EN 2016 NO 31

Special Report

Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short

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(pursuant to Article 287(4), second subparagraph, TFEU)

Audit team

The ECA's special reports set out the results of its performance and compliance audits of specific budgetary areas or management topics. The ECA selects and designs these audit tasks to be of maximum impact by considering the risks to performance or compliance, the level of income or spending involved, forthcoming developments and political and public interest.

This report was adopted by Audit Chamber I, which specialises in the sustainable use of natural resources. The audit was led by ECA Member Phil Wynn Owen, Dean of Chamber I, along with Kersti Kaljulaid, former ECA Member. The head of task was Bertrand Tanguy, with Tomasz Plebanowicz as deputy head of task. The audit team comprised Katharina Bryan, Peeter Latti, Alain Vansilliette, Angharad Weatherall, Armando Do Jogo, Michał Machowski, Vivi Niemenmaa, Olivier Prigent, Carlos Sanchez Rivero, Frédéric Soblet, Klaus Stern, Dana Moraru and Maria Ploumaki. Hannah Critoph assisted with drafting the report.

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Glossary and abbreviations 05

Agricultural direct payments: Direct payments are granted to farmers in order to support their incomes and also to remunerate them for their production of public goods through greening, and in combination with cross-compliance.

Climate action: Actions tackling climate change (referred to as 'climate action' in this report).

Climate mainstreaming: Rather than creating a specific dedicated funding instrument, mainstreaming integrates climate action into EU policies, instruments, programmes or funds.

Climate tracking: Monitoring the progress towards reaching the 20 % target by measuring the financial contribution of funds to this target.

Cohesion Fund (CF): The Cohesion Fund aims to strengthen the economic, social and territorial cohesion of the Union in the interest of promoting sustainable development. The CF focuses on investments in environment and transport, including areas related to sustainable development and energy which present environmental benefits.

Cross-compliance: System which links most common agricultural policy payments to farmers' compliance with basic rules for the environment, food safety, animal health, and welfare, and good agricultural and environmental conditions of land.

EU climate coefficients: Weightings given to EU funds going to projects, measures or actions. Coefficients are based on the OECD Rio markers methodology. EU climate coefficients bear the weightings of 0 %, 40 % and 100 % depending on the action's contribution to climate change mitigation or adaptation.

European Agricultural Fund for Rural Development (EAFRD): The European Agricultural Fund for Rural Development is aimed to help the rural areas of the EU to meet a wide range of economic, environmental and social challenges.

European Agricultural Guarantee Fund (EAGF): The European Agricultural Guarantee Fund provides funding for direct payment to farmers, for the management of the agricultural markets and for a number of other purposes such as veterinary and plant health measures, food programmes and information activities.

European Maritime and Fisheries Fund (EMFF): The European Maritime and Fisheries Fund is the fund for the EU's maritime and fisheries policies for 2014-2020. It aims to help fishermen in the transition to sustainable fishing and coastal communities in diversifying their economies. It also finances projects that create new jobs and improve quality of life along European coasts.

European Regional Development Fund (ERDF): The European Regional Development Fund is aimed at reinforcing economic and social cohesion within the European Union by redressing the main regional imbalances. This is achieved through financial support for the creation of infrastructure and productive job-creating investment, mainly for businesses.

European Social Fund (ESF): The aim of the European Social Fund is to strengthen economic and social cohesion within the European Union by improving employment and job opportunities, mainly through training measures, encouraging a higher level of employment and the creation of more and better jobs.

Glossary and abbreviations

06

European Structural and Investment Funds (ESIF): The European Structural and Investment Funds is a group of five separate funds that aim to reduce regional imbalances across the EU, with policy frameworks set for the 7-year multiannual financial framework budgetary period. The five funds are: the European Regional Development Fund (ERDF); the European Social Fund (ESF); the Cohesion Fund (CF); the European Agricultural Fund for Rural Development (EAFRD); and the European Maritime and Fisheries Fund (EMFF).

Focus areas: The European Union has identified six priorities for Rural Development. These are broken down into 18 'focus areas' in order to better detail the aims of each priority and to facilitate programming.

Greening: Component of agricultural direct payments which supports agricultural practices beneficial for the climate and the environment. Those practices include crop diversification, the maintenance of permanent grassland and the establishment of ecological infrastructure.

Horizon 2020: EU's research and innovation programme for 2014-2020.

LIFE Programme: EU's programme supporting environmental, nature conservation and climate action projects throughout the EU, currently for 2014-2020.

Measure: In the rural development programmes, it means a set of operations or projects contributing to one or more of the Union priorities for rural development.

