences between the management modes of different funds need to be reflected in the tracking methodology. The level at which to apply the tracking methodology will vary between EU funding instruments depending on the management mode applied (i.e. centralised direct management, centralised indirect management and shared management). The management mode influences the modus

operandi of the instrument; the policy actors involved in the collection, exchange and reporting of financial data during the programming, implementation, monitoring, and reporting phases; as well as the detail of information available on expenditure.

The **availability of relevant information and data** will develop over the course of the 2014-2020 MFF. Currently, some of the most critical information is only available at the level of fund-specific Regulations. Information on final priorities within different funds and programmes and the related allocation of funding is still at a fairly generic level; further programming and implementation of funds over the coming months and years will disclose more detailed information. Tracking at this early stage is thus, inevitably, relatively crude and will need to be refined as implementation advances, spending decisions become more concrete and further information becomes available. For example, the Programme Statements for the 2014 draft budget presented in June 2013 provide an initial estimate of the aggregate climate related expenditure under different EU funding instruments. Although useful as an initial indication, these figures should be treated with caution given the limited availability of data when preparing these estimates. With the adoption of work programmes towards the end of 2013 (e.g. for Horizon 2020) or in 2014 for other funding instruments and subsequent implementation of activities and projects, more detailed information will become available. This can be used in drafting estimates for the 2015 of 2016 annual budgets and onwards.

Options for refining the tracking methodology over time

Within a consistent overall approach, the way forward will vary according to the type of instrument involved. The precise type and detail of information available about the nature of expenditure under **centrally managed EU funding instruments** differs between the instruments and will increase over time. Information that is currently available relates to priorities set in agreed Fund-specific Regulations; information on the substance of work programmes or expenditure programmes will only become available in late 2013 or 2014, while information on concrete project applications will only be available from 2015 – 2016. In light of the progressively increasing availability of relevant data over the period of the MFF, a 'staged' approach to tracking, as set out below, could help refine initial estimates of climate related expenditure and deliver more concrete estimates where feasible:

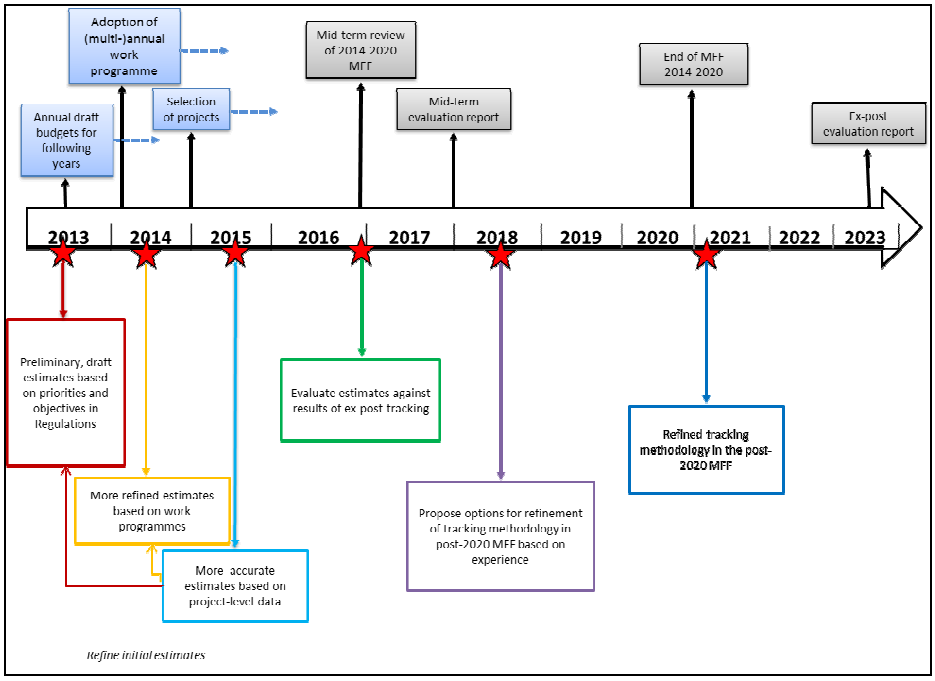
- **Stage 1: At the level of broad priorities and objectives set out in Fund-specific Regulations** – Tracking at this stage would be a fairly broad-brush exercise where the margin of approximation is likely to be high. Therefore this stage requires a relatively conservative approach to the use of the markers to avoid over-estimates of climate related expenditure. This level of tracking will remain essential throughout the whole MFF period and for each annual budget. It is also the level of tracking that is likely to attract high-level political attention, partly because it is likely to be available first. However, the increasing availability of information from tracking at lower levels of programming will help to adjust and improve the tracking at the level of broad priorities over time.
- **Stage 2: At the level of work programmes** – Tracking at this stage will allow more precision as work programmes set out priority actions under the different priority areas defined in the Regulations. Work programmes are adopted after the Fund-specific Regulations, thus this level of tracking will only be possible towards the end of 2013 (e.g. for Horizon 2020) or in 2014 for other funding instruments. This information could be used to prepare more detailed estimates for the 2015 annual budget onwards. Tracking at this stage has advantages (it is possible to use existing systems, lower administrative

burden, etc.) but also has a certain margin of approximation and the likelihood of inaccuracies remains.

- **Stage 3: At the level of individual projects** – In due course, information about support for individual projects and activities will become available to the Commission, at which point project level tracking is possible. Tracking at this level will provide the most well-informed and precise account of climate expenditure and may be necessary to gain a full and accurate picture of climate related expenditures in certain areas of funding, e.g. where activity is not thematically determined or is not programmed. This information will only start to be available as of 2015 or 2016 and then progressively as more projects are adopted. Project level tracking may not be administratively feasible for certain instruments without incurring significant costs. For those where a large number of small scale projects are financed, considerations of administrative costs with this level of tracking should be assessed against benefits from the improved level of detail in the data.

Figure E2 provides an illustration of how such a staged approach could work at these three levels and identifies key points in the MFF cycle when revised estimates could be made. This is a stylised overview of a timeline. In practice the dates when more detailed information will become available to feed into revised estimates will vary between different EU funding instruments depending on the sequencing of programming, implementation and reporting cycles.

Figure E2: Stylised illustration of a staged approach to tracking centrally managed instruments



Source: Own compilation

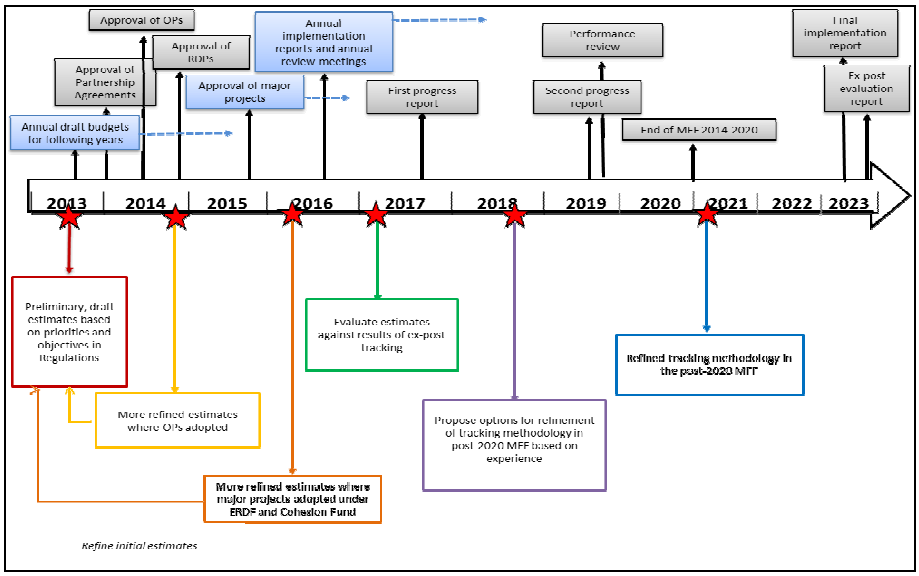
For the five EU funding instruments under **shared management,** tracking will need to be embedded within a different governance context. While the main provisions and overall budget are determined at the EU level, the allocation of funding for different priority interventions is set out by national and regional authorities in Member States, in their respective Partnership Agreements and expenditure programmes. Official

information about any spending will only be available to the Commission at the time of the adoption of Operational Programmes (OPs) and Rural Development Programmes (RDPs) which are expected to be adopted sometime in 2014 or in 2015.

A staged approach to tracking can also be envisaged for instruments under shared management – see Figure E3 for an illustrative overview of how such a staged approach could work and key points in the MFF cycle when revised estimates could be made. This is a stylised timeline, the exact dates at which more detailed information will become available to feed into revised estimates will vary as with the centrally managed instruments. The tracking approach needs to be integrated in existing data exchange and reporting systems for these EU funding instruments. These systems differ according to the policy area and instrument concerned. A common element however, is that the information is provided from the bottom up.

Given that there are no mechanisms to verify the information provided, there is a risk that Member States might overestimate allocations for climate-related activities in view of the agreed earmarking (under Cohesion Policy) and overall spending target (20 per cent of the MFF to be climate related). To minimise this risk, financial data should be updated in annual implementation reports and verified against result indicators in the strategic reports due to be prepared 2017 and 2019. Another option would be to require thematic evaluations of the climate relevance and impact of national allocations by external evaluators.

Figure E3: Stylised illustration of staged approach to tracking instruments under shared management



Source: Own compilation

Financial instruments such as equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments are expected to be used across a number of EU funding instruments in the 2014-2020 MFF. The Commission is required to report annually to the Parliament and the Council on activities relating to financial instruments. In the case of centrally managed instruments, the Commission will rely on reporting from financial intermediaries. In the case of instruments under shared management, the Commission will build on reporting by public authorities in Member States. To ensure consistency, the financial intermediary or authority should agree with the Commission to follow the tracking methodology put in place by the

Commission, or adopt a methodology that is consistent with the Commission's approach in all important respects. A suitable tracking methodology for financial instruments will need to be developed, building to the extent possible on existing systems of monitoring and reporting.

Only the EU contribution to the financial instrument should be tracked to avoid overestimating the climate relevance of the EU budget. Moreover one needs to keep in mind that most EU financial instruments are not thematically defined and could be used to support a large variety of activities. Examples include the debt and equity facilities under the Horizon 2020 and COSME programmes. In most cases the climate relevance of the financial instrument will only become visible at the stage at which finance is provided by the relevant financial institution for a specific purpose. Information contained in the ex-ante evaluations which are required before a financial instrument can be implemented could be used to provide a preliminary estimate of the climate relevance of the instrument. More detailed analysis will be required once the instrument is implemented, building on information about supported beneficiaries and selected projects.

Under the **European Structural and Investment (ESI) Funds**, managing authorities are required to provide reports on all financial instruments under their responsibility. This information will provide some indication of whether the instrument contributed to climate change objectives. However it will require additional assessment to be able to mark the financial instruments as 100, 40 or 0 per cent climate relevant. Eligibility criteria for the 'off-the-shelf' Renovation Loan financial instrument under Cohesion Policy could for example allow an assessment of climate relevance of supported activities according to the tracking criteria. Ex-post tracking could also be applied to determine the climate relevance of projects supported. This would require more detailed assessment and a coherent approach to be agreed which is suitable for application in all ESI funds.

Although the Commission will have better control of relevant data and information for financial instruments under **central management**, it will rely on reporting by financial intermediaries. It will remain challenging to connect activities by financial intermediaries with specific programme objectives under the EU budget. It is likely that an assessment that stops at the stage of allocations to financial intermediaries will underestimate climate related expenditures if it is only able to identify allocations to specialist funds (e.g. climate focused venture capital funds). Thus there may be value in collecting further data about the beneficiaries of financial instruments including the types of companies and/or activities actually funded by the financial instruments**.** This is likely to provide the most accurate level of tracking of financial instruments, but it would also introduce significant additional administrative burdens. The tracking methodology could for example draw on existing assessment tools used by intermediaries such as EIB, the EIF and the AFD to estimate the climate-relevance and/or vulnerability of projects ex-ante. Project eligibility and selection criteria, e.g. for financial instruments being considered under the LIFE programme, could also be used to inform the tracking system.

In the area of **external action**, so-called 'climate change windows' (CCW) have been established in existing loan and grant blending facilities (LGBFs) to help improve the overall visibility of climate actions within such facilities. Each funding programme is to develop its own process to track climate related expenditures within their LGBF while at the same time ensuring a consistent approach across the facilities. Under the CCW of the Western Balkan Investment Facility (WBIF) for example the suggested approach to tracking is that applicants indicate the climate change implications of the proposed investment in their project grant application form (PGAF). International

financial intermediaries then determine the expected degree of climate change related financing in their assessment of the project by assigning the appropriate Rio marker to it. The marker is finally approved by DG ELARG. This approach provides an ex-ante estimate of the climate relevance of the investment and could provide an example to inform the approach to tracking under other CCWs.

Common principles and cross-cutting issues

The analysis undertaken in this study indicates that the tracking methodology needs to be tailored to the requirements, timescales, needs and specificities of different EU funding instruments. At the same time, some key principles (e.g. common definitions and criteria for eligibility) are needed across the different instruments to ensure a coherent approach to the tracking.

The need for **common principles** is particularly evident in the case of activities and projects which in principle are eligible for finance under more than one EU funding instrument. For example, energy efficiency projects can be financed through Cohesion Policy, Horizon 2020 and instruments for external action. Transport projects can be funded under the CEF and Cohesion Policy. If different instruments managed by different DGs are funding similar types of activities there is a need to ensure that a similar weighting is applied to these activities. Thus, there is a need to identify potential inconsistencies in the tracking approach between funding instruments with a mechanism to establish whether different DGs are applying the same markers to similar programmes and an adequate means to address this. Without such steps, these differing approaches may lead to potential inconsistencies in how specific expenditures are marked under different EU funding instruments.

'Cross-cutting' expenditure types need to be identified and a common approach to their classification ensured. However some actions may still require a different classification in climate terms depending on their scope and context, e.g. biodiversity actions under Cohesion Policy and under Rural Development; or water projects under Cohesion Policy and under external action instruments. Thus, while recognising the need for a consistent approach to such cross-cutting themes, tracking should be undertaken on a case-by-case basis, based on the agreed definition and criteria to assess the climate relevance of a particular activity.

These cross-cutting issues highlight the need for **detailed, common guidance** to be developed by the Commission on how to track climate related expenditure under the EU budget. In particular this needs to spell out in some level of detail what the activities attracting 100 per cent and 40 per cent markers entail in practice as this is where there is potential room for differential interpretation. This guidance needs to be developed for use both within the European Commission and by Member States to ensure a consistent approach to tracking across different funding instruments. This guidance needs to be accompanied by illustrative, relatively concrete, examples of projects. Some are given in this report. The development of such guidance is particularly important in the case of tracking under shared management funds where the room for interpretation is more significant. The MDBs are currently elaborating such guidance which could help to inform an EU approach.

In addition to the provision of detailed guidance, the Commission could also assign a **contact point on tracking issues** for each funding programme. This would be an official who is able to interact with colleagues in other DGs and discuss approaches being taken to tracking particular types of expenditure in other areas and ensure a consistent approach to that taken within their own DG.

Steps for future consideration

The immediate focus in the next few years is to improve and ensure **consistency** in the emerging tracking methodology being discussed in the European Commission and how it is applied between different EU funding instruments. This will help to ensure that the estimates are comparable and can be used to assess progress towards agreed goals.

As funding instruments become operational from 2014 onwards and consequently the details of funding plans and data availability improves, it will allow further specificity to be phased into the methodology and for a more elaborated, precise and sophisticated approach to tracking to develop over time. Thus, tracking should be seen as an **on-going, staged process over the period of the MFF** that allows for the development of more detailed and accurate estimates of climate related expenditure from year to year. These more refined estimates will also be able to hold up in the face of external scrutiny for example by MEPs, Commissioners, and external stakeholders. The evolution of the EU tracking methodology should take account of international processes on these topics so as to ensure that the EU approach does not result in a burdensome tracking methodology which is not compatible with existing and emerging international systems.