Programming documents: Programmes breaking down the overarching strategic objectives set in the partnership agreements between the European Commission and individual Member States into investment priorities, specific objectives and, further down, into concrete action. In rural development policy, they are called rural development programmes. For the other European Structural and Investment Funds, they are called operational programmes.

Rio markers: Codes employed by the OECD to track funds targeted at climate change mitigation and adaptation.

Union priorities: Objectives set for rural development, which contribute to the Europe 2020 strategy for smart, sustainable and inclusive growth. There are six union priorities in the fields of agriculture, forestry and rural areas which mainly concern fostering innovation and competitiveness, restoring and enhancing ecosystems, supporting the shift towards a low carbon and climate resilient economy, and promoting social inclusion and poverty reduction.

Executive summary

I

Climate change is one of the greatest challenges facing the European Union (EU) and governments across the globe. In order to respond to climate change and the associated substantial investment needs, the EU has agreed that at least 20 % of its budget for 2014-2020 — one euro in every five — should be spent on climate-related action. This objective forms part of the EU's leadership in climate action.

II

The target to spend one euro in every five on climate-related action is to be achieved by incorporating or 'mainstreaming' climate action within different EU funding instruments. This means that, instead of creating one dedicated funding instrument, the objective is to be met through incorporating climate concerns into policy areas and the corresponding funds of the EU budget.

III

We sought to determine whether the target to spend at least 20 % of the EU budget on climate-related action was likely to be met and whether the approach employed was likely to add value, by leading to more and better-focused funding on climate action.

IV

We found that ambitious work was underway and that, overall, progress had been made towards reaching the target. However, there is a serious risk that the 20 % target will not be met without more effort to tackle climate change. The implementation of the target has led to more, and better-focused, climate action funding in the European Regional Development Fund and the Cohesion Fund. In the European Social Fund, and in the areas of agriculture, rural development and fisheries, however, there has been no significant shift towards climate action and not all potential opportunities for financing climate-related action have been fully explored.

V

According to Commission figures, the share of funding dedicated to climate action has averaged 17.6 % between 2014 and 2016. Overall, the Commission estimates that 18.9 % would be spent on climate action, thereby falling short of the 20 % objective.

VI

We estimated that the rate of climate funding would need to be increased to an average of 22 % across the remaining years of the current programming period, i.e. for 2017 to 2020, to reach the overall target of 20 % by the end of 2020. There are serious risks to achieving this in the main contributing areas of agriculture, rural development and research. If calculated in accordance with internationally established methodologies for assessing levels of climate finance, the assessed contribution from agriculture and rural development would be reduced by up to approximately 33 billion euros. As regards research, the Horizon 2020 programme has fallen behind its target to allocate 35 % to climate action, with its contribution currently standing at 24 %. The Commission has no detailed action plan setting out how it intends to catch up.

VII

The Commission's approach to assessing levels of climate action funding focuses on identifying planned expenditure. However, plans will not necessarily translate into actual spending, and this approach will not provide any comprehensive information on the results achieved. In addition, the tracking method does not reflect the full financial effects of EU spending on climate action through financial instruments, nor does it distinguish between funding for mitigation and adaptation measures.

VIII

Our main recommendations are for a robust multi-annual consolidation exercise and a comprehensive reporting framework to be set up, and for there to be an assessment of climate change needs. We also recommend that overestimates be corrected, that action plans be drawn up for areas that have fallen behind, and that actual spending and results be monitored. Finally, we recommend the exploration of all potential opportunities to ensure a further, real shift towards climate action.

Introduction

01

Climate change is one of the greatest challenges facing the European Union (EU) and governments across the globe. The Earth's climate is changing due to a higher concentration of certain gases, known as greenhouse gases, in the atmosphere. These gases act as a blanket, trapping heat and so warming the Earth's surface in what is known as the 'greenhouse effect'[1]. Around 9 % of the greenhouse gases emitted worldwide in 2012 came from the EU.

Two sides of climate action: mitigation and adaptation to climate change

02

There are two complementary policy responses to climate change: mitigation and adaptation. The first approach, **mitigation**, seeks to address the causes of climate change by reducing or limiting the emission of greenhouse gases, primarily through reducing energy consumption, improving energy efficiency, increasing the share of renewable energy. This approach also includes efforts to protect and enhance means of greenhouse gas sequestration[2], as well as to improve forestry and agricultural practices for preserving and sequestering carbon in soils and forests.

03

The importance of mitigation action is shown in ***Figure 1*** below. It shows projected surface temperature changes for the 21st century relative to the average temperatures during the late 20th century for the scenario of business as usual carbon emissions[3].

04

The second approach for addressing climate change, **adaptation**, aims at anticipating the adverse and, where existing, positive effects of the climate change that will happen and taking appropriate action to prevent or minimise the potential damage. Despite the implementation of mitigation action, the Earth's temperature will continue to increase until at least 2040, irrespective of the greenhouse gas emission scenario considered[4]. This means that adaptation measures will be necessary even in the best-case scenario.

1 See IPCC, [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)], 'Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change', Geneva, Switzerland, 2014, p. 151.

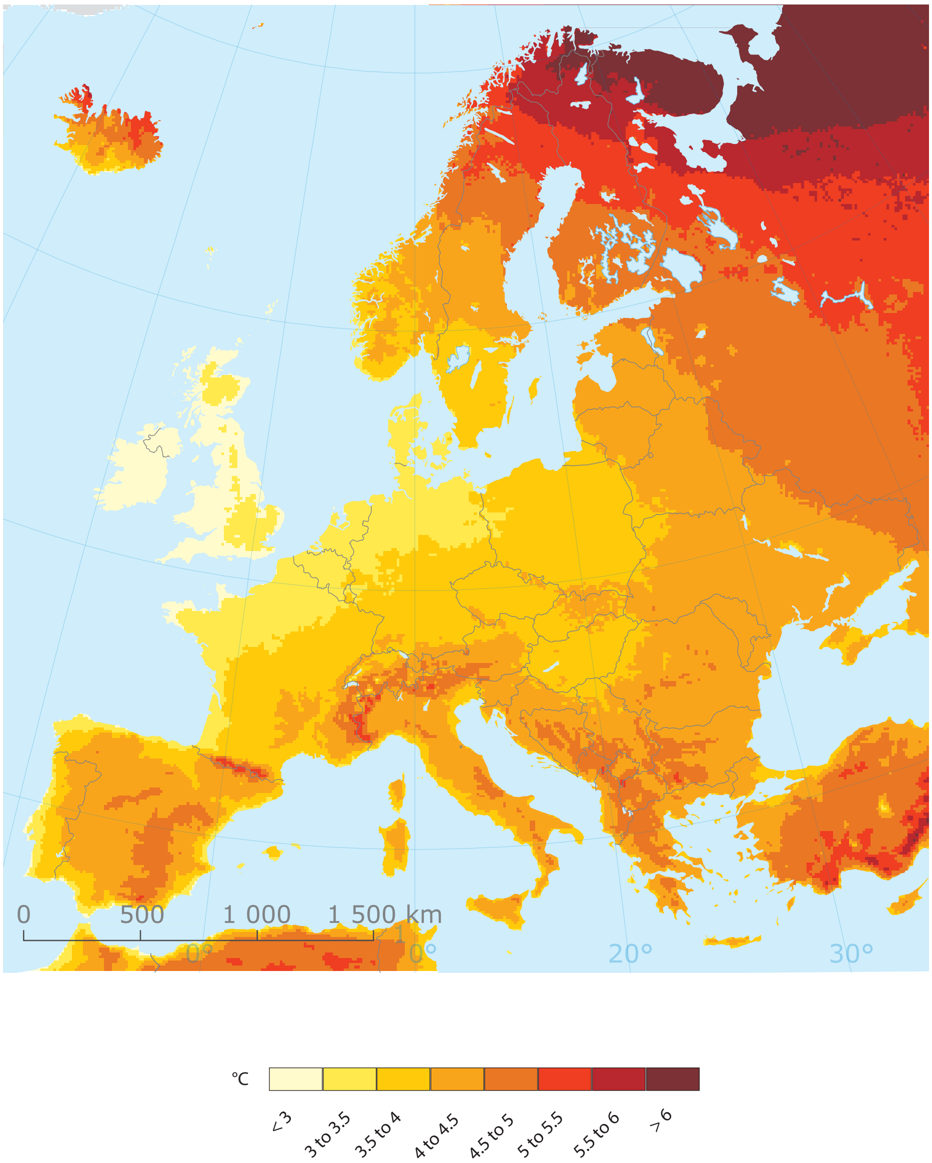
2 Sequestration is the process of capturing and storing greenhouse gases on a long-term.

3 'Business-as-usual' baseline case assumes that future development trends follow those of the past and no changes in policies will take place. See http://www.ipcc.ch/ipccreports/tar/wg3/index.php?idp=286

4 Seventh Environmental Action Programme (Decision No 1386/2013/EU of the European Parliament and of the Council of 20 November 2013) and IPCC 2013.