The room for manoeuvre and refinement of the tracking approach may be rather limited at the current moment as different DGs are keen to work with what has already been agreed and to establish a robust system before making any further changes to it. However, looking ahead there is a need to reflect on further improvements and potential extensions to the approach in view of the mid-term review of the MFF and the post-2020 MFF. This could for example include **distinguishing between climate adaptation and mitigation** expenditure. Although such a level of tracking may be difficult to undertake, particularly at an early stage given methodological difficulties and concerns about administrative efforts required, such an distinction would provide a more accurate record of climate related expenditure and also reflect practices at the international level (as well as among DG DEVCO and DG ELARG).

Another possibility for later consideration would be to **complement the current ex-ante approach to tracking with an ex-post system** of performance based reporting on outputs to assess the effects of projects based on actual implementation and results. This would require establishing a link between financial data on actual spending and relevant result based indicators which would require quite some investment. However, efforts to design these processes are underway globally and provide some useful lessons for an EU approach. Over time, the ex-post assessment can inform the improvement of ex-ante approaches. Further analysis of such a link and how it would work in practice would help to inform a potentially important step in the evolution of the tracking system over time.

List of acronyms

AFD	**Agence Française de Développement**
CAP	Common Agricultural Policy
CCW	Climate change window
CEB	Council of Europe Development Bank
CEF	Connecting Europe Facility
CF	Cohesion Fund
COSME	Competitiveness of enterprises and SMEs
CP	Consumer programme
CPM	*Union Civil Protection Mechanism*
DCI	Development and cooperation instrument
DG	Directorate-General
EAFRD	European Agricultural Fund for Rural Development
EAP	Environment Action Programme
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIB	European Investment Bank
EIF	European Investment Fund
EMFF	European Maritime and Fisheries Fund
ENI	European neighbourhood instrument
ERC	European Research Council
ERDF	European Regional Development Fund
ESF	European Social Fund
ESI	European Structural and Investment Funds
EU	European Union
EUBEC	EU Platform for Blending in External Cooperation
EURC	European Response Centre
EVHAC	*European Voluntary Humanitarian Aid Corps*
FIEG	Financial Instruments Expert Group
GHG	Greenhouse gas
Horizon 2020	EU Framework for Research and Innovation
IFG	*Instrument for Greenland*
IFS	Instrument for Stability, including Humanitarian aid
IPA II	Instrument for Pre-accession Assistance
LIFE	Programme for Environment and Climate Action
MDBs	Multilateral Development Banks
MFF	Multiannual Financial Framework
NIF	Neighbourhood Investment Facility
OECD	Organisation for Economic Cooperation and Development
OPs	Operational Programmes
PAs	Partnership Agreements
PGAF	Project grant application form
PI	Partnership Instrument
RDPs	Rural Development Programmes
SMEs	Small and medium sized enterprises
TPAH	Third Programme of Union action in the field of health
WBIF	Western Balkan Investment Facility

1. Introduction

1.1 Background to the study: Tracking climate expenditure in the 2014-2020 MFF

In February 2013, the European Council reached an agreement for a budget of €960 billion in commitment appropriations[1] for the 2014-2020 EU Multiannual Financial Framework (MFF). A political agreement between the Council and European Parliament was reached in June. The European Parliament gave its consent to the agreement on 19 November and the Council formally adopted the 2014-2020 MFF regulation and inter-institutional agreement on 2 December[2]. The 2014-2020 MFF includes a political commitment to 'mainstream' climate change obligations across different policy areas and for at least 20 per cent of the EU budget to support climate change related activities. Different EU funding instruments are expected to contribute to this commitment[3].

This commitment gives rise to new reporting requirements for EU expenditure on climate related activities under the 2014-2020 MFF. The recently adopted 7th Environment Action Programme (7th EAP) calls for the development and application of a system for reporting and tracking environment-related expenditure in the EU budget, in particular expenditure on climate change and biodiversity by 2014[4]. Operationalising a simple, practical and accurate approach to tracking this expenditure is, however, a significant challenge. If operationalised effectively, the tracking methodology will help to improve the transparency of expenditure and provide an impetus for the transition to a low-carbon climate-resilient economy. However, if clear rules are not established for what is to be counted and how, there is a risk of misleading information, for example inflated figures of reported expenditure or omissions of spending which might have indirect links or co-benefits for climate change.

Thus, a methodology for tracking climate related expenditure needs to be developed which is well-defined and practical, suiting the specificities of different EU funding instruments to the extent possible while remaining coherent and manageable as a whole. This methodology should provide a credible system through which to assess progress towards the political commitment to spend 20 per cent of the 2014-2020 MFF on climate-relevant activities. Striking a balance in the tracking methodology between simplicity and accuracy is a key challenge.

1.2 Objective and scope of the study

This study was launched by the European Commission to support DG CLIMA in further developing the methodology for tracking climate change related expenditure, building on existing agreements and discussions with other Commission services on the

[1] European Council (2013) Conclusions (Multiannual Financial framework) 7/8 February, EUCO 37/13, Brussels

[2] Council of the European Union (2013) Council adopts the multiannual financial framework 2014-2020

[3] European Council (2013) Conclusions (Multiannual Financial framework) 7/8 February, EUCO 37/13, Brussels

[4] Decision of the European Parliament and of the Council on a General Union Environment Action Programme to 2020 "Living well, within the limits of our planet, 2012/0337 (COD), PE-CO_S 64/13, Brussels, 7 November 2013

approach to climate tracking. A key objective was to consider ways in which the methodology could be elaborated and refined over time.

This study was carried out between March and December 2013. It was based on an analysis of draft Regulations relating to a selected set of EU funding instruments which were progressing through the decision-making process during 2013. Not all the legislation was agreed by the time the study was completed in early December 2013. For a number of funding instruments, the study was updated according to draft texts as of 9 December 2013. Some of the analysis is based on information available at earlier dates when the analysis was being carried out as well as on Programme Statements for the 2014 annual EU budget. The analysis also draws on insights from interviews with officials in the European Commission and the OECD[5] and discussions at an expert workshop on 4 October 2013 with a group of participants from a broad range of concerned DG's within the Commission. The study was carried out by the Institute for European Environmental Policy (IEEP) together with ICF GHK and Climate Policy Initiative (CPI).

This is the final summary report of the study. The assessment in this report is underpinned by considerable further analytical work which was undertaken in the course of the study. These more detailed assessments have not been published and will remain internal Commission documents.

1.3 Structure of the report

The remainder of this report is structured as follows:

2. Chapter 2 sets out the results of the review of EU funding instruments proposed in the 2014-2020 MFF and an initial categorisation of EU funding instruments according to their relevance for climate change action.
3. Chapter 3 sets out key principles underlying a methodology for tracking climate related expenditure and how these relate to the EU budget.
4. Chapter 4 sets out common definitions and criteria of climate mitigation and adaptation expenditure developed by the study team and lists of illustrative projects under EU funding instruments which are marked according to the 100, 40 and 0 per cent markers.
5. Chapter 5 sets out some options for the refinement of the tracking methodology under centrally managed and shared managed instruments beyond the initial model. This is particularly relevant in a longer term perspective looking at 2015 and beyond. These options have been developed within the study based on a detailed analysis of different EU funding instruments and consultation with respective experts. Some key issues to consider when developing a tracking system for financial instruments under different EU funding programmes are also discussed in this chapter.
6. Chapter 6 sets out some overall conclusions and recommendations of the study.

[5] Interviews were held with officials from DG ENV, DG REGIO, DG MOVE, DG ENER, DG ENTR, DG RTD, DG ELARG, DG AGRI, DG MARE, DG FPI, DG SANCO, DG DEVCO, DG ECHO, DG ECFIN and DG BUDG as well as experts from the OECD.

2. Relevance of EU funding instruments for climate mitigation and adaptation action

The study commenced with a review of the full range of EU funding instruments proposed by the Commission for the 2014-2020 MFF[6] with a view to identify their relevance for policy objectives aimed at mitigating and/or adapting to climate change. This analysis was based on a review of Commission proposals for EU funding instruments. The relevance of each proposed individual EU funding instrument to climate mitigation and adaptation was assessed against the following criteria:

1) Are there **stated general objectives** requiring that the instrument contributes to climate objectives for mitigation and/or adaptation?
2) Are there **stated specific objectives** requiring that the instrument contributes to climate objectives for mitigation and adaptation?
3) Are the stated climate change objectives formulated in a manner that can be quantitatively and qualitatively **measured**?
4) Are there stated **outputs and/or eligible activities** which are likely to contribute to climate mitigation and/or adaptation?
   - Does the instrument have the potential to **raise public awareness** of climate change and steps to be taken to mitigate and/or adapt to it?
   - Does the instrument have the potential to fund the development of **education and skills** needed to mitigate and/or adapt to climate change?
   - Does the instrument have the potential to fund **research, development and innovation** activities needed to mitigate and/or adapt to climate change?
5) Are there provisions indicating that in some way the instrument could realise **benefits** for climate mitigation and adaptation?

This assessment enabled an initial filtering exercise resulting in the categorisation of EU funding instruments as being more or less relevant for climate action - see Table 1. This categorisation was discussed and agreed with DG CLIMA. Those funding instruments identified as being broadly more relevant for climate action were taken forward for further analysis in the study.

Table 1: Relevance of EU funding instruments for climate mitigation and adaptation action

More relevant	Less relevant
Heading 1: Smart and inclusive growth	
EU Framework for Research and Innovation (Horizon 2020)	Galileo
Competitiveness of enterprises and SMEs (COSME)	Erasmus+
	EU Programme for Employment and Social Innovation (EaSI)
	Action Programme for Taxation (Fiscalis 2020)
	Action Programme for Customs (Customs 2020)
	Hercule III
	Pericles 2020
Sub-Heading: Economic, social and territorial cooperation	
European Regional Development Fund (ERDF)	

[6] EU funding instruments which fall outside the MFF are **not** taken into account in this study. These include for example the Emergency Aid Reserve, European Globalisation Fund, Solidarity Fund, Flexibility instrument, and European Development Fund.

European Social Fund (ESF)	
Cohesion Fund (CF)	
Connecting Europe Facility (CEF)	
Heading 2: Sustainable growth	
Pillar 1 Common Agricultural Policy (CAP)	
Pillar 2 CAP European Agricultural Fund for Rural Development (EAFRD)	
European Maritime and Fisheries Fund (EMFF)	
Programme for Environment and Climate Action (LIFE)	
Heading 3: Security and citizenship	
Third Programme of Union action in the field of health (TPAH)	Asylum and Migration Fund
Consumer programme (CP)	Internal Security Fund
	Justice Programme
	Rights and citizenship programme
	Europe for citizens programme
	Creative Europe Programme
Heading 4: Global Europe	
Instrument for Pre-accession Assistance (IPA II)	European instrument for democracy & human rights (EIDHR)
European neighbourhood instrument (ENI)	Instrument for nuclear safety cooperation (INSC)
Instrument for Stability (IFS), including Humanitarian aid	Guarantee fund for external actions
Partnership Instrument (PI)	
Development and cooperation instrument (DCI)	
Union Civil Protection Mechanism (CPM) + European Response Centre (EURC)	
European Voluntary Humanitarian Aid Corps (EVHAC)	
Instrument for Greenland (IFG)	

Key: More relevant – Stated general and specific objectives, outputs, possible indirect links or co-benefits for climate change; Less relevant – No general and/or specific objectives, outputs, possible indirect links or co-benefits for climate change.

The instruments identified as being more relevant for climate mitigation and adaption action were grouped into 12 clusters, each of which bring together instruments under the responsibility of individual DGs – see Table 2. This approach was agreed with DG CLIMA and provided a structure for the analysis. For each cluster of instruments a detailed and comprehensive analysis was undertaken which underpins the assessment in this report. These detailed assessments are internal Commission documents.

Table 2: Clusters of relevant EU funding instruments

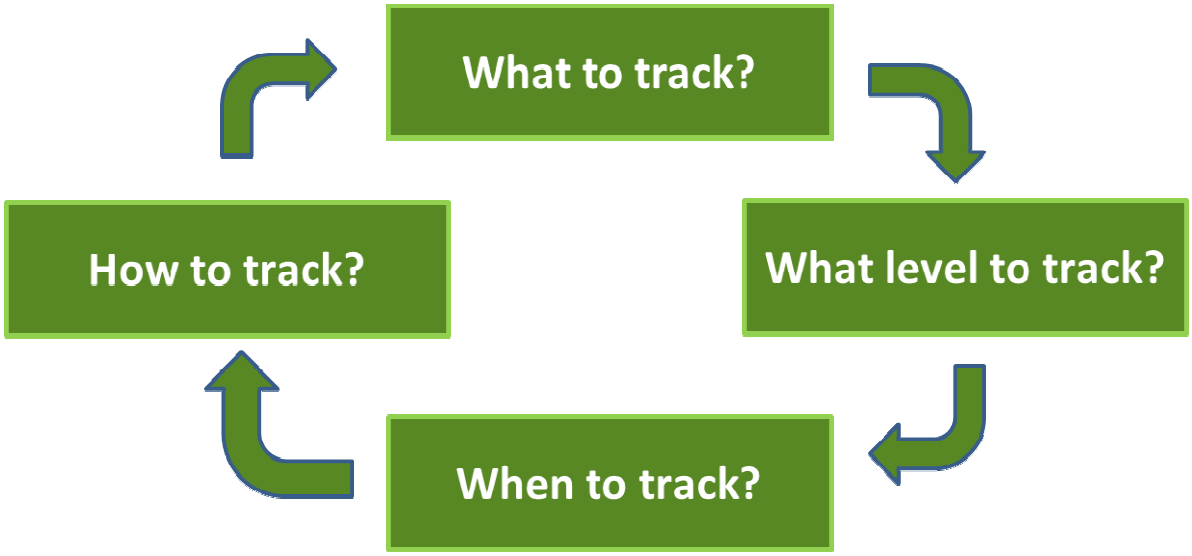
Cluster	Instruments covered
DG RTD	Horizon 2020
DG ENTR	COSME
DG REGIO/EMPL	ERDF; ESF; Cohesion Fund
DG MOVE/ENER	CEF
DG AGRI	Pillar 1 CAP; Pillar 2 CAP (EAFRD)
DG MARE	EMFF
DG ENV/CLIMA	LIFE
DG SANCO	TPAH, CP
DG DEVCO	DCI; ENI; IFS; CFG
DG FPI	PI
DG ELARG	IPA
DG ECHO	CPM + EURC; EVHAC

3. Key principles for tracking climate expenditure

3.1 Important considerations for a tracking methodology

A methodology for tracking public expenditure can be characterised in four key dimensions - see Figure 1. These four dimensions must be considered within the overall goal, i.e. the underlying reasons for tracking expenditure. A clear understanding of why expenditure needs to be tracked in a specific way allows for the design of an appropriately tailored methodology that can meet this goal. Tracking under the EU budget will be a means of assessing progress towards the political commitment to spend 20 per cent of the 2014-2020 MFF on climate-relevant activities and to 'mainstream' climate change obligations across different policy areas. The recently adopted 7th EAP calls for the development and application of a system for reporting and tracking environment-related expenditure in the EU budget, in particular expenditure on climate change and biodiversity by 2014[7].

Figure 1: Key dimensions of a public expenditure tracking methodology



Source: Own compilation

In answering the questions of what, when and how to track; one needs to keep in mind both the need for an **overall consistency in approach** and the **specificities of different EU funding instruments**. Differences between management modes as well as the availability of meaningful information and data at different points in time need to be reflected in the tracking methodology. Furthermore, the tracking methodology should not disproportionately increase the administrative burden for those managing the funding instruments and the potential gains for policy effectiveness need to be significant to justify the effort required. Thus, common principles are needed, with the tracking methodology relying to the greatest extent possible on existing or proposed data exchange mechanisms and reporting requirements.

The Commission has had previous expertise with climate tracking, for example in DG DEVCO and DG ELARG, and has been in the process of establishing and beginning to

[7] Decision of the European Parliament and of the Council on a General Union Environment Action Programme to 2020 "Living well, within the limits of our planet, 2012/0337 (COD), PE-CO_S 64/13, Brussels, 7 November 2013

apply an initial system of tracking climate related expenditure in 2013 at the same time that this study was being carried out. The Commission's current approach to tracking expenditures is based on the established OECD 'Rio markers' methodology, which is also being used to a limited extent by some multilateral development banks (MDBs) with certain modifications. However, the current Commission approach does not exclude the use of more precise methodologies in policy areas where these are available and workable[8]. Discussions on the proposed tracking methodology for 2014 onwards were underway in the Commission during 2013. In some cases, a common understanding was reached among DGs during the year on an approach suited for particular funds, notably regarding those under shared management.

This study focusses mainly on identifying options for the next steps in the development of climate tracking beyond the initial inter-service agreements, looking ahead at the scope for future refinement of the tracking methodology as more detailed information becomes available under respective funding instruments. As implementation of the MFF proceeds and funding instruments are utilised, further precision can be phased into the methodology, permitting a more elaborated, and sophisticated approach to tracking to develop over the period of the MFF.

3.2 What to track?

Two broad **categories of EU expenditure** need to be distinguished in a tracking methodology:

- **Grants** cover '*direct contributions, by way of donation, from the budget in order to finance either an action intended to help achieve an objective part of the EU policy or the functioning of a body which pursues an aim of general European interest or has an objective forming part of a EU policy'*[9]. In the case of grant support, the EU provides co-financing, which covers a share of the total cost of a project or investment. In the case of grants, it is **proposed that a tracking methodology only accounts for the envisioned EU co-financing of the project or investment**.

- **Financial instruments** are defined as '*Union measures of financial support provided on a complementary basis from the budget in order to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments, and may, where appropriate, be combined with grants'* (Art 2(p) Regulation 966/2012[10]). In the case of financial instruments, it is proposed that **only the EU contribution is tracked** (e.g. the EU contribution to guarantee contracts, risk sharing facilities, etc.). In the case of revolving funds (under the European Structural and Investment (ESI) funds), the amount of EU financing reinvested for the same or similar projects/investments should be included. The tracking methodology should not include additional public or private sources of finance mobilised ('leveraged'[11]) for the project.

[8] European Commission (2011) A budget for Europe 2020, Commission Communication, COM (2011)500, 29.6.2011, Brussels

[9] Quoted from the glossary of the European Commission on financial programming and budget, http://ec.europa.eu/budget/explained/glossary/glossary_en.cfm#g

[10] Regulation (EU, EURATOM) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002, OJ L 298/1, 26/10/2012

[11] 'Leverage effect' refers to the ratio of total funding ('global investment' including the EU contribution) divided by the EU contribution (where the EU contribution may consist of a grant or a financial instrument).

3.3 What level of budgetary aggregation to track?

The level at which to apply the tracking methodology will vary between EU funding instruments depending on the **management mode** applied. The management mode of each funding instrument strongly influences its modus operandi. Approximately 76 per cent of the EU budget is spent under 'shared management', with individual Member States distributing funds, managing expenditure and reporting. According to the new Financial Regulation,[12] the Commission is empowered to manage the EU budget in the following ways:

1. **Centralised direct management** – the budget is managed directly by the Commission services, executive agencies, heads of Union delegations; and trust funds. Examples of such instruments examined in the study include: Horizon 2020, COSME, CEF, LIFE, CP and HFGP.

2. **Centralised indirect management** – the budget is implemented by third countries (non-EU Member States), international organisations and their agencies, European financial intermediaries such as the European Investment Bank (EIB) and the European Investment Fund (EIF) or others (see Article 58(c) of the Financial Regulation). Many financial instruments fall into this category as do some activities under the Instrument for Stability depending on the measure or activity supported.

3. **Shared management** – implementation of the budget is delegated to EU Member States. There are five instruments under shared management – ERDF, CF, ESF, EAFRD and the EMFF – currently referred to as the European Structural and Investment (ESI) Funds. All five instruments are among those examined in the study and represent a large share of overall expenditure under the EU budget.

Depending on the management mode of the funding instrument, **different policy actors** are in charge of the collection, exchange and reporting of financial data during the programming, implementation, monitoring, and reporting phases.

Moreover, there are also **differences in the availability of information on expenditure** for centrally managed instruments (both direct and indirect) and those managed under shared management, particularly in relation to the activities being supported and the subsequent climate impacts.

3.4 When to track?

As noted above, the **detail of financial data and relevant information about actual project activity** available for EU funding instruments will vary over time and develop over the course of the 2014-2020 MFF. Currently, detailed information is only available at the level of fund-specific Regulations. Information on final priorities and the related allocation of funding is still at a fairly generic level, and it is to be expected that further programming and implementation of funds over the coming months and years will disclose a greater level of detailed information. Tracking at this early stage is thus inevitably ex-ante and relatively crude, and will need to be refined as further information becomes available.

[12] Regulation (EU, EURATOM) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002, OJ L 298/1, 26/10/2012

This study focuses on an **'ex-ante' approach** to tracking, which refers to tracking on the **basis of expenditure commitments** (i.e. estimates), rather than actual spending (i.e. payments). The ex-ante tracking system examined in this study is based on priority areas for expenditure as set out in the proposed Regulations, proposed actions elaborated in work/expenditure programmes and more specific projects for which proposed EU support is identified in project application forms. Thus, it is a system which is based on inputs rather than outputs, tracking commitments rather than the actual performance of the funding instrument when judged against its objectives[13]. In line with current attempts to improve the result-orientation of the MFF, one can argue that the existing ex-ante tracking approach needs to be complemented over time by ex-post tracking in order to validate estimates against real-world developments. An **'ex-post'** approach to tracking would report on the **results of the actual implementation of measures** within the relevant funds, including project results.

While recognising the importance of ex-post tracking, the focus of this study is on ex-ante tracking as this addresses immediate requirements and the first steps needed to refine the tracking methodology. Over time, ex-post tracking assessments could be developed and implemented in order to verify and adjust ex-ante estimates as necessary, reconciling estimates with observed impacts.

3.4.1 Tracking climate expenditure for the annual Draft Budget

Programme Statements[14] are prepared annually by line DGs to justify the resources dedicated to each EU spending programme in terms of objectives and results. Each Statement has the same structure and normally includes: numerical data related to the programme; the EU added value and contributions to the Europe 2020 Strategy and the mainstreaming of climate change; general objective(s) - accompanied by impact indicators and targets; specific objectives supported by result indicators and targets; and expenditure related outputs.[15] DG Budget draws up the Commission's draft statement of estimates which is afterwards consolidated with those for the other institutions. The **Annual Draft Budget** is then submitted to the Council and Parliament by 1 September at the latest[16].

From 2014, the tracking of climate related expenditure is to be integrated in the existing activity-based budgeting (ABB) methodology which structures appropriations under the annual budget (commitments and payments) according to policy areas or 'activity areas'. Funding programmes are presented in budget chapters within respective policy areas and performance justification for each is provided in accompanying Programme Statements. Each Programme Statement should contain information indicating the climate relevance of spending aggregated per specific objective, and in some cases, per expenditure-related output.

The **Programme Statements of the 2014 Draft Budget** were presented in June 2013[17]. These documents show an initial tracking of climate relevant expenditure as part of the 2014 budget process. The figures provide an initial estimate of the aggregate climate related expenditure under different EU funding instruments. The

[13] Input from discussions at expert workshop on 4 October 2013 in Brussels
[14] Previously called Activity Statements
[15] EC (2013) Draft General Budget of the European Commission for the Financial Year 2014, Working Document Part I - Programme Statements, (COM(2013)450), June 2013
[16] http://ec.europa.eu/budget/biblio/documents/2014/2014_en.cfm
[17] EC (2013) Draft General Budget of the European Commission for the Financial Year 2014, Working Document Part I - Programme Statements, (COM(2013)450), June 2013

estimates for the Draft Budget 2014 indicate that 12.7% of the 2014 budget is climate related. In 2015, when figures from the new CAP direct payment scheme come into effect, this percentage is expected to increase. Table 3 provides an overview of the climate related expenditure set out in Programme Statements of the 2014 Draft Budget relating to the instruments analysed in this study.

Table 3: Climate tracking in relevant Programme Statements of the 2014 Draft Budget

Programme Statement	Budgeted expenditure (€ million)	Climate related expenditure (€ million)
Heading 1a – Competitiveness for growth and jobs		
Horizon 2020	8,826.5	2,251.8
COSME	243.6	18.4
CEF	2,949.2[18]	1,216.7
Heading 1b – Cohesion policy		
ERDF and CF	24,958.8 (ERDF); 8,992.4 (CF)	3,214.6 (ERDF); 1,149.3 (CF)
Heading 2 – Sustainable growth: Natural resources		
CAP	43,778.1 (EAGF); 13,991.0 (EAFRD)	3,299.3 (EAGF); 5,594.9 (EAFRD)
EMFF	866.3	2.5[19]
LIFE	404.6	201.9
Heading 3 – Security and citizenship		
HFGP	58.6	0.1
CP	24.1	n.a.
CPM + EURC	28.2 (Heading 3); 19.5 (Heading 4)	9.0 (Heading 3); 2.0 (Heading 4)
Heading 4 – Global Europe		
DCI	2,309.5	231.0
ENI	2,113.0	205.0
IFS	314.5	3.8
CFG	24.8	6.0
PI	113.3	23.9
IPA	1,573.5	78.7
EVHAC	12.7	2.5

Source: EC (2013) Draft General Budget of the European Commission for the Financial Year 2014, Working Document Part I - Programme Statements, (COM (2013)450), June 2013

While the Programme Statements provide a useful initial estimate of climate related expenditure in the 2014 Draft Budget, it should be stressed that this is a coarse grained overview, as information on funding for adopted work programmes, operating programmes (OPs), and rural development programmes (RDPs) were not available to be integrated into these figures.

In the estimates provided for the Draft Budget 2014, the link between the climate relevance of the programmes and their specific objectives and outputs is not always immediately obvious. However, such information will increasingly be requested from DGs as tracking methodologies develop further, given the ever growing scrutiny from various actors (e.g. the European Parliament) over the results that the EU budget delivers[20]. Similarly, the link between the climate contribution and the budget has

[18] Including the contribution from the Cohesion Fund

[19] The estimate of funding allocated to climate action in the programme statement for the 2014 budget has been corrected by DG MARE and reduced from €67.5 million to €2.5 million.

[20] Julio Escudero Bustamante (2013) Tracking of climate-related expenditure DB 2014 and the way forward, Presentation at expert workshop "Tracking system for climate expenditure in the post-2013 EU budget - Making it operational", 4 October 2013, Brussels

also not always been clear (in cases when budget lines do not correspond to specific objectives).

It is worth noting that the estimates provided for the Draft Budget 2014 are based on a variety of different approaches developed within respective line DGs. In some cases, e.g. in the COSME Programme Statement, estimates are based on the assumption that the next programme will be similar to the last one. This may not necessarily be the case. Given the absence of more detailed information, the current approach to estimating the proportion of CAP Pillar 1 direct payments and the EAFRD that are climate related is based on generic calculations linked to existing implementation. Similarly, figures for the ERDF and CF are based on projections derived from historical data from the 2007-2013 programming period. The methodology used to estimate the figures is also not always clear and the rationale which governs the categorisation of expenditures (using the Rio markers or other methodologies) is not explained[21].

Thus these figures should be treated with caution, given the lack of more accurate data at this stage they are likely to be based on a set of preliminary assumptions. They could be viewed as providing a more general depiction of the current situation rather than a detailed assessment of climate related expenditure in 2014. This is also likely to be the case with estimates for certain programmes in the 2015 draft budget, again as a result of the limited availability of data when preparing these estimates for programmes where for example more detailed work programmes have yet to be adopted. From 2016 onwards more accurate tracking of climate expenditure will be possible and could inform the preparation of respective Programme Statements. The 2016 draft budget (to be developed in 2015) could include figures on: N+1=2016 [ex-ante], N_0=2015, N-1=2014 [ex-post]. The ex-post figures for 2014 may be different to those in the draft budget for 2014, thereby providing scope for refining the initial estimates, which will have to be duly explained. Given the above, a staged approach to tracking is necessary so that the methodology can move forward and develop as more information becomes available. The framework of such a staged approach is set out in section 5 of this report.

3.5 How to track?

A climate expenditure tracking system usually consists of three main components:

- **Definitions** of climate mitigation and adaptation actions,
- **Criteria** for eligibility, which can also include guidelines for the use of markers, and
- Lists of **illustrative activities** (often by sector).

The current approach being developed in the Commission is based on a modified version of the OECD **Rio Markers methodology[22].** This system has already been used by DG DEVCO and DG ELARG for reporting on international climate (and biodiversity) related expenditure.[23] In order to transform the Rio markers into financial data a weighting system has been applied by the Commission with reduction factors in the form of codes (0 per cent, 40 per cent, and 100 per cent) applied as follows**:**

[21] Ibid.
[22] European Commission (EC) (2011) A budget for Europe 2020, Commission Communication, COM (2011)500, 29.6.2011, Brussels and OECD (2011) Handbook on the OECD-DAC Climate Markers
[23] The use of the Rio Markers has been compulsory since 2008. Since 2009, encoding in CRIS is compulsory for every project managed by Europe Aid.

- Expenditures where climate is the **principal (primary) objective** are those for which climate objectives can be identified as fundamental in the design and impact of the activity and are an explicit objective of the activity. These are to be counted as **100 per cent** climate related;
- Expenditures where climate is a **significant, but not predominant objective** are those for which, climate objectives, although important, are not the principal reasons for undertaking the activity. These are to be counted as **40 per cent** climate related; and
- Expenditures **not targeted at climate objectives** which are to be counted as **0 per cent** climate related.

A more detailed discussion on how to track including proposed definitions and criteria for tracking climate related expenditure under the EU budget is set out in section 4 of this report.

4. Proposed definitions and criteria for tracking climate related expenditure

The study has developed a set of proposed definitions and criteria for tracking climate mitigation and adaptation related expenditure. This can support further work to refine the Commission's tracking methodology over the period of the 2014-2020 MFF. These definitions build on international practices currently used by the OECD and MDBs as well as discussions at the expert workshop organised within the context of this study.

4.1 Proposed definition and criteria for tracking climate change mitigation expenditure

As noted in section 3, the tracking methodology currently in use in the Commission builds on the approach of the OECD which is referenced. The OECD distinguishes between climate mitigation and adaptation in its marker system. The OECD's definition of the climate mitigation marker, together with supporting criteria for eligibility and illustrative examples of activities are set out in Table 4 below.

Table 4: OECD definition of the climate change mitigation marker

DEFINITION **An activity should be classified as climate-change-mitigation related (score Principal or Significant) if:**	It contributes to the objective of stabilisation of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration.
CRITERIA FOR ELIGIBILITY	The activity contributes to a) the mitigation of climate change by limiting anthropogenic emissions of GHGs, including gases regulated by the Montreal Protocol; **or** b) the protection and/or enhancement of GHG sinks and reservoirs; **or** c) the integration of climate change concerns with the recipient countries' development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research; **or** d) developing countries' efforts to meet their obligations under the Convention. The activity will score "**principal objective**" if it directly and explicitly aims to achieve one or more of the above four criteria.
EXAMPLES OF TYPICAL ACTIVITIES **1. Typical activities take place in the sectors of:** *Water and sanitation* *Transport* *Energy* *Agriculture* *Forestry* *Industry*	• GHG emission reductions or stabilisation in the energy, transport, industry and agricultural sectors through application of new and renewable forms of energy, measures to improve the energy efficiency of existing generators, machines and equipment, or demand side management. • Methane emission reductions through waste management or sewage treatment. • Development, transfer and promotion of technologies and know-how as well as building of capacities that control, reduce or prevent anthropogenic emissions of GHGs, in particular in waste management, transport, energy, agriculture and industry. • Protection and enhancement of sinks and reservoirs of GHGs through sustainable forest management, afforestation and reforestation, rehabilitation of areas affected by drought and desertification.
2. Typical non-sector specific activities are: *Environmental policy and administrative management* *Biosphere protection* *Biodiversity* *Env. education/training* *Environmental research*	• Protection and enhancement of sinks and reservoirs through sustainable management and conservation of oceans and other marine and coastal ecosystems, wetlands, wilderness areas and other ecosystems. • Preparation of national inventories of greenhouse gases (emissions by sources and removals by sinks); climate change related policy and economic analysis and instruments, including national plans to mitigate climate change; development of climate-change-related legislation; climate technology needs surveys and assessments; institutional capacity building. • Education, training and public awareness related to climate change. • Climate-change-mitigation related research and monitoring. • Oceanographic and atmospheric research and monitoring.