Figure 1

Projected surface temperature changes in the EU for 2071-2100



The figure shows projected changes in the annual mean temperature for 2071-2100, compared with 1971-2000 (business as usual carbon emissions). Projected changes are based on the average of a multi-model ensemble using a high emissions scenario established by the Intergovernmental Panel on Climate Change.

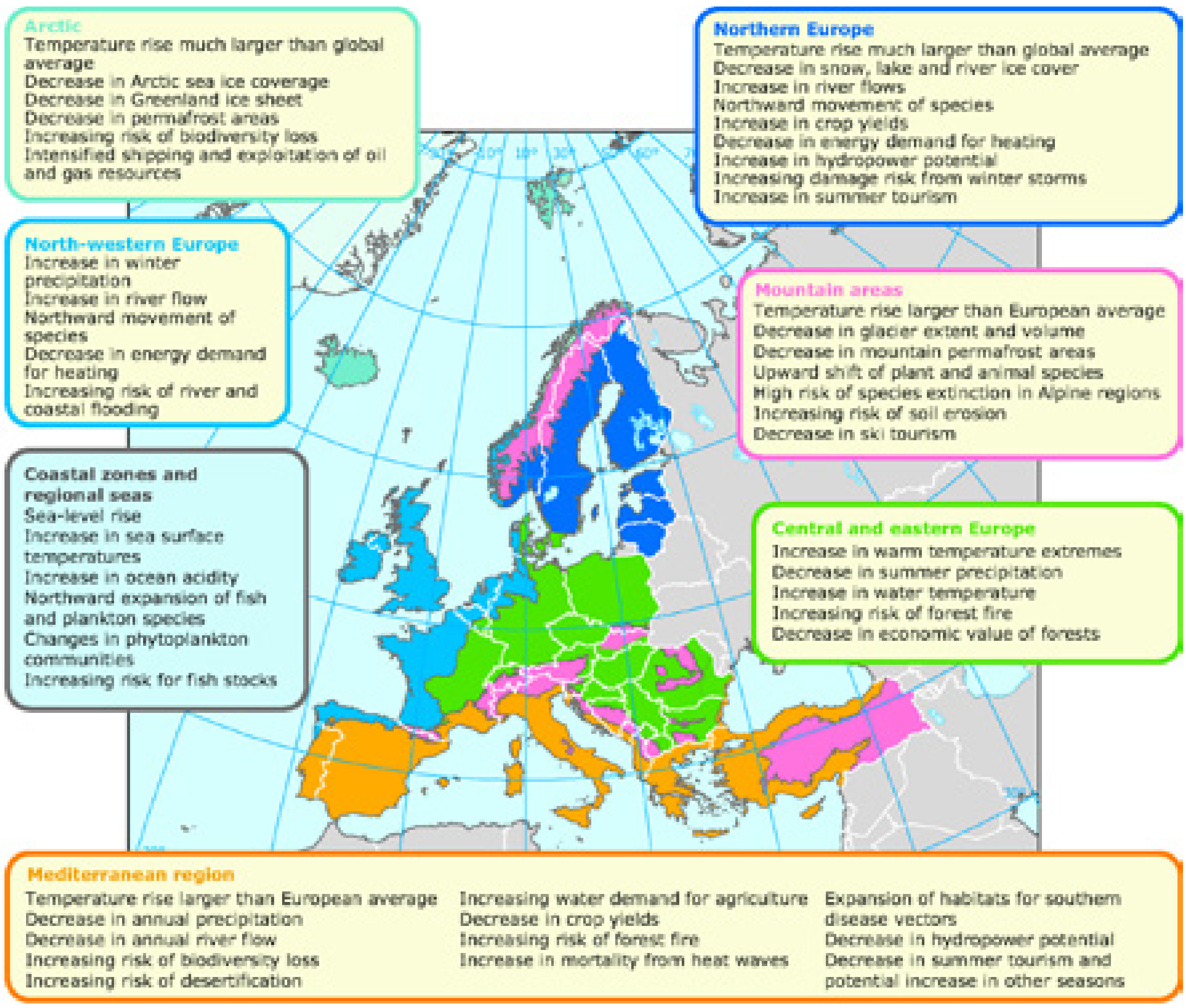
Source: European Environmental Agency.
(http://www.eea.europa.eu/data-and-maps/figures/projected-change-in-annual-mean)

05

Adaptation measures are dependent on the impacts of climate change. Such impacts vary significantly according to geography. They include, for example, floods, rising sea levels, drought and desertification, and a loss of biodiversity (see ***Figure 2***).

Figure 2

Key observed and projected impacts of climate change for the main regions in Europe



Source: European Environmental Agency, 2012.