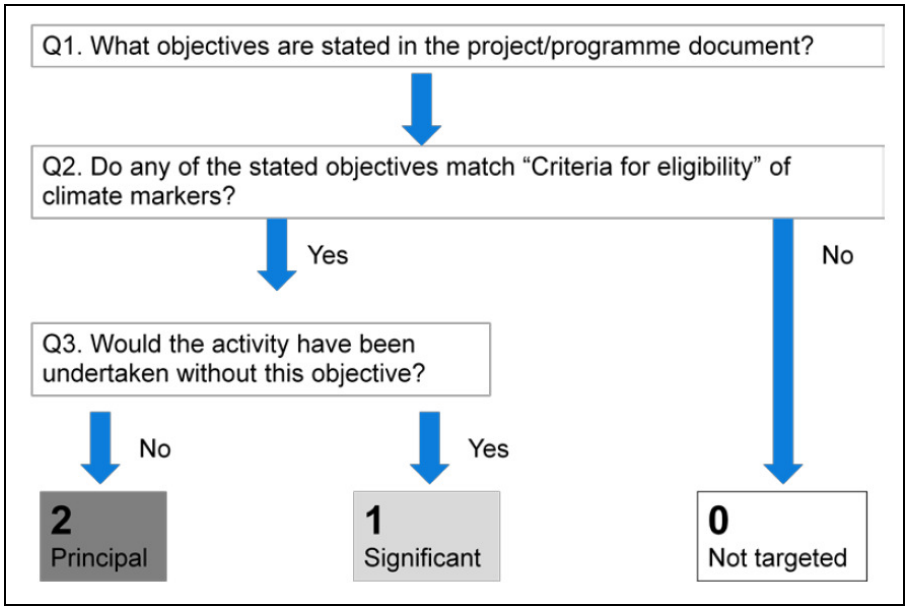
Source: OECD (2011) Handbook on the OECD-DAC Climate Markers http://www.oecd.org/dac/stats/48785310.pdf

Under the OECD approach, activities are marked according to their **'stated objectives'** in particular programmes/projects[24]. The main factor which determines whether an activity is marked as 'principal objective' or 'significant objective' is whether the activity would have been undertaken without this objective – see Figure

[24] OECD (2011) Handbook on the OECD-DAC Climate Markers, September 2011

2. This is not necessarily always straightforward to establish. While 'stated objectives' are well-suited to be tracked, they are vulnerable to subjective judgement and over-estimation, as the objectives for many programmes/projects could be framed as having some relevance to climate action, while their real-world relevance and impact is questionable. This is a problem with all ex-ante estimates of expenditure and thus highlights the need for validation through an ex-post, results-oriented assessment.

Figure 2: OECD scoring system for climate markers



Source: OECD (2011) Handbook on the OECD-DAC Climate Markers http://www.oecd.org/dac/stats/48785310.pdf

Recent years have therefore seen efforts to move towards an **'activity-based'** methodology based on the analysis of the type of activity undertaken by recipients of funds, rather than stated objectives. For example, the MDBs have developed a joint approach for reporting on climate mitigation finance which is activity-based, and focuses on the type of activity to be carried out rather than its purpose, sources of funding, or actual results.[25] The MDBs have also developed a comprehensive list of illustrative activities related to climate mitigation based on past experience and/or technical analysis which can be helpful in framing such an approach.[26] While an activity-based approach is more granular it is still ex-ante; and although it is less vulnerable to subjective statements given that it is based on a list of positive activities, it is still subjective and not based on assessments of actual impacts of the supported activities. This would require an ex-post assessment as previously discussed.

Building on international approaches and taking into account the circumstances under which the EU budget operates Table 5 sets out a proposed **definition** of climate mitigation expenditure and proposed **criteria** for the classification of such expenditure under the EU budget. These can help refine the proposed or emerging Commission tracking methodology, taking into account the need to encapsulate the range of agreements reached with different DGs while fulfilling a minimum level of consistency.

[25] AfDB, ADB, EBRD, EIB, IDB, WB, and IFC (2012) Joint MDB Report on Mitigation Finance, December 2012
[26] Ibid.

Table 5: Proposed definition of climate change mitigation expenditure for EU funding instruments

Climate change mitigation expenditure	
Definition	Expenditure to support activities that reduce or limit GHG[27] emissions directly or indirectly, or enhance GHG sequestration.
Criteria for eligibility and classification of expenditure	The classification of expenditure uses three markers (100, 40 and 0 per cent) depending on the significance of stated objectives and expected effects on emission reduction and/or carbon sequestration as set out below: • ***100 per cent marker:*** Activities where direct or indirect GHG emission reduction and/or preservation and/or enhancement of sinks and reservoirs is their dominant purpose; and activities are expected to lead to emission reduction/sequestration. These activities would not have been carried out in the absence of expected effects on emission reduction/sequestration. • ***40 per cent marker:*** Activities where GHG emission reduction and/or sequestration are one of the reasons for undertaking the activity. Expected effects on emissions reduction/sequestration are significant but secondary to other intended effects. • ***0 per cent marker:*** Activities which neither directly nor indirectly seek to reduce GHG emissions / enhance GHG sequestration significantly.

Table 6 sets out **illustrative examples** of climate mitigation related activities under EU funding instruments which can be marked as 100, 40 and 0 per cent climate related.

Table 6: Illustrative examples of climate change mitigation activities[28]

Categories of climate mitigation projects	Marker	Illustrative project examples
Renewable energy	100 per cent	- Strategies and shared methodologies for the development of off-shore wind energy farms - New transmission systems integrating renewable energy sources into the grid
Lower-carbon and energy-efficient generation (supply side)	100 per cent	- Energy efficiency improvement in existing thermal power plant - Retrofit transmission lines to reduce energy use and/or technical losses
	40 per cent	- LNG facilities where climate objectives are secondary - Intelligent energy distribution systems at medium and low voltage levels where climate objectives are secondary
Demand side energy efficiency	100 per cent	- Reconstruction of the energy system in the public sector - Energy efficiency improvement in lighting appliances and equipment
	40 per cent	- Energy audits to energy end-users - Construction of new buildings which comply with the energy certification system, but do not exceed the standards
Process emissions in industry and fugitive emissions	100 per cent	- Reducing GHG emissions in the food industry - Carbon capture and storage
	40 per cent	- Air quality measures where climate change mitigation

[27] These include carbon dioxide, methane, nitrous oxide and fluorinated gases.
[28] The list includes examples of actual expenditure in the 2007-2013 period or hypothetical examples of possible expenditure under different funding instruments examined in the study.

		objectives are only secondary
	0 per cent	- Removal of mercury from gas streams of different industrial production cycles
Transport	100 per cent	- Intelligent transport systems that increase the use of zero carbon emission transport modes - Railway transport ensuring a modal shift from road to rail
	40 per cent	- Design of an integrated multimodal transport system which includes co-modality involving rail and inland waterways - Modernisation of the rail sector
	0 per cent	- Improving the on-land response capacity to oil spills and enhancing prevention of pollution from maritime transport - Investment study for motorways
Agriculture, forestry, land use and livestock management	100 per cent	- Improved efficiency of nitrogen fertilizers - Afforestation measure to promote the expansion of forest cover to enhance carbon sequestration
	40 per cent	- Peatland restoration resulting in enhanced carbon sequestration
	0 per cent	- Farm development without any climate objectives - Measures to improve farm income
Waste and waste water	100 per cent	- Landfill gas recovery aiming to deliver emission savings - Waste incineration aiming to reduce methane emissions
	40 per cent	- Waste recycling and re-use where reduced GHG emissions are secondary objectives - Treatment of wastewater as part of a compliance requirement
	0 per cent	- Extension of a wastewater treatment plant, focusing only on enhanced infrastructure without any climate objectives - Separation of construction and demolition waste
Enabling activities and capacity-building	100 per cent	- Improvement of systems for monitoring GHG emissions - Awareness raising on GHG emissions of vehicles
	40 per cent	- Awareness raising on the main roles of mature forests and trees, including focus on role in climate mitigation
	0 per cent	- Collection of used batteries and awareness raising on the environmental impact of batteries - Providing support to EU companies in other industrialised markets

4.2 Proposed definition and criteria for tracking climate change adaptation expenditure

Defining climate change adaptation activities is a more challenging exercise. There is a lack of international consensus on definitions and the categorisation as to what qualifies as a specifically adaptation related activity. There are differing perspectives on how adaptation expenditure differs from 'business as usual development' or disaster risk management[29]. The OECD definition of the climate change adaptation marker, criteria for eligibility and illustrative examples of activities are set out in Table

[29] Frankel-Reed, J., et al., (2009) 'A Framework for Evaluating Adaptation to Climate Change', in Evaluating Climate Change and Development, R.D. van den Berg and O. Feinstein (eds.), Transaction Publishers, New Brunswick, pp. 285-298

7. The OECD definition focuses on the **intention** behind the activities rather than on whether or not the implemented measure is effective in relation to climate adaptation.

Table 7: OECD definition of the climate change adaptation marker

DEFINITION **An activity should be classified as adaptation-related (score Principal or Significant) if:**	It intends to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience. This encompasses a range of activities from information and knowledge generation, to capacity development, planning and the implementation of climate change adaptation actions.
CRITERIA FOR ELIGIBILITY **An activity is eligible for the climate change adaptation marker if:**	a) the climate change adaptation objective is explicitly indicated in the activity documentation; and b) the activity contains specific measures targeting the definition above. Carrying out a climate change adaptation analysis, either separately or as an integral part of agencies' standard procedures, facilitates this approach.
EXAMPLES OF TYPICAL ACTIVITIES **1. Examples of typical enabling activities for adaptation** Environmental policy and administrative management (sector 41010) Environmental education / training (sector 41081) Environmental research (sector 41082)	*The list is not exhaustive. The activities may be scored against the objective only if the above criteria for eligibility are fulfilled.* • Supporting the integration of climate change adaptation into national and international policy, plans and programmes. • Improving regulations and legislation to provide incentives to adapt. • Education, training and public awareness raising related to the causes and impacts of climate change and the role of adaptation. • Adaptation-related climate research including meteorological and hydrological observation and forecasting, impact and vulnerability assessments, early warning systems, etc.
2. Examples of typical sectoral activities Health (Sector 120) Water and sanitation (Sector 140) Agriculture (Sector 311) Forestry (Sector 312) Fishing (Sector 313) Flood prevention/control (Sector 41050 under Gen. env. protection) Disaster prevention and preparedness (Sector 740)	• Implementing measures to control malaria in areas threatened by increased incidence of diseases due to climate change. • Promoting water conservation in areas where enhanced water stress due to climate change is anticipated. • Promoting heat and drought resistant crops and water saving irrigation methods to withstand climate change. • Promoting a diverse mix of forest management practices and species to provide a buffer against uncertainties of climate change. • Promoting changes in fishing practices to adapt to changes in stocks and target species. Introducing flexibility in the gear that is used, the species that are fished, the fishing areas to be managed, and the allocations that are harvested. • Implementing measures for flood prevention and management such as watershed management, reforestation or wetland restoration. • Developing emergency prevention and preparedness measures including insurance schemes to cope with potential climatic disasters. • Implementing measures to respond to glacial lake outburst flood risk, such as the creation or improvement of early warning systems and widening or deepening of glacial lake outlet channels.

Source: OECD (2011) Handbook on the OECD-DAC Climate Markers http://www.oecd.org/dac/stats/48785310.pdf

The MDBs joint approach to tracking climate adaptation expenditure is **purpose, context and activity based**, requiring project activities that qualify under this heading to:

- Set out a context of climate vulnerability (climate data, exposure, sensitivity);
- Include a statement of purpose or intent to address or improve climate resilience;
- Link project activities to the context of climate vulnerability, only reflecting direct contributions to climate resilience[30].

Activities that do not explicitly meet all three of the above criteria are excluded from MDB reporting. Project activities are also required to belong within at least one of four adaptation categories: addressing current drivers of vulnerability; building resilience to current and future climate risks; incorporating climate risks into investments; and incorporating the management of climate risk into plans, institutions and policies. The MDBs provide indicative examples of climate resilience activities in a range of sectors. However, this list is not exhaustive as the classification depends on whether a project meets the above listed criteria[31] and the context within which the activity is carried out[32].

Building on this approach and taking into account the circumstances under which the EU budget operates Table 8 sets out a proposed **definition** of climate adaptation expenditure and proposed **criteria** for the classification of climate adaptation expenditure under the EU budget.

Table 8: Proposed definition of climate change adaptation expenditure for EU funding instruments

Climate change adaptation expenditure	
Definition	Expenditure to support activities that reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience.
Criteria for eligibility and classification of expenditure	The classification uses three markers (100, 40 and 0 per cent) depending on the significance of the stated objectives and the expected effect on reducing vulnerability or improving resilience as set out below: • ***100 per cent marker:*** Activities that have an explicitly stated objective for reducing vulnerability or improving resilience as their dominant objective **and** are expected to lead to direct or indirect effects for reducing vulnerability/improving resilience. The activity would not have been carried out in the absence of expected effects for reducing vulnerability or improving resilience. • ***40 per cent marker:*** Activities where reducing vulnerability/improving resilience are stated as one of the principal reasons for undertaking the activity; expected effects on reducing vulnerability or improving resilience are significant but secondary to other intended effects. • ***0 per cent marker:*** Activities which neither directly nor indirectly seek to contribute to reducing vulnerability or improving resilience significantly.

Table 9 sets out **illustrative examples** of climate adaptation related activities classified under EU funding instruments which can be marked as 100, 40 and 0 per cent climate related.

[30] AfDB, ADB, EBRD, EIB, IDB, WB, and IFC (2012) Joint MDB Report on Adaptation Finance, December 2012

[31] Ibid.

[32] For example a water supply project might not necessarily have relevance for climate change as a type of activity unless it is in a water stressed area and its purpose will be indeed adapting to the impacts of climate change due to changes in the water availability for drinking purposes.

Table 9: Illustrative examples of climate adaptation activities[33]

Categories of climate adaptation projects	Marker	Illustrative project examples
Health	100 per cent	- Public health adaptation strategies to extreme weather events - Monitoring malaria in areas threatened by increased incidence of diseases due to climate change
	40 per cent	- Innovative tools and strategies for surveillance and control of dengue, including approaches to monitoring and preventing spread in response to climate change - Health risk of air pollution
	0 per cent	- Understanding human health risks related to the release of nano-materials from consumer products - Monitoring cardiovascular diseases
Water supply and management	100 per cent	- Strategies and tools for better management of water resources - Desalination plant in areas with enhanced water stress
	40 per cent	- Domestic water conservation actions focusing primarily on money savings
	0 per cent	- Increasing the quality of drinking water to meet EU standards - Reduction of water contamination
Agriculture, forestry, land use management, fishing and natural resource management	100 per cent	- Prevention and restoration of damage to forests from forest fires, natural disasters and catastrophic events - Improve the composition of forests to include species that are resilient to climate changes
	40 per cent	- Integrated studies on the impacts of climate change, land use change and loss of biodiversity in terrestrial ecosystems - Aquaculture stock insurance to cover losses from natural disasters and adverse climatic events
	0 per cent	- Control of invasive alien species - Storage aid for storing catches of fish to deal with market volatilities
Infrastructure and coastal protection	100 per cent	- Flood risk management through the building of dykes - Mangrove planting to build a natural barrier to flooding
	40 per cent	- Wetland restoration - Improving the resilience of transport infrastructure to climatic and non-climatic disasters
	0 per cent	- Improvement of shoreline defences against marine pollution
Disaster risk management	100 per cent	- Early warning systems for flooding - Improve disaster management to cope with extreme weather events
	40 per cent	- Improvement of drainage systems
	0 per cent	- Emergency response after earthquakes - Evacuation planning after volcano eruptions
Enabling activities and capacity-building	100 per cent	- Advancing knowledge systems to inform adaptation decisions - Vulnerability assessments on climate change adaptation

[33] The list includes examples of actual expenditure in the 2007-2013 period or hypothetical examples of possible expenditure under the different funding instruments examined in the study.

	40 per cent	- Training for individuals and communities in prevention, preparedness, and response including to climate and non-climate related natural disasters
	0 per cent	- Awareness raising on invasive alien species - Information dissemination on natural habitat restoration projects

4.3 Tracking synergies between climate mitigation and adaptation expenditure

Climate mitigation and adaptation are not completely unrelated objectives. Some actions or projects can result in benefits for both climate mitigation and adaptation. Examples can include: carbon sequestration in soils, increased energy efficiency, low-carbon urban development, investment in green infrastructure, sustainable land and forest management, as well as various enabling activities such as policy development, planning, awareness raising, advice and training. These overlaps make it difficult to classify some actions as only mitigation or adaptation related.

To facilitate the identification of climate benefits to both mitigation and adaptation, the World Bank has developed illustrative activity types[34]. For an activity to be considered as providing adaptation/mitigation benefits, it must meet set definitions and criteria. Importantly, adaptation and mitigation benefits are tracked independently. Financing for adaptation and mitigation is not added together to prevent double counting[35].

Thus, building on experiences of the OECD and MDB approaches, one can distinguish between three categories of expenditure:

1. **Expenditure solely related to climate mitigation**;
2. **Expenditure solely related to climate adaptation**; and,
3. **Expenditure which delivers benefits for climate mitigation and adaptation**.

Expenditure can be classified in the third category when activities can be considered to deliver benefits to both mitigation and adaptation or when it is not clear which of the two purposes dominates the activity. Total expenditure on climate change could then be calculated without the risk of double counting, by combining (1), (2) and (3). Table 10 provides an illustration of project examples which can be classified as either mitigation or adaptation.

Table 10: Classifying expenditure as climate mitigation and adaptation[36]

Project example	Marker	Justification
Creating transnational infrastructure to inform, advise, foster and promote eco-innovation in SMEs.	40 per cent	Eco-innovation is a broad concept that can encompass mitigation, adaptation as well as resource efficiency.
Promoting environmentally functional landscape features in urban areas.	40 per cent	The project could include activities to create urban watersheds and help the functioning of ecosystem services. Such activities will bring benefits in flood

[34] World Bank (n.d.) Typology of activities with climate co-benefits by WB sectors. http://www.worldbank.org/content/dam/Worldbank/document/Typology.pdf

[35] AfDB, ADB, EBRD, EIB, IDB, WB, and IFC (2012) Joint MDB Report on Adaptation Finance

[36] This includes examples of actual expenditure in the 2007-2013 period or hypothetical examples of possible expenditure under the different funding instruments examined in the study.

		control and carbon sequestration.
An awareness raising campaign on the impacts of climate change in Europe.	100 per cent	The project could seek to raise awareness and disseminate information on the climate change impacts on Europe, which includes actions on both mitigation and adaptation.

4.4 Similarities with the OECD and MDB approaches

- The proposed **definitions** for climate mitigation and climate adaptation expenditure put forward in this study closely resemble those used by the OECD and the MDBs.
- In differentiating between the 100, 40 and 0 per cent markers, the proposed **criteria for both mitigation and adaptation** refer to the significance of **stated objectives and the expected effects** of an activity on emission reduction and/or carbon sequestration; or on reducing vulnerability or improving resilience.
- In line with practices at the international level, the study proposes a **distinction between mitigation and adaptation related expenditure,** as this provides a more accurate record of climate related expenditure under the EU budget. It is however recognised that this will take time to put in place in some instances and may be difficult in others.
- Climate mitigation and adaptation are not unrelated and certain activities can relate to **both climate mitigation and adaptation activities**. This overlap is a major issue in the OECD and MDB data and can be addressed by distinguishing between three categories of expenditure as discussed above.
- The classification of both mitigation and adaptation expenditure focuses on an **ex-ante approach** to tracking similar to the OECD and MDB approaches. Although not the focus of this study, a complementary results-based **ex-post approach** could be developed to verify ex-ante estimates once more data is available and thus provide a basis to refine or adjust initial estimates. This will help to improve the tracking methodology over time.
- As with the joint approach adopted by the MDBs, it is proposed that the climate tracking methodology **measures financial flows** or inputs rather than the actual GHG emissions reduced by the activity or the delivery of climate resilience benefits. Thus, supported activities are **assumed to lead to GHG emission reductions/sequestration[37] or to improved adaptive capacity and resilience**[38] based on past experience or technical analysis. Whether or not the activities actually achieve the intended result or impact emissions as expected needs to be assessed separately through project specific data and relevant result indicators via an ex-post assessment.
- For specific areas of the EU budget, a **component-based approach** could be considered where it is possible to identify the specific climate related aspects of the activity separately from the whole[39]. The MDBs follow such an approach. The aim of such an approach is to disaggregate mitigation activities from non-mitigation activities and adaptation activities from non-adaptation activities in

[37] AfDB, ADB, EBRD, EIB, IDB, WB, and IFC (2012) Joint MDB Report on Mitigation Finance, December 2012

[38] AfDB, ADB, EBRD, EIB, IDB, WB, and IFC (2012) Joint MDB Report on Adaptation Finance 2011, December 2012

[39] Technical Group 1 (2013) Report to the Policy Group of the European Union Blending and External Cooperation Platform (EU BEC Platform) on Topic 2 – 'Identify and promote best practices', Final, 7/6/2013

reporting by dissecting projects into their main components[40,41] and reporting only on those components of an activity that are related to climate change. This level of tracking requires a certain granularity of data which may not be available in all areas of the EU budget, may only be available over time as expenditure is agreed and undertaken, or the collection of such data may be an undue burden in certain cases (e.g. small projects). Thus, it may make sense to consider applying such an approach in certain, targeted areas, e.g. large projects under Cohesion Policy, but not in all areas (see section 5 for further discussion on this issue). A component-based approach to tracking is considered particularly useful in the case of integrated projects which are supported by many EU funding instruments[42].

[40] AfDB, ADB, EBRD, EIB, IDB, WB, and IFC (2012) Joint MDB Report on Mitigation Finance, December 2012

[41] AfDB, ADB, EBRD, EIB, IDB, WB, and IFC (2012) Joint MDB Report on Adaptation Finance 2011, December 2012

[42] Input from discussions at expert workshop on 4 October 2013 in Brussels

5. Tracking climate related expenditure of relevant EU funding instruments: proposed options for refinement over time

Based on the analysis of different EU funding instruments and consultation with experts in the field, the study developed **options on how to further refine the climate tracking methodology beyond the initial model. This is particularly relevant from a longer term perspective, looking at 2015 and beyond**. Within a consistent overall approach, the way forward will vary according to the type of instrument involved. The options developed relate to centrally managed instruments, instruments under shared management, and financial instruments as set out below.

5.1 Approach to tracking centrally managed instruments

The precise type and detail of information available, both on the various structures and processes relating to the operation of the instrument and on the projected use of the funds themselves on particular activities varies across different centrally managed instruments. In general, information that is currently available relates to the priorities set out in agreed Fund-specific Regulations, information on work programmes or expenditure programmes will only become available in late 2013 (in the case of Horizon 2020) and in 2014 (for other instruments), while information on concrete project applications will only be available from 2015 – 2016.

In light of the increasing availability of information over the period of the MFF, a **'staged' approach** to tracking centrally managed instruments appears appropriate. Such an approach will help to correct initial estimates of climate relevance and deliver more concrete and accurate results where feasible. Such a staged approach could consist of the following steps:

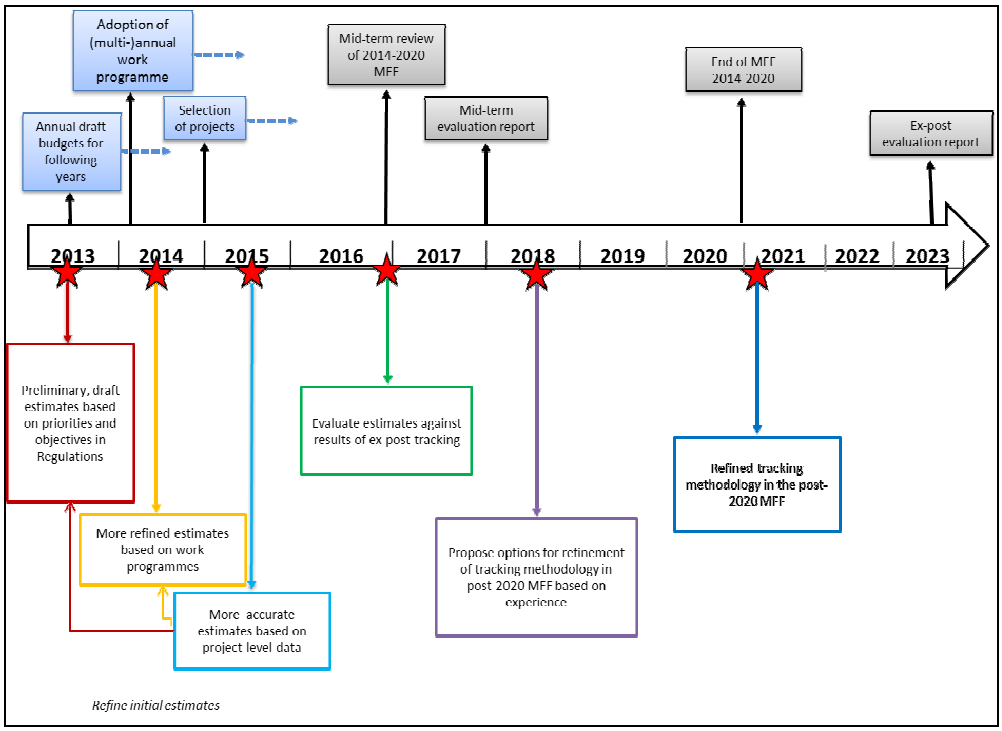
- **Stage 1: At the level of broad priorities and objectives set out in Fund-specific Regulations** – Tracking at this stage would be a fairly broad-brush exercise where the margin of approximation is likely to be high. Therefore this stage requires a relatively conservative approach to the use of the markers to avoid over-estimates of climate related expenditure. This level of tracking will remain essential throughout the whole MFF period and for each annual budget. It is also the level of tracking that is likely to attract high-level political attention, partly because it is likely to be available first. However, the increasing availability of information gained from tracking at lower levels of programming will help to adjust and improve the tracking at the level of broad priorities over time (see below).

- **Stage 2: At the level of work programmes** – Tracking at this stage will allow for a more detailed form of tracking as work programmes will set out more detailed priority actions under the different priority areas defined in the Regulations. Work programmes are adopted after the adoption of the Fund-specific Regulations, thus this level of tracking will only be available towards the end of 2013 (e.g. for Horizon 2020) or in 2014 for other funding instruments. This information could be used to prepare more detailed estimates for the 2015 annual budget onwards. Tracking at this stage has advantages (it is possible to use existing systems, lower administrative burden, etc.) but also means a certain margin of approximation and hence the likelihood of inaccuracies remains.

- **Stage 3: At the level of individual projects** – In due course more information about individual projects become available to the Commission for centrally managed instruments, and at this point project level tracking becomes possible. Tracking at this level will provide the most detailed account of climate expenditure and may be necessary to gain a full and accurate picture of climate related expenditures in certain areas of funding, e.g. where activity is not thematically determined, such as with ERC grants and Marie Curie actions under the Horizon 2020 Programme. However this information will only be available at later stages in the MFF, e.g. as of 2015 or 2016 and then progressively as more projects are adopted. While tracking at the project decision level will provide more detailed information it will still be at the level of commitments and therefore ex-ante. In the case of instruments where a large number of identifiable small scale projects are financed, considerations around administrative costs associated with this level of tracking should be assessed against benefits from the improved level of detail in the data. Lastly, project level tracking may not be possible for certain instruments, e.g. the IFG, given that funds are provided in the form of budget support.

Figure 3 provides a stylised illustration of how such a staged approach could work at these three levels and identifies key points in the MFF cycle when revised estimates could be made. This is a stylised overview of a timeline: the dates when more detailed information will become available to feed into revised estimates will vary between different funding instruments, depending on the sequencing of programming, implementation and reporting cycles.

Figure 3: Stylised illustration of a staged approach to tracking centrally managed instruments[43]



Source: Own compilation

[43] Note this is a stylised timeline - dates are illustrative and will vary between different funding instruments depending on sequencing of programming, implementation and reporting cycles. e.g. work programmes were adopted for the Horizon 2020 Programme in December 2013.

As noted above, internal discussions within the Commission on the approach to climate tracking were underway in 2013 when this study was being carried out. For certain instruments discussions on a particular approach to tracking are at an advanced stage, whilst in others discussions are still being finalised. Table 11 sets out some of the shortcomings and areas for potential development in the Commission proposals (as of the end of November 2013) which were identified by the study based on an analysis of relevant documents and discussions with experts. The table also sets out potential options for improving the proposed approach to tracking under the instruments over the period of the MFF.

Table 11: Potential shortcomings in the Commission's proposed or emerging approach to climate tracking and how they could be addressed over time[44]

Instrument(s)	Potential shortcomings in proposed approach	Steps for refinement over time
DG RTD: Horizon 2020	A three stage approach to tracking has been agreed by the Commission. Some activities (e.g. under the Societal Challenges theme) are thematically determined and are more amenable to early stage tracking, while others (e.g. ERC and Marie Curie Actions) are not thematically defined and their climate relevance will only become apparent at the project stage. Therefore, application of the markers in the first two stages will produce estimates that vary in accuracy.	The three stage application of the markers should deliver progressively more accurate estimates over time. Preliminary analysis of work programmes for 2014-2015, suggests that tracking at this level enables a more detailed and accurate assessment of climate relevant expenditures by marking individual calls and/or the specific topics within them. Expenditures are budgeted at the call rather than the topic level. However, the work programme does not yield any specific information of the climate relevance of some expenditure which is more cross-cutting. Stage three tracking is thus needed to gain an accurate picture of climate related expenditures particularly where activity is not thematically determined. An additional, fourth stage may be needed for tracking climate related expenditure under financial instruments in order to assess the types of companies and/or activities funded by these instruments. This would however require additional administrative and reporting requirements which would need careful consideration and integration in existing reporting systems to the extent possible.
DG ENTR: COSME	An outline approach to tracking is set out in the Programme Statement for the 2014 budget. This broadly proposes three stages to tracking climate related expenditures: Annual programme statement; Annual work programme	In the case of the financial instruments, a case can be made for including a fourth stage in the tracking methodology which collects data on the types of sectors, companies or activities financed through venture capital funds and loan guarantees. This will be the

[44] In the majority of cases, this analysis is based on the situation as of the end of November 2013. Subsequent discussions or agreement within the Commission on the proposed climate tracking approach under specific instruments are not reflected here.

Instrument(s)	Potential shortcomings in proposed approach	Steps for refinement over time
	and Project level. Financial instruments present challenges for tracking as the types of investments to be financed are not known ex-ante.	only way of knowing the extent to which the finance provided has contributed to climate objectives. However as noted above, this would require additional administrative and reporting requirements which would need careful consideration and integration in existing reporting systems to the extent possible.
DG MOVE/ ENER: CEF	As of the end of November 2013, there has been no overall agreement on a methodology for tracking climate related expenditure under the CEF. The approach used for TEN-T projects for the Programmes Statement for the 2014 budget applies tracking based on transport modes. A 40 per cent marker to all transport modes except for road projects, projects on the reduction of rail freight noise and projects on secure parking on the road core network was applied. For TEN-E projects a 40 per cent marker was applied to all infrastructure categories, while for telecommunication projects a 0 marker was applied to all projects. This approach is not particularly detailed and could be improved when more information becomes available at the work programme and project level.	For the transport sector, classification on the basis of the infrastructure system/mode appears to be the most pragmatic approach. Nevertheless, random checks to verify classifications should be carried out by implementing project level assessments in the initial years of the Programme. For the energy sector in addition to the tracking at the level of energy infrastructure categories, classification at project level will be required for all infrastructure categories, except for oil infrastructure projects and CO_2 infrastructure projects which by default should be marked as 0 per cent and 100 per cent respectively. Data collection requirements in the call for proposals and project application forms under the CEF should be fully aligned with the proposed indictors to ensure that the necessary data for the application of the tracking methodology is available.
DG ENV/ CLIMA: LIFE[45]	The Commission foresees a two-staged tracking approach: at programme level on the basis of the Multiannual Work Programmes (MWP); and at project level on the basis of information provided by project applicants in project proposals. Tracking at the level of MWP remains rather coarse as it is based on priority areas which are defined in a fairly broad way. Consequently, markers should be applied conservatively and may need adjustment on a project level where the classification can be applied more precisely.	A key question is how to track synergies for climate action stemming from funding under the Environment sub-programme. There may be need for a more detailed account of expenditure than at the level of priority areas set out in the MWP. Although the Regulation stipulates that allocation will not be given to thematic priorities under the Environment sub-programme (as defined in Annex III of the Regulation), tracking expenditure at this level could deliver more precise information than tracking at the level of priority areas only. This would nonetheless still be broad and would need to be complemented by project level tracking which will provide the most accurate

[45] As the primary objective of the Climate Action sub-programme relates to climate mitigation and adaptation, all actions under this sub-programme should be marked 100 per cent. Thus the identified shortcomings and options for refinement discussed here focus only on the Environment sub-programme.