06

The International Climate Change Agreement, adopted in Paris at the end of 2015, is the first binding universal agreement to fight against climate change[5]. It establishes a transparency framework for tracking the progress of countries towards achieving their individual greenhouse gas reduction targets[6].

07

Even before the Paris Agreement was adopted, the EU had already committed itself to cutting its emissions by at least 20 % compared with 1990 levels by 2020 and by 40 % by 2030. It has also set a long-term goal for 2050 (see ***Box 1***). According to the latest estimates[7], the total EU greenhouse gas emissions in 2014 were around 24 % below 1990 levels, although this was partly owing to the impact of the economic crisis.

The EU's commitment to spend 20 % of its budget on climate action

08

In order to respond to the substantial investment needs associated with climate change, the EU has agreed that at least 20 % of its budget for 2014-2020 — one euro in every five — should be spent on climate-related action[8]. This objective forms part of the EU's leadership in climate action, which the Commission regards as indispensable for the 2015 International Climate Change Agreement to succeed[9]. According to our estimates, the target corresponds to a pledge of approximately 212 billion euros[10]. According to the Commission, this commitment would triple the estimated indicative share of 6 % to 7 % of climate-related expenditure in the EU 2007-2013 budget[11].

09

The Commission decided to incorporate or 'mainstream' climate action within all policy fields including different EU funding instruments. This included setting a target to spend one euro in every five on climate-related action for the EU's 2014-2020 multiannual financial framework[12]. This means that instead of creating one dedicated funding instrument, the objectives linked to climate change mitigation and adaptation are to be achieved through incorporating related concerns into policy areas and the corresponding funds of the EU budget. This might be achieved by spending more on existing climate-related programmes, adapting existing programmes, or creating new programmes and features such as selection criteria which better target climate change-related topics.

5 The Paris Agreement will enter into force on the 30th day after the date on which at least 55 parties to the Convention, accounting in total for at least an estimated 55 % of the total global greenhouse gas emissions, have deposited their instruments of ratification, acceptance, approval or accession with the depositary. The fulfilment of the conditions took place on 5 October 2016 when the EU deposited its notice of ratification. The agreement will enter into force on 4 November 2016. By 17 October 2016, 81 out of 197 Parties to the Convention had ratified the Agreement (http://unfccc.int/paris_agreement/items/9444.php).

6 Article 13 of the Paris Agreement in the Report of the Conference of the Parties on its twenty-first session, held in Paris from 30 November to 13 December 2015, dated 29 January 2016 and referenced FCCC/CP/2015/10/add.1.

7 http://www.eea.europa.eu/publications/european-union-greenhouse-gas-inventory-2016

8 COM(2011) 500 final of 29 June 2011, 'A Budget for Europe 2020', Part II, p. 13.

9 COM(2013) 167 final of 26 March 2013 'The 2015 International Climate Change Agreement: Shaping international climate policy beyond 2020'.

10 Estimated as 20 % of 1 062.6 billion euros, which corresponds to the total commitments at current prices of the 2014-2020 multiannual financial framework.

11 See the Directorate-General for Climate Action's Annual Activity Report for 2014, p. 16.

12 This target does not include areas outside the EU budget, for example, the lending operations of the European Investment Bank. The European Investment Bank has set itself a target of committing a minimum of 25 % of its total lending for climate action and a 35 % climate action share in its investments in developing countries.

Box 1

EU targets for reducing greenhouse gas emissions

- **By 2020**[13]:
  - 20 % reduction in greenhouse gases emissions (from 1990 levels);
  - 20 % share of renewable energy in energy consumption;
  - 20 % gains in energy efficiency.
- **By 2030**[14]:
  - at least 40 % reduction in greenhouse gases emissions (from 1990 levels);
  - at least 27 % share of renewable energy in energy consumption;
  - indicative target to improve energy efficiency by at least 27 % compared to projections of future energy consumption[15].
- **By 2050**[16], the EU intends to reduce its greenhouse gas emissions by between 80 % and 95 % compared to 1990 comprising all main sectors.

13 COM(2008) 30 final of 23 January 2008, '20 20 by 2020 Europe's climate change opportunity' (2020 Climate and Energy Package).

14 COM(2014) 15 final of 22 January 2014, 'A policy framework for climate and energy in the period from 2020 to 2030' (2030 Climate and Energy Framework).

15 The 2030 energy efficiency target will be reviewed in 2020 having in mind a 30 % target.

16 COM(2011) 112 final of 8 March 2011, 'A roadmap for moving to a competitive low-carbon economy in 2050'. The European Council and the European Parliament endorsed this approach proposed by the Commission in February 2013 and March 2013 respectively.

Roles and responsibilities in mainstreaming climate action

10

Each Commission directorate-general is responsible for incorporating climate action into its individual spending programmes, and for its implementation, in cooperation with the Member States where appropriate.

11

Directorate-General Climate Action provides knowledge and guidance on climate action to other Commission directorate-generals.

12

Directorate-General Budget coordinates the preparatory work for the allocation of resources to climate in the budgets, and collects and presents the related information. The Secretariat-General of the Commission plays a coordinating role, ensuring the overall consistency of the EU actions, which includes the mainstreaming policies.

13

The exact responsibilities of the Commission and Member States vary depending on whether a policy area is under shared management[17] or is directly managed by the Commission. In the latter management mode, the Commission itself manages programmes, including most of Horizon 2020[18] and the LIFE Programme[19].

14

Under shared management, the Commission appraises, discusses objectives, actions and choice of indicators and approves the programming documents prepared and submitted by the Member States. The Member States are responsible for designing, implementing and monitoring the measures included in the programmes. The European Structural and Investment Funds' (ESIF) programmes include an indicative amount of support envisaged for fulfilling the climate change objective, whereas with agricultural direct payments, the Commission calculates this amount centrally.

17 Areas under shared management include, most notably, the European Structural and Investment Funds and direct payments of the common agricultural policy.

18 The **Horizon 2020** research programme is managed by Directorate-General Research. Some 25 % of the Horizon 2020 budget is managed directly by the Commission, while 75 % is managed by implementing bodies.

19 The **LIFE** spending programme is managed directly by Directorate-General Environment (for the sub-programme for Environment) and by Directorate-General Climate Action (the sub-programme for Climate Action), although implementation tasks for the management of projects are delegated to an agency.

The context of climate mainstreaming in brief

- Climate action refers to measures both to reduce greenhouse gas emissions (mitigation) and to adapt to the effects of global warming (adaptation). Both types of measure are necessary and complementary.
- The EU is a key player in global climate action, and its actions contributed to achieving the ambitious international agreement concluded in Paris.
- Mainstreaming climate action into existing policies and tracking the climate-relevant spending is a process involving cooperation between the Commission and the Member States.
- Setting an objective to spend one euro in every five of the 2014-2020 EU budget on climate action is one way in which the EU is seeking to increase the climate relevance of EU spending.
- The approach aims to take account of different EU policies and programmes, and of geographical specificities.

Audit scope and approach

15
We sought to determine whether the target to spend at least 20 % of the EU budget on climate-related action is likely to be met and whether the approach employed is likely to add value.

16
More specifically, we sought to answer the following questions:

— Is the action underway on track to meet the overall target?

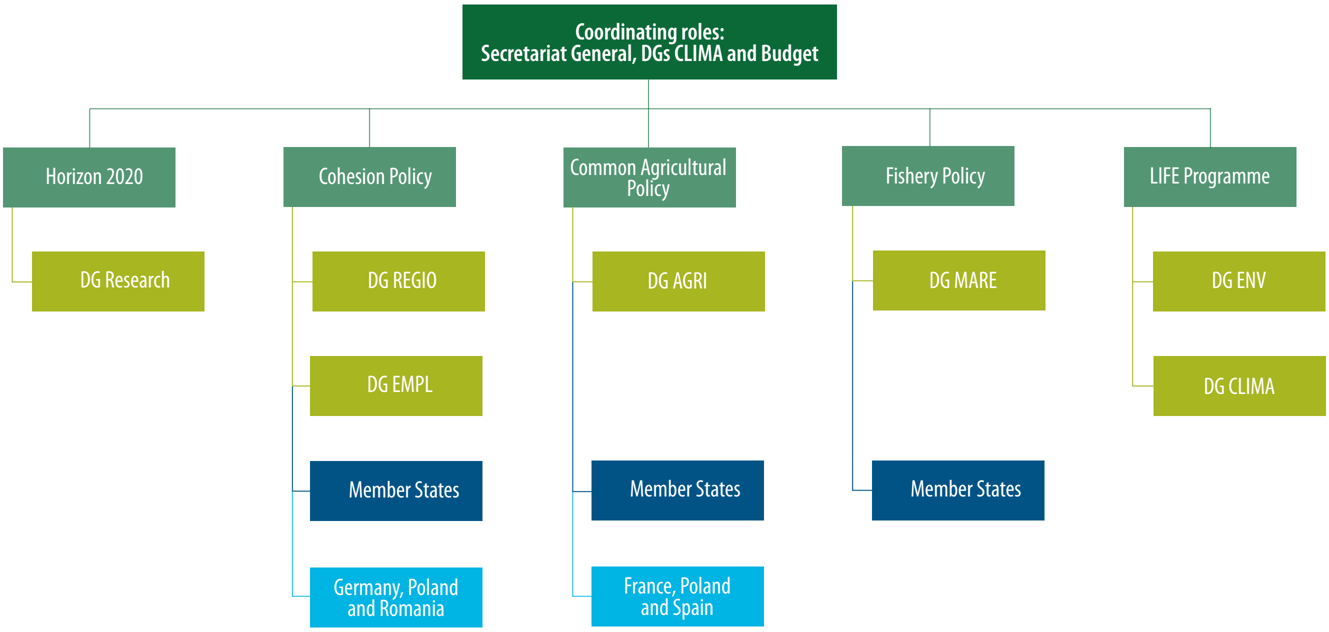
— Is the target likely to add value by leading to more and better-focused funding on climate action?