Instrument(s)	Potential shortcomings in proposed approach	Steps for refinement over time
	Project level tracking will provide more precise information although this will only be available as of 2015-16. However there are concerns that information from the suggested 'tick-box' approach in project proposals may not be reliable as some applicants may over-estimate the climate relevance of their projects. Furthermore, there is a risk that such a question may be wrongly interpreted by applicants as part of the selection criteria, thus potentially discouraging applicants or encouraging over-estimates.	level of information based on stated objectives and intended impacts of the supported projects, however this will only be available at later stages in the MFF.
DG SANCO: CP; TPAH	As of the end of November 2013, a tracking system was not in place for either the TPAH or the CP.	The staged application of the markers should deliver progressively more accurate estimates over time. One option is to implement tracking at the level of actions specified in the Annual Work Programmes and at the project level, particularly for the TPAH on the basis of Annual Implementation Reports (although this would only provide retrospective information). Given that it is unlikely that many projects, if any, under the CP will be climate-relevant, it may be advisable to only implement project-level tracking once climate-relevant priorities or actions are identified in the annual work programmes of the CP.
DG DEVCO: DCI; ENI; IFS; IFG	An advanced tracking system is in place for **DCI** and to a lesser extent for the **ENI** on the basis of the OECD CRIS database at the level of decisions (i.e. a commitment to expenditure). Individual projects or contracts are recorded in the database but are not used for tracking purposes. Tracking can sometimes be applied to large decisions, which can fail to take account of individual projects or components. No intermediate tracking is available before decisions are made to commit to spending (e.g. at the level of individual contracts where a single decision does not relate to a single contract). As of the end of November 2013, a tracking system was not in place for either the **IFS** or the **IFG**.	For the **DCI and ENI**, , one option would be to supplement the existing system with informal tracking at the level of priority areas specified in multi-annual programming documents for internal purposes to provide an intermediate 'check' on the direction of expenditure. A further option is to implement a more detailed, component-based approach to tracking (building on information provided for the purposes of OECD tracking) of larger decisions where there are multiple components of which only some are climate relevant to provide a more accurate tracking of climate expenditure. For the **IFS and IFG**, a staged application of markers should deliver progressively more accurate estimates over time. For the IFS, tracking at the level of projects is recommended given that a large proportion is not

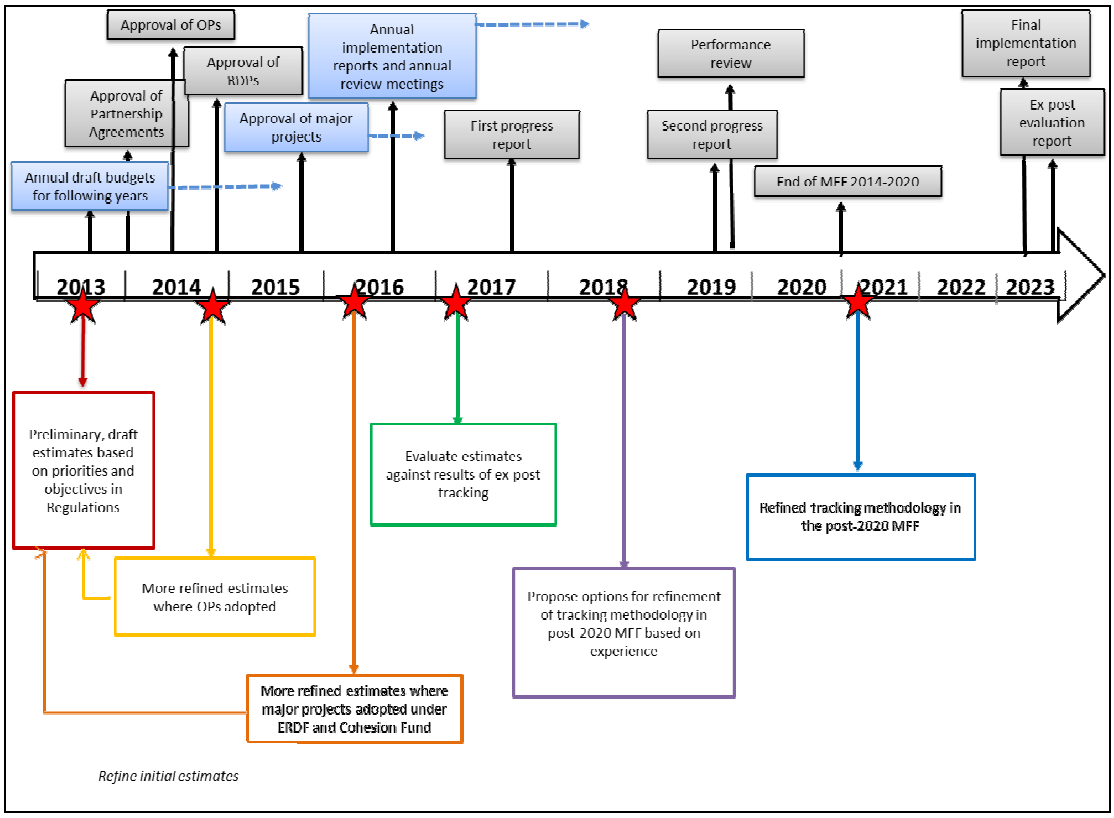
Instrument(s)	Potential shortcomings in proposed approach	Steps for refinement over time
		programmed (i.e. consists of short-term responses to crises). Under the IFG, project level tracking is not possible as funds are provided in the form of budget support.
DG FPI: PI	As of the end of November 2013, a tracking system was not in place for the PI.	A staged application of the markers should deliver more sophisticated estimates over time. Accurate estimates of climate expenditure should be possible by tracking actions in Annual Action Programmes. Detailed information will also be possible at the level of reporting as set out in the Common Implementing Regulation (CIR) for external action instruments; however this will be based on past rather than future commitments to project-level spending.
DG ELARG/ AGRI: IPA	An advanced tracking system is in place for IPA assistance managed by DG ELARG on the basis of the OECD CRIS database at the level of decisions (i.e. a commitment to expenditure). In most cases, decisions (i.e. Action Fiches) relate directly to projects. However, this approach can create difficulties when a decision relates to a larger programme of work which can include several components or projects, of which only some are climate related. Another issue is whether tracking at decision level can be applied to all projects, especially where there is indirect management in certain beneficiary countries. In this instance, detailed information is not collected on individual contracts/payments. Information is available at the highest level but not at a disaggregated level. DG AGRI is developing its approach to tracking for the rural development assistance under IPA which they manage. The proposal (as of the end of November 2013) is to track expenditure at the level of rural development measures detailed in the multi-annual rural development programme for each country.	For assistance managed by **DG ELARG**, the existing system of tracking could be complemented by informal tracking at the level of priority areas in strategy papers for internal purposes to provide an intermediate 'check' on the direction of expenditure. This would need to be followed by more accurate tracking at the commitment level as per the existing approach for tracking for the CRIS database. For large decisions which involve multiple components of which only some may be climate relevant, one could also potentially consider manual tracking (alongside their encoding into CRIS), to provide a more accurate and granular estimate of climate relevant expenditure. For assistance managed by **DG AGRI**, tracking at the level of the rural development measures in the multi-annual rural development programmes for each country could be considered although these measures are quite broad in scope and involve a range of activities that may vary significantly in how they relate to climate. Alternatively, tracking could be based on the Annual Report, however this more accurate, estimate will be based on past rather than future commitments to project-level spending.
DG ECHO: CPM + EURC; EVHAC	As of the end of November 2013, a tracking system was not in place for either the CPFI or EUAV.	A staged application of the markers should deliver progressively more accurate estimates over time. One

Instrument(s)	Potential shortcomings in proposed approach	Steps for refinement over time
		option is to track climate related expenditure at the level of actions specified in the Annual Work Programmes. Project level tracking is also needed to provide more accurate information on climate related spending to complement the information gleaned from AWPs.

5.2 Approach to tracking instruments under shared management

For the five EU funding instruments under shared management the tracking of climate related expenditure will need to be embedded within a different governance context. While the main provisions and overall budget are set at the EU level, the allocation of funding for different priority interventions is set out by national and regional authorities in Member States' in their respective Partnership Agreements and operational programmes. **Official information about any spending will only be available to the Commission at the time of the adoption of the programmes.** Operational Programmes (OPs) and Rural Development Programmes (RDPs) are expected to be adopted sometime in 2014 or in 2015 for CAP, Cohesion Policy and the EMFF. Thus a staged approach to tracking can also be envisaged for instruments under shared management – see Figure 4 for a stylised illustration of how such a staged approach could work and key points in the MFF cycle when revised estimates could be made. This is a stylised overview of a timeline, again, the exact dates at which more detailed information will become available to feed into revised estimates will vary across different funding instruments depending on their sequencing of programming, implementation and reporting cycles.

Figure 4: Stylised illustration of staged approach to tracking instruments under shared management



Source: Own compilation

The tracking approach for instruments under shared management needs to be integrated into existing data exchange and reporting systems where Member States provide financial information to the Commission during the programming and implementation phases. These systems differ according to the policy area and instrument concerned. A common element across the instruments, however, is that the information is provided from the bottom up, i.e. Member States inform the Commission at the level of programmes. Given that there are **no mechanisms to verify the information provided**, there is a risk that Member States might overestimate allocations for climate-related activities in view of the agreed earmarking (under Cohesion Policy) and overall spending commitment (for 20 per cent of the 2014-2020 MFF to be climate related). Given this challenge, financial data should be updated in annual implementation reports and verified against result indicators in the two strategic reports that are due to be prepared in 2017 and 2019. Another option is to require thematic evaluations on the climate relevance and impact of national allocations to be carried out by external evaluators.

As the majority of programmes co-finance a large number of small-scale projects, applying **project level tracking** would impose considerable administrative burdens in exchange for relatively limited added value in terms of precision and data quality. An exception is the case of **major projects under Cohesion Policy where a component-based approach** could be considered. Major projects are normally large-scale infrastructure projects which need to be approved individually by the Commission. Detailed information is available on the financial elements of these projects through project application forms, feasibility studies, project budgets and cost-benefit analyses. The initial estimate of allocations to major projects is captured in the existing system of intervention codes based on data included on 'indicative major projects' as part of OPs. At a later stage, a more accurate component-based

approach is possible when project promoters or developers apply for EU co-financing and more detailed information becomes available to the Commission.

As noted above, internal discussions within the Commission on the approach to climate tracking were underway in 2013 when this study was being carried out. For certain instruments discussions on a particular approach to tracking are at an advanced stage whilst in others discussions are still being finalised. Table 12 sets out some of the shortcomings and areas for potential development in the Commission proposals (as of the end of November 2013), identified by the study based on an analysis of proposals and discussions with relevant experts. The table also sets out potential options for improving the proposed or emerging approach to tracking under the instruments over the period of the MFF.

Table 12: Potential shortcomings in the Commission's proposed or emerging approach to climate tracking and how they could be addressed over time[46]

Instrument(s)	Potential shortcomings in proposed approach	Steps for refinement over time
DG REGIO: ERDF; ESF; Cohesion Fund	A **two-step approach** has been proposed: 1) Tracking based on 'categories of intervention codes' and 2) Tracking under the new dimension 'thematic objectives 4 and 5'. While Step 1 is relevant, Step 2 could lead to an overestimation of climate spending if codes originally marked with 0 per cent are marked as 40 per cent in a second step. The proposed approach for tracking under the **ESF** is to mark all funded activities as 0 per cent climate related, however any operation linked to climate change (e.g. training on energy efficient construction technologies) will be filtered and categorised under the secondary theme as 'Supporting the shift to a low-carbon, resource efficient economy' and support for these operations would constitute climate change related expenditure in its entirety (i.e. will be counted 100 per cent). This can imply a high level of subjectivity. Moreover a 40 per cent marker should be applied because even if some ESF activities are related to climate action, their primary objective and purpose will be related to employment, training and education rather than to climate change. An **'ex-post' tracking** will be based on the annual implementation	To avoid an overestimate of climate spending under Step 2, an alternative option could be to use a component-based tracking approach where on a pro-rata basis the different components of an operation are attributed to two or more different codes. The climate-relevant component could be captured under Step 1 within the newly introduced intervention code '066 Research, innovation, technology transfer and cooperation in the field of low carbon development'. This is possible under the new system and could facilitate a more precise use of the codes. In other cases, the component related to climate action is likely to be so insignificant in comparison to the total cost of the project that discounting it from the tracking should be acceptable. An alternative approach for tracking under the **ESF** would be to apply a co-efficient to the intervention code under Step 1 (i.e. 20 per cent of code 'Adaptation of workers, enterprises and entrepreneurs to change' promote operations related to climate action and apply the 40 per cent marker to this share of the total budget of the code). This exercise however could increase the administrative burden. Another option could be to require verification against results in strategic

[46] In the majority of cases, this analysis is based on the situation as of the end of November 2013. Subsequent discussions or agreement within the Commission on the proposed climate tracking approach are not reflected here.

Instrument(s)	Potential shortcomings in proposed approach	Steps for refinement over time
	reports, which include the allocations to selected operations. At the moment this system does not establish a link to result indicators, thus there is scope for improvement particularly in relation to the common indicators included in the Fund-Specific Regulation and any relevant OP-level indicators set out by managing authorities.	progress reports and external evaluations. **Guidance** to managing authorities on the inclusion of climate related indicators should be a priority during the preparation of OPs. The case of climate adaptation can be particularly challenging as activities/projects are very context specific which can influence the application of the markers. **Major projects** are captured through the categories of intervention codes; however a component-based approach to tracking major projects is possible based on project application forms (information is not available in the OPs). Project level tracking beyond major projects is only justifiable where this is necessary to provide a reasonable approximation of actions supported and where the principle of proportionality is taken into consideration.
DG AGRI: Pillar 1 CAP; Pillar 2 CAP (EAFRD)	As of June 2013, agreement on a simplified approach to tracking expenditure on **direct payments** has been reached for 2014, based on the current system of payments as the direct payments element of the reformed CAP will not come into force until 2015. Discussions are on-going on how to apply tracking to the new direct payment structure from 2015 onwards and will be finalised in the coming period now that political agreement on the CAP has been reached. A fairly detailed approach for climate tracking expenditure under **Pillar 2: EAFRD** has been developed within the Commission for 2015 onwards. This applies a climate marker to each of the 18 focus areas (detailed objectives) set out in the EAFRD, no matter which measure the funding is allocated to.	Concerning **Direct Payments,** the proposed approach set out in this study is based on an assessment of the objectives, requirements, coverage/incidence and potential impacts of each type of payment (measure) that can be applied by Member States under the new direct payments regulation. The proposed tracking methodology has been applied at the **'sub-measure'** level to take account of the different requirements, coverage and impact of the constituent parts of each measure. The climate markers proposed by this study for tracking under the EAFRD differ from those proposed by the Commission in two key ways. First, we propose **measure specific climate markers** against each focus area, rather than a generic climate marker that is applied to all measures under each focus area. This should not be administratively more onerous as the data is provided in that format by the managing authorities. Second our assessment against the draft criteria for applying climate markers used for this study has resulted in a **more conservative application of the markers**.