17
We established audit criteria concerning the design, implementation, monitoring and evaluation of EU expenditure for climate change mitigation and adaptation. The criteria were developed from EU policy papers, legislation, Commission guidelines, Council decisions, studies and other publications. We also consulted experts from the Organisation for Economic Cooperation and Development and the European Investment Bank (EIB) on mainstreaming and tracking methods, and carried out a review of existing literature.

18
Figure 3 provides an overview of the audited budget areas and auditees. The audited areas of Horizon 2020, cohesion policy, the common agricultural policy, fisheries policy and the LIFE Programme represent around 78 % of the commitments planned in the 2014-2020 multiannual financial framework and around 85 % of the climate funding planned for the period.

Figure 3

Overview of audited budget areas and auditees



Source: European Court of Auditors.

19

Our audit work focused on the overall system established at Commission level and in two areas of shared management: cohesion policy and the common agricultural policy. Together these areas account for two thirds of the EU budget and three quarters of the overall target for climate funding under the 2014-2020 multiannual financial framework. Between October 2015 and February 2016 we conducted audits visits in Poland on cohesion and common agricultural policies, in Germany and Romania on cohesion policy, and in France and Spain on the common agricultural policy. Our sample took account of the materiality of expenditure, the volume of greenhouse gases emissions, and adaptation challenges. In each Member State, we reviewed the overall programming framework, including programmes set at national and regional level[20]. We also carried out similar audit work for Horizon 2020, fisheries policy and the LIFE Programme at Commission level.

20 In the field of cohesion policy, the regional programmes for Saxony and North Rhine Westphalia in Germany and for Silesia in Poland were chosen for further scrutiny. In the field of rural development policy, the regional programmes for Rhône-Alpes in France and Andalusia in Spain were examined.

Audit scope and approach

20

We collected and examined audit evidence against the audit criteria by means of written questionnaires, interviews with Member State and Commission officials, and documentary and data analyses.

21

This report also addresses the suggestion that the European Parliament made in 2015 and 2016 that we audit how the agreed target of 20 % climate mainstreaming was being achieved.

22

With spending in the 2014-2020 period still at an early stage, this report focuses on planned expenditure, and not on actual expenditure at project level. We did not analyse non-climate-related spending, nor did we examine the potential adverse environmental effects generated by EU support[21]. Similarly, other climate-related spending outside the EU budget was also beyond the audit scope. Therefore, this report does not include an assessment of the general effects of EU policies on climate, the performance of the EU against its 2020 and 2030 climate and energy targets, or the optimum level of EU climate funding.

23

We also identified, where possible, examples illustrating good practices or practical case studies.

21 For example, the funding provided to roads or aviation resulting in an increase of greenhouse gases emissions.

Overall progress has been made but there is a serious risk that the 20 % target will not be met

24
This section assesses the general approach adopted by the Commission to incorporate the climate action target into the EU budget, and the progress made to date. We analysed whether:

— there was a plan on how the overall target will be achieved;

— an appropriate tracking method built on internationally established methodologies has been set up (see for example paragraphs 34 to 36);

— progress had been reported based on reliable and relevant information.

A collective commitment, with some funding instruments expected to contribute more than 20 %

25
We examined whether the Commission had set up a plan outlining which areas of the budget should contribute and to what extent. Such individual targets ought to have been laid down for specific budget areas based on a sound assessment of potential and investment needs in the area to ensure that investment is supported where most needed. At the same time, the actual potential of policies to deliver a contribution by implementing climate-related measures would need to be taken into account, for example, their principal aims and set up. The calculation used to measure climate action expenditure should be based on a transparent system.