Instrument(s)	Potential shortcomings in proposed approach	Steps for refinement over time
DG MARE: EMFF	As of the end of November 2013, there was no advanced approach to tracking climate change related expenditure in the EMFF. However, the Guidance Fiche on the content of the Annual Implementation Reports, published in July 2013, states that reporting on climate relevant expenditure should be done at the measure level. The agreed approach will also depend on the final legal basis (as at the time of writing this report, the draft Regulation was still under negotiation).	One option is to apply the tracking methodology at the level of each **measure or sub-measure** by considering their contribution to the priority areas, their objectives and activities funded. Recording at the sub-measure level in some cases would be more detailed than at the measure level. Tracking at the measure and sub-measure level follows the existing reporting system and entails lower administrative burdens. Furthermore, as projects are small and numerous it is difficult to assess their contribution to climate change individually. However measures are frequently unspecific with regard to the precise activity to be assisted and may be interpreted in several ways (i.e. any climate impact will likely depend on the specifics of the project) and different types of expenditure may be bundled together under one measure, some of which may be climate related while others may not. Thus, there is a lack of knowledge at the commitment stage and a certain margin of approximation and hence possibility for error remains. By recording at the sub-measure level these problems can potentially be mitigated. An additional approach is to allow specific Member State reporting for those measures for which the description does not show a direct relevance for climate action and are by default tracked as 0 per cent, in order to demonstrate that the activities undertaken do in fact address climate action and thus could be allocated a climate marker of 40 per cent.

5.3 Approach to tracking EU financial instruments

The Commission considers[47] financial instruments to be particularly suitable for addressing sub-optimal investment situations in a wide range of policy areas where activities or operations are potentially capable of being financially viable, but are not able to attract funding from market sources that is either adequate or available on reasonable terms. Lack of finance on suitable terms appears to be inhibiting a significant range of investments at present. The Commission has thus put forward proposals for financial instruments in different areas of the EU budget. These include

[47] See Commission Communication - A framework for the next generation of innovative financial instruments — the EU debt and equity platforms, (COM (2011)662), 19.10.2011.

equity or quasi-equity investments, loans, guarantees, and other risk-sharing instruments, which, where appropriate, can be combined with grants.[48]

Article 225 of the Rules of Application under the EU Financial Regulation regulates the **monitoring** of financial instruments. It requires authorities and financial intermediaries to put in place an adequate monitoring system, which should build on the objectives and result indicators established pursuant to the ex-ante evaluation of the financial instrument. In the case of centrally managed instruments, the Commission will rely on reporting from financial intermediaries. In the case of instruments under shared management, the Commission will build on reporting by public authorities in Member States. To ensure consistency, the financial intermediary or public authority should agree to follow the methodology put in place by the Commission, or adopt a methodology that is principally consistent with the Commission's approach.

In most cases, EU finance will support or be combined with other sources of funding, and will therefore support companies or projects indirectly. It will therefore be necessary to assess the proportion of relevant financial flows that are climate related and EU funded. Tracking climate related expenditure under financial instruments should only cover **the concrete EU budget contribution** to the instrument and clearly distinguish it from the overall amount of other finance leveraged through the instrument. Any other approach would encompass sources of funding beyond the EU budget and would thus over-estimate contributions of the EU budget to climate related activities. This is similar to the approach adopted in the international context where, for example, the MDBs approach to climate finance tracking covers all types of financial instruments deployed by the banks, including debt, equity, guarantees, technical assistance and grants. MDBs include in their reports climate finance based on own capital resources, and funds managed for third parties. The external funding sources for the climate finance projects are separated from the MDBs' own resources[49].

According to Art 140 of the EU Financial Regulations an **ex-ante evaluation** of any proposed financial instrument must be conducted using specific criteria including: additionality, leverage effect, monitoring/evaluation etc. The information from this ex-ante evaluation could be used to provide a preliminary estimate of the climate relevance of the financial instrument. However, more detailed analysis will be required once the instrument is implemented based on the activities it supports.

One important consideration to keep in mind when tracking climate expenditure under financial instruments is that the instruments are **market-driven.** Most EU financial instruments are not thematically defined in relation to the type of project eligible for funding, for example those under Horizon 2020 or COSME. Nevertheless, there are some cases of instruments with a clear low-carbon focus, for example the proposed Renovation Loan and the Loan for Sustainable Urban Development envisaged for Cohesion Policy.[50] In most cases the climate relevance of activities supported by the financial instrument will only become visible at the stage at which finance is provided

[48] Regulation No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:298:0001:0096:EN:PDF

[49] van de Ven, J. (2013) Presentation on 'Joint MDB climate finance tracking', Presentation at working session on alternative approaches to track climate finance, OECD, Paris, 16 September 201

[50] See DRAFT Standard terms and conditions for financial instruments pursuant to Article 33(3)(a) of the CPR *(Implementing Act Article X)*

by the financial institution for a specific purpose. Thus, in the majority of cases, tracking climate relevant expenditure under EU financial instruments will need to build on information about the projects that are selected and implemented.

Some general considerations to keep in mind when developing a tracking system for financial instruments under different EU funding programmes are set out below. Discussions within the Commission on the approach to tracking financial instruments are still at a very early stage but there is a need to ensure that it is as consistent and coherent as possible between different instruments. For example, a common approach could be developed for financial instruments deployed within the EU through the **Financial Instruments Expert Group** (FIEG), chaired by DG ECFIN, and for financial instruments used in relation to external action in the context of the **EU Blending and External Cooperation Platform** (EUBEC PLATFORM).

5.3.1 Tracking financial instruments under shared management

All funds under shared management could be implemented where appropriate through financial instruments including equity, loans, loan guarantees and other forms of revolving finance[51]. The type of instrument, product and the potential procedure is to be set out by respective authorities in their Operational / Rural Development Programmes. The current provision that a project cannot be financed by more than one source has been removed and rules to enable the combination of financial instruments with other forms of support in particular grants have been set out[52].

There are two types of financial instruments envisaged under the ESI funds: tailor-made and off-the-shelf. Currently, five off-the shelf instruments are under development or have already been agreed:

- Loan for SMEs based on a portfolio risk sharing loan model **(RS Loan)**
- Guarantee for SMEs (partial first loss portfolio) **(Capped guarantee)**
- Equity investment fund for SMEs and start-up companies based on a co-investment model **(Co-investment Facility)**
- Loan for energy efficiency and renewable energies in the residential building sector **(Renovation Loan)**
- *Loan for sustainable Urban Development* ***(UD Fund) (under development)***

Managing authorities will report on all financial instruments under their responsibility or management and contributions from ESI Funds' to financial instruments set-up at EU level.[53] The **current format of the draft reporting model** for financial instruments under the ESI Funds does not provide for a more detailed level of tracking

[51] EC (2011) Proposal for a Regulation laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1083/2006, COM(2011)615, 6.10.2011, Brussels

[52] Medarova-Bergstrom, K., Volkery, A., Sauter, R., Skinner, I. and *Núñez* Ferrer, J. (2013) *Optimal use of the EU grant and financial instruments in the next multiannual financial framework to address the climate objective*. Final report for DG Climate Action, European Commission. Institute for European Environmental Policy, London/Brussels

[53] See for the draft model: http://ec.europa.eu/regional_policy/what/future/pdf/preparation/2_fiche_4b_ia_financial_instruments_reporting_template_2013_22_07.pdf

at the level of intervention code.[54] The draft reporting model requires authorities to report on the:

- total amount of support by programme and priority or measure to the financial instrument,
- total amount of support paid or committed in guarantee contracts by the financial instrument to final recipients,
- revenues of and repayments to the financial instrument,
- leverage effect and contribution of the financial instrument to the achievement of the indicators of the programme,
- thematic objectives supported by the financial instrument which include supporting the shift towards a low carbon economy and promoting climate change adaptation, risk prevention and management[55].

The information generated from this reporting process will provide some indication of whether the instrument contributes to climate change objectives, particularly the section covering thematic objectives. However it will require additional assessment to be able to mark these financial instruments according to the 100, 40 or 0 per cent categories under the tracking methodology. This could for example build on the **eligibility criteria** for projects such as that envisaged for the Renovation Loan which would allow an assessment of climate relevance of supported activities according to the tracking criteria. For other off-the-shelf instruments (apart from the Loan for Sustainable Urban Development, which is still under development) no such information is currently available. **Ex-post tracking** could also be applied by authorities to determine the climate relevance of projects supported through financial instruments. This would require more detailed assessment and a coherent approach to be agreed that would be suitable to be applied across the ESI funds and potentially integrated in the envisaged reporting model for financial instruments.

5.3.2 Tracking financial instruments under central management

Debt and equity instruments are retained under the Horizon 2020 and COSME programmes which build on experience under the 2007-2013 MFF. These instruments have been redesigned to better address coordination needs and complementarity in terms of better targeting and the scope of activities supported by the instruments through the different stages in the innovation cycle. Debt and equity instruments are also to be used under the CEF, including a credit enhancement mechanism for the Project Bond Initiative. Financial instruments, including debt and equity instruments may also be used under the future LIFE programme[56]. Several options for the disbursement of LIFE funds are currently under consideration including the creation of a climate change window within the risk sharing initiative (RSI II) of the Horizon 2020 Programme. Another proposal is to create a new financial instrument between the Commission and the EIB called the Debt for Energy Efficiency Projects Green Initiative (DEEP Green). DG Environment is also discussing the development of a Natural Capital Finance Facility (NCFF) with the EIB which seeks to use public funds to leverage private investment to natural capital related activities.

[54] See for the draft reporting model: http://ec.europa.eu/regional_policy/what/future/pdf/preparation/2_fiche_4b_ia_financial_instruments_reporting_template_2013_22_07.pdf

[55] European Commission (2013) Fiche 4 B: Implementing Act on the monitoring of financial instruments and provision of monitoring information to the Commission, version 27 May 2013

[56] Article 17(10) of the proposed LIFE regulation lays down that EU funding may take the form of contributions from financial instrument in accordance with the general provision for financial instruments set out in Regulation (EC, Euratom) No 1605/2002 and with more operational requirements set out in specific European Union acts.

The Commission is required to **report annually** to the Parliament and the Council on activities relating to financial instruments covering *inter alia*, a description of the financial instrument, the financial institutions involved in implementation, aggregate budgetary commitments and payments from the budget for each financial instrument, the performance of the financial instrument, target leverage effect, achieved leverage effect and the contribution of the financial instrument to the achievement of objectives under the concerned programmes[57]. Detailed **monitoring requirements**[58] include establishing a monitoring system to assess progress of implementation of the financial instrument in achieving the policy objectives of the specific programmes and to analyse implementation. Currently envisaged reporting requirements do not appear likely to generate useful information on the specific climate relevance of the financial instrument.

Although the Commission will have better control of relevant data and information for instruments under central management, it will rely on reporting by financial intermediaries and it will still remain challenging to connect activities by financial intermediaries such as the EIB with the specific programme objectives under the EU budget. Some form of assessment of the types of companies and/or activities actually funded by the financial instruments would appear to be necessary to allow an accurate assessment of the climate relevance of these instruments. For example in relation to COSME, SME activities supported by generalist VC funds or loan guarantee schemes could be marked as 100 per cent for renewable energy, energy efficiency, low carbon technologies and 40 per cent for water management, air pollution control, cleaner transport. However it is likely that an assessment that stops at the stage of allocations to financial intermediaries will underestimate climate related expenditures if it is only able to identify allocations to specialist funds (e.g. climate focused venture capital funds). Thus there may be value in collecting **further data about the beneficiaries of financial instruments.** This is likely to provide the most accurate level of tracking of financial instruments, but it would also introduce significant additional administrative burdens. A more practical approach will thus need to be considered.

In the case of instruments managed by the EIB/EIF, information on projects could also be drawn from the **carbon-footprint assessment** for projects that the EIB has been developing in a pilot-phase up until 2011 and is further developing now. However the methodology only covers projects with significant emissions[59] and thus would need to be revised in order to be applicable to climate supportive investments (i.e. those which lead to a reduction in GHG emissions). The Agence Française de Développement (AFD) uses carbon-footprinting tools and a core **list of eligible project categories** for projects that typically contribute to tackling climate change and those where assessment is needed to determine the impact. Information generated from these kinds of assessments could potentially be used to inform the approach to tracking projects financed through EU financial instruments

For the potential financial instrument being considered of creating a climate change window under RSI II, a tracking system could be developed around the **eligibility criteria** used for the selection of projects. For example under RSI, the definition of innovation is critical in determining the eligibility of projects with a list of 10 criteria used to define eligibility. These cover whether, for example, the patent has been

[57] European Commission (EC) (2013) Financial Regulation applicable to the general budget of the Union and its rules of application, Synoptic presentation, http://ec.europa.eu/budget/library/biblio/publications/finreg/KV3112815ENC.pdf

[58] RAP replace the former Implementing Rules (IR)

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

obtained within the past two years, the firm is located on a science park, R&D expenditure reached a certain percentage level, etc. At least one criterion needs to be fulfilled for funding to be approved. Potential additional eligibility criteria specifically relating to climate change will need to be developed for projects supported through a potential future dedicated window. These criteria could form the basis of a tracking approach. Similarly, project eligibility and selection criteria developed under the NCFF could be used to inform tracking under this potential new financial instrument.

5.3.3 Financial instruments in external action

In the area of external action, loan and grant blending facilities (LGBFs) link EU grants (sometimes topped up by Member State grants) with loans from international and European bilateral financial institutions such as the EIB, the Agence Française de Développement (AFD), KfW Bankengruppe, European Bank for Reconstruction and Development (EBRD) and the Council of Europe Development Bank (CEB)[60].

In 2010 so-called '**climate change windows'** (CCW) were established in all existing blending facilities. The overall aim of CCWs is to improve the tracking and overall visibility of climate actions within these facilities and to improve project design, so that low carbon and climate resilience considerations are incorporated in strategic infrastructure areas[61]. The CCWs aim at tracking and generating investments in mitigation and adaptation measures and climate resilience. Climate change windows (CCW) are now operational in all major regions, including Africa and Latin America.

The Commission's proposal for the DCI in the 2014-2020 MFF envisages the introduction of LGBFs in beneficiary countries[62]. Each LGBF follows a different procedure e.g. the Western Balkans Investment Framework (WBIF) has a different set up to the Neighbourhood Investment Facility (NIF). Each funding programme is to develop its own process to track climate related expenditures within their LGBF while at the same time ensuring the approach to tracking is consistent across the facilities, taking into account the methodologies used by implementing financial institutions. The processes are to be monitored by the EU Platform for Blending in External Cooperation (EUBEC)[63]. Under the CCW of the WBIF for example, the suggested approach to tracking climate related expenditure is to mark each grant approved distinguishing between mitigation and adaptation. Beneficiaries are required to indicate the **climate change implications** of the proposed investment in their **project grant application form** (PGAF). Later in the approval process, the lead international financial intermediary **assesses the expected climate change related financing** in their assessment of the project and suggests a Rio marker which can be applied to it.[64] The suggested marker is finally

[60] Núñez Ferrer, J., Volkery, A., Withana, S., Medarova-Bergstrom, K., (2012), *The implications for the EU and national budgets of the use of innovative financial instruments for the financing of EU policies and objectives*, Study for European Parliament Budget Committee

[61] EC (2013),European Union Climate Funding for Developing Countries in 2013, http://ec.europa.eu/clima/events/0086/funding_en.pdf

[62] J. Núñez Ferrer, P. Morázan, T. Schäfer, A. Behrens (2012), *Blending grants and loans for financing the EU's Development Policy in the light of the Commission Proposal for a Development Cooperation Instrument (DCI) for 2014–2020*, Study for the European Parliament, Policy Department for External Policies.

[63] J. Núñez Ferrer, A. Behrens (2012), Presentation on Innovative approaches towards EU blending mechanisms for development finance, CEPS, http://www.dev-practitioners.eu/fileadmin/user_upload/Innovative_approaches_towards_EU_blending_mechanisms_for_development.pdf

[64] http://www.wbif.eu/uploads/attached_document/document/996333203/CCW_inc.pdf

approved by DG ELARG[65]. This approach provides an ex-ante estimate of the climate relevance of the investment at project level. The WBIF also supports technical assistance, mostly at preparation level, i.e. pre-feasibility and feasibility studies. Such assistance will be marked considering the project as a whole and expenditure will be considered completed when the pre-feasibility or feasibility study is delivered. The impact of projects on GHG emissions and climate risks is also assessed and reported by financial institutions. This approach could be considered as an example to inform the approach to tracking being developed under other CCWs.

5.4 Common principles and cross-cutting issues

The analysis undertaken in this study indicates that the tracking methodology needs to be tailored to the needs and specificities of different EU funding instruments. At the same time, some key principles (e.g. common definitions and criteria for eligibility) are needed across the different instruments to ensure a coherent approach to the tracking.

The need for common principles is particularly evident in the case of activities or projects which are eligible for financing under different EU funding instruments, e.g. energy efficiency projects which can be funded through Cohesion Policy, Horizon 2020 and instruments for external action or transport projects which can be funded under the CEF and Cohesion Policy. If different DGs are approving funding of similar types of activities, a similar weighting (i.e. Rio marker) should be applied across the instruments. Thus, there is a need to identify potential inconsistencies in the tracking approach between different EU funding instruments, create a mechanism to assess whether different DGs are applying the same markers to similar programmes and establish a means to address any issues that may arise in this regard.

An overview of the proposed or emerging approach to climate tracking under different EU funding instruments as of the end of November 2013 is set out in Table 13 and Table 14.

Table 13: Proposed or emerging Commission approach to tracking climate related expenditure under centrally managed instruments as of the end of November 2013[66]

Instrument(s)	Proposed or emerging Commission approach to tracking
DG RTD: Horizon 2020	The EC has agreed a three stage approach to tracking climate expenditures. This involves: 1. A broad assessment in the annual Programme Statements, based on annual budget allocations to specific objectives as set out in the Regulation; 2. A more detailed annual assessment based on the analysis of topics specified in work programmes; 3. A further, more detailed assessment of funded activities going down to the project level where necessary (i.e. where there is some uncertainty about the extent of climate related expenditure).
DG ENTR: COSME	An outline approach to tracking climate related expenditures is set out in the Programme Statement for the 2014 budget. This broadly proposes three stages to tracking:

[65] Input from DG ELARG

[66] This analysis is based on the situation as of the end of November 2013. Subsequent discussions or agreement within the Commission on the proposed climate tracking approach are not reflected here.

Instrument(s)	Proposed or emerging Commission approach to tracking
	1. Annual programme statement – climate related expenditures for each specific objective in the 2014 annual budget are estimated by examining the proportion of relevant expenditures for 2013 allocated to activities that contribute to climate activities, and applying a similar proportion to the 2014 budget; 2. Annual work programme – annual work programmes may provide further information about climate related activities under each objective; 3. Project level – analysis of individual projects funded will provide further information about relevant activities, (e.g. projects funded under Strategic Objective 1, which supports miscellaneous activities designed to improve framework conditions).
DG MOVE/ENER: CEF	No agreement had been reached on a climate tracking methodology as of the end of November 2013. The approach used for TEN-T projects for the Programme Statement for the 2014 budget applies tracking based on transport modes. A 40 per cent marker was applied to all transport projects except for road projects, projects on the reduction of rail freight noise and projects on secure parking on the road core network. For the energy sector a 40 per cent marker was applied across all infrastructure categories, while for the telecommunication sector the 0 per cent marker was applied to all projects in 2014.
DG ENV/CLIMA: LIFE	The Commission foresees a two-stage tracking approach: 1. At programme level on the basis of priorities in the Multiannual Work Programmes (MWP); 2. At project level on the basis of information provided by applicants in project proposals indicating whether their project could be considered climate-related.
DG SANCO: TPAH; CP	As of the end of November 2013, a tracking system was not in place for either the TPAH or the CP.
DG DEVCO: DCI; ENI; IFS; IFG	An advanced tracking system is in place for **DCI** and to a lesser extent for the **ENI** on the basis of the OECD CRIS database at the level of decisions (i.e. a commitment to expenditure). As of the end of November 2013, a tracking system was not in place for either the **IFS** or the **IFG**.
DG FPI: PI	As of the end of November 2013, a tracking system was not in place for the PI.
DG ELARG/AGRI: IPA	An advanced tracking system is in place for IPA assistance managed by **DG ELARG** which tracks project-level expenditure on the basis of the OECD CRIS database. This has been on-going since 2010 (at which point both adaptation and mitigation expenditure were tracked). This tracking system includes a quality control process to check that projects are coded correctly. The approach to tracking for IPA assistance managed by **DG AGRI** is being developed and is likely to track expenditure at the level of the rural development measures detailed in the multi-annual rural development programme for each country.
DG ECHO: CPM + EURC; EVHAC	As of the end of November 2013, a tracking system was not in place for the CPM + EURC or the EVHAC.

Table 14: Proposed or emerging Commission approach to tracking climate related expenditure under shared management instruments as of the end of November 2013[67]

Instrument(s)	Proposed or emerging Commission approach to tracking
DG REGIO: ERDF; ESF; Cohesion Fund	The following two-step approach has been proposed for the ERDF and CF: 1) Tracking based on 'categories of intervention codes' and 2) Tracking under the new dimension 'thematic objectives 4 and 5'. The proposed approach for tracking under the **ESF** is to mark all funded activities as 0 per cent climate related and then to have the opportunity to choose climate as a 'secondary theme' which will then be counted as 100 per cent climate related.
DG AGRI: Pillar 1 CAP; Pillar 2 CAP (EAFRD)	As of June 2013, agreement on a simplified approach to tracking expenditure on **direct payments** has been reached for 2014, based on the current system of payments as the direct payments element of the reformed CAP will not come into force until 2015. Discussions are on-going on how to apply tracking to the new direct payment structure from 2015 onwards and will be finalised in the coming period, now that political agreement on the CAP has been reached. A fairly detailed approach for climate tracking expenditure under **Pillar 2: EAFRD** has been developed within the Commission for 2015 onwards. This applies a climate marker to each of the 18 focus areas (detailed objectives) set out in the EAFRD, no matter which measure the funding is allocated to.
DG MARE: EMFF	As of the end of November 2013, there was no advanced approach to tracking climate change related expenditure in the EMFF. However, the Guidance Fiche on the content of the Annual Implementation Reports from July 2013 states that reporting on climate relevant expenditure should be done at the measure level.

As is evident from Tables 13 and 14, the approaches to tracking that are emerging for different EU funding instruments currently vary. These differing approaches may lead to potential inconsistencies in how specific expenditures are marked under different funding instruments. **'Cross-cutting' expenditure types** (i.e. activities or projects which are eligible for financing under different EU funding instruments) need to be identified and a common approach to their classification ensured. However, some actions may still require a different classification depending on their scope and context, thus tracking should be undertaken on a case-by-case basis. Some examples of cross-cutting expenditure types are set out below:

- ***Biodiversity*** actions under Cohesion Policy which focus on the promotion of eco-tourism through new signs and roads in parks should be classified as 0 per cent climate relevant, while biodiversity actions under Rural Development which entail the restoration of wetlands should be classified as 40 per cent as should for example floodplain restoration to support adaptation to climate change under the LIFE programmes.
- A ***water*** supply project within the EU under Cohesion Policy which simply aims to help Member States comply with the Water Framework Directive should be tracked as 0 per cent climate relevant, while a water supply project in a developing country supported through an external action funding instrument which aims to respond to water scarcity issues due to the impacts of climate change should be classified as 40 per cent.

[67] This analysis is based on the situation as of the end of November 2013. Subsequent discussions or agreement within the Commission on the proposed climate tracking approach are not reflected here.

- A ***waste*** recycling facility supported under the LIFE programme could be classified as 40 per cent climate relevant whereas industrial or hazardous waste management activities supported for example under Cohesion Policy could be classified as 0 per cent.
- ***Research and innovation*** activities in public research centres supported under Cohesion Policy could be marked as 0 per cent climate relevant while research on secure, clean and efficient energy under the Horizon 2020 programme could be marked as 40 or 100 per cent depending on its precise focus.
- Investments in new ***forestry*** technologies and in processing and marketing forest products as a way of enhancing farm viability and competitiveness under the EAFRD would be marked as 0 per cent climate relevant while activities to prevent forest fires supported for example under the LIFE programme could be marked as 40 per cent.
- Activities to address the ***health impacts*** from noise pollution so as to support implementation of the Noise Directive under the LIFE programme could be marked as 0 per cent climate relevant whereas activities to improve the public health response to heat waves under the health programme (TPAH) could be marked as 40 or 100 per cent depending on the nature of the activity.
- Multimodal ***transport*** supported under the CEF where it includes road or air should be marked as 0 per cent while if rail or inland water transport is involved it can be considered as 40 per cent climate relevant.

These examples illustrate that, while recognising the need for a consistent approach to such cross-cutting themes, tracking should be undertaken on a case-by-case basis taking into account the significance of the stated objectives and expected effects of the activity in line with the agreed definition and criteria for assessing the climate relevance of activities funded under the EU budget.

The above highlights the need for **detailed, common guidance** to be developed centrally by the Commission on how to track climate related expenditure under the EU budget. In particular this needs to spell out in some level of detail what the activities attracting 100 per cent and 40 per cent markers entail in practice as this is where there is potential room for differential interpretation. This guidance needs to be developed for use both within the European Commission and by Member States in order to ensure a consistent approach to tracking across different funding instruments. This guidance needs to be accompanied by illustrative, relatively concrete examples of projects. Some are given in this report. The development of such guidance is particularly important in the case of tracking under shared management funds where the room for interpretation is more significant. The MDBs are currently elaborating such guidance. While there are still a number of open issues regarding adaptation, on mitigation the MDBs have quite some agreement which could help to inform an EU approach to developing guidance in this regard.

In addition to the provision of detailed guidance, the Commission could also assign a **contact point on tracking issues** for each funding programme. This could be a Commission official who is able to interact with colleagues in other DGs and discuss approaches being taken in other areas to tracking particular types of expenditure and ensure consistency with approaches taken in their own DG.

6. Overall conclusions and recommendations

Tracking climate related expenditure is an important part of the political commitment to 'mainstream' climate change obligations across different policy areas and for at least 20 per cent of the 2014-2020 EU MFF to support climate change related activities. Developing a coherent and credible tracking system is **important in view of modernising and greening the EU budget.** As noted in the recently adopted 7th EAP, establishing a tracking and reporting system is also important for the EU's overall effort relating to multilateral agreements on climate change and biodiversity. The 7th EAP calls for the development and application of a system for reporting and tracking environment-related expenditure in the EU budget by 2014, in particular expenditure on climate change and biodiversity[68].

However, operationalising a simple, practical and accurate approach to tracking this expenditure is challenging. The tracking methodology should be simple, not create additional administrative burdens, but at the same time **provide meaningful information** for policy makers and wider stakeholders. It should rely to the greatest extent possible on existing or proposed data exchange mechanisms and reporting requirements. Differences between the management modes of different funds need to be reflected in the tracking methodology. Data collection requirements in the call for proposals and project application forms under different funding instruments should be aligned with the tracking methodology to ensure that the necessary data for the application of the tracking methodology is available in due course. **Striking a balance between simplicity and accuracy is critical**.

The EU already has some experience of tracking climate related expenditure, e.g. in DG DEVCO and DG ELARG, and is also able to draw on significant experience in the OECD, MDBs and national institutions in this regard. This provides a valuable foundation to draw on. Discussions on the proposed tracking methodology were underway in the Commission throughout 2013 while this study was being carried out. In many cases a common understanding has been reached on a tracking approach which is suited for particular funds, notably regarding funds under shared management. This study seeks to **build on these existing agreements and discussions** to support DG CLIMA in thinking through potential options on how the proposed and emerging methodology could be further elaborated and refined over time. Given the diversity of EU funding instruments and different stages of establishing tracking systems, the immediate focus in the next few years will be to improve and ensure **consistency** in the tracking methodology and how it is applied between the different funding instruments so that expenditure estimates generated are both well-founded and comparable.

The 2014 draft budget provided the first estimate of climate related expenditure in the MFF. As we move **along the implementation of the 2014-2020 MFF, there is a need to refine these estimates** within the limits of a consistent approach and the methodology already set up**.** As data availability improves it will allow further detail to be phased into the methodology and for a more elaborated, precise and sophisticated approach to tracking to develop over time. Thus, tracking should be seen as an **on-going, staged process over the period of the MFF** that clearly lays out all the elements required and provides a methodology that over time can be reinforced to bring about more robust outcomes. This will enable the development of more detailed, sophisticated and accurate estimates of climate related expenditure from

[68] Decision of the European Parliament and of the Council on a General Union Environment Action Programme to 2020 "Living well, within the limits of our planet, 2012/0337 (COD), PE-CO_S 64/13, Brussels, 7 November 2013

year to year. These improved estimates will also better stand up to external scrutiny for example by MEPs, Commissioners, and a range of stakeholders.

There is a **precedent for tracking climate related expenditure at the international level**. Certain DGs already have an advanced tracking system in place for external EU funding instruments. Any tracking methodology developed by the Commission should be coherent both internally and with existing international systems to the extent possible so as to reduce possible confusion and increase credibility. At the same time, the EU system should reflect the specific needs of the EU budget and the development of the Commission's methodology to date. The staged approach to tracking set out in this study builds on current international practices. The evolution of the EU tracking methodology should take full account of international processes on these topics so as to ensure that the EU approach does not result in a burdensome tracking methodology which is not compatible with existing and emerging international systems.

The room for manoeuvre and refinement of the emerging tracking approach may be rather limited at the current moment as different DGs are keen to work with what has already been agreed and to establish a robust system before making any further changes to it. However, **looking ahead there is a need to reflect on further improvements and any potential extensions to the approach** to tracking climate related expenditure in the EU budget in view of the mid-term review of the 2014-2020 MFF and the post-2020 MFF.

The tracking system could ideally distinguish between **climate mitigation and climate adaptation expenditure where possible;** this is not something the currently proposed/emerging system within the Commission envisages. Such a distinction would provide a more accurate record of climate related expenditure and would also reflect practices at the international level. The distinction between mitigation and adaptation is already made by DG DEVCO and DG ELARG for the external action instruments in their reporting to the CRIS database. However such a level of tracking may be difficult to undertake in many instruments, particularly at an early stage given the difficulties in assessing ex-ante the proportion of expenditure that will be allocated to mitigation or adaptation activities. Such a level of tracking may also be considered to involve an added level of administrative effort, require additional guidance and in some cases need changes in project reporting systems, e.g. more detail on project approval processes and documentation. Thus there may be some resistance to such an approach, particularly in the early stages of operationalising a tracking methodology. However, such a distinction would add value by providing more detailed information that would inform policy makers of progress made with financing climate mitigation and adaptation. These very often represent different activities and, to some extent, concern different actors. Thus, it is relevant to distinguish between mitigation and adaptation to the extent possible at this stage and for this distinction to be further integrated as the tracking system develops and the level of detail of available information improves over time.

Perhaps the most critical area for development of the tracking system in the coming years is to incorporate an element of ex-post analysis to make the data more concrete and the system more robust. This study focuses on an **ex-ante approach** to tracking climate related expenditure which provides a policy-related information system at an early stage in the policy cycle. This is what is required now and is the approach being pushed by the Commission. However, this tracking system needs to be complemented with an **ex-post** system of tracking of performance based reporting on outputs in order to be able to assess the effects of the activities and projects (in terms of GHG

emissions reduced/sequestered or of adaptive capacity/resilience improved) based on the results of projects, including outcomes on the ground. This would require establishing a link between financial data on actual spending and relevant result indicators. Establishing such a system would require some investment. However, efforts to design these processes are underway at multiple levels globally and provide some useful lessons for an EU approach[69]. Moreover, the N+3 rule will apply to all programme areas in the 2014-2020 MFF period which will delay the availability of information on the actual performance of funds. According to the rule, requests for payments or the actual payments need to be processed at the latest by the end of the third year after committing to the payment. Within this timescale a link between the ex-ante tracking system and ex-post indicator based monitoring and reporting will need to be established. Over time, the ex-post assessment can inform the improvement of ex-ante approaches. Further analysis of such a link and how it would work in practice would help to inform a potentially important step in the evolution of the tracking system over time.

[69] For example in the context of discussions in the Global Climate Fund and the Climate Investment Funds