26
The target of 'at least 20 %' of EU expenditure was a political choice (see paragraph 8). The Commission justified climate mainstreaming, including the level of the target, by citing its aim of responding to the challenge posed by climate change and the substantial investment needs for climate action, in particular those associated with implementing the 2020 climate and energy targets. However, we could not find clear evidence quantifying these investment needs.

27
The Commission has estimated that 6 to 7 % of the EU budget for 2007-2013 was spent on climate action (see paragraph 8). Since no procedure for monitoring climate action spending had been in place in the 2007-2013 period, we were unable to determine whether and to what extent the 20 % would call for an additional effort for 2014-2020.

28
The 20 % target applies to the whole of the EU budget over the whole of the 2014-2020 period; it is therefore not an annual target. ***Table 1*** shows the main budget areas which are contributing to achieving the 20 % target.

Table 1

Audited budget areas in 2014-2020 multiannual financial framework and the Commission's associated climate funding forecasts

Audited budget area	Planned expenditure 2014-2020 *(billion euro)*	Planned target of climate funding 2014-2020 *(%)*	Planned climate funding 2014-2020 *(billion euro)*
Heading 1 a - Research (Horizon 2020)	74.9	≥ 35.0	16.6
Heading 1 b - Cohesion Fund	63.3	28.4	18.0
Heading 1 b - European Social Fund	91.4	1.2	1.1
Heading 1 b - European Regional Development Fund	200.3	18.5	37.0
Heading 2 - European Agricultural Guarantee Fund (agricultural direct payments)	288.0	16.3	47.0
Heading 2 - European Agricultural Fund for Rural Development	99.5	57.5	57.2
Heading 2 - European Maritime and Fisheries Fund	6.4	15.6	1.0
Heading 2 - LIFE	3.5	49.3	1.6
EU BUDGET	1 062.6	≥ 20.0	212.5
Share of budget areas audited in EU budget	77.9 %		84.5 %

Source: European Court of Auditors' estimates based on Commission programme statements, programming documents, Commission data, regulations and 2014-2020 multiannual financial framework.

29
We found that the co-legislators, i.e. the European Parliament and the Council, had set targets in several main budget areas by introducing them in the legislation governing the respective funding instruments (see ***Figure 4***). These are either presented in the preamble of the legal texts, or as legally binding targets underpin the planned targets shown in ***Table 1***, in the latter case they represent a mandatory minimum threshold.

Figure 4

Targets in regulations that support climate mainstreaming

Horizon 2020	• At least **35 % for climate action** Recital 10 of Regulation (EU) No 1291/2013 establishing the Framework Programme for Research and Innovation 2014-2020[1]
European Agricultural Fund for Rural Development	• At least **30 % for action on climate and environment** Article 59.6 of Regulation (EU) No 1305/2013 on support for rural development by the EAFRD[2]
LIFE	• **25 % for climate action** Article 4.2 of Regulation (EU) No 1293/2013 on the establishment of a Programme for the Environment and Climate Action[3]
European Regional Development Fund	• From at least 12 % to at least **20 % for supporting the shift towards a low-carbon economy in all sectors** Article 4 of Regulation (EU) No 1301/2013 on the ERDF[4]

1 Regulation (EU) No 1291/2013 of the European Parliament and of the Council of 11 December 2013 establishing Horizon 2020 — the Framework Programme for Research and Innovation (2014-2020) and repealing Decision No 1982/2006/EC (OJ L 347, 20.12.2013, p. 104).
2 Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005 (OJ L 347, 20.12.2013, p. 487).
3 Regulation (EU) No 1293/2013 of the European Parliament and of the Council of 11 December 2013 on the establishment of a Programme for the Environment and Climate Action (LIFE) and repealing Regulation (EC) No 614/2007 (OJ L 347, 20.12.2013, p. 185).
4 Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006 (OJ L 347, 20.12.2013, p. 289).

Source: European Court of Auditors, based on the respective regulations.

30

We found that the resources generated in enforcing the targets introduced in the legislation were intended to make a significant contribution to the achievement of the climate action goal. We estimated this expected contribution to be 38 % of the amount needed to meet the overall target of spending at least 20 % of the EU budget on climate action in the 2014-2020 period.

31

The absence of specific targets in other substantial parts of the EU budget makes it more difficult for the Commission to meet the 20 % target. For example, in the budget area of Competitiveness for Growth and Jobs, there are three financially significant programmes[22] which, unlike the Horizon 2020 programme in this budget area, have no set targets for climate funding.

32

However, no overall plan outlining which funding instruments could contribute and to what extent was ever devised (see paragraph 26 and ***Table 1***). This is likely to prove to be a sub-optimal way to determine the climate action contribution to be made by spending programmes which differ in nature.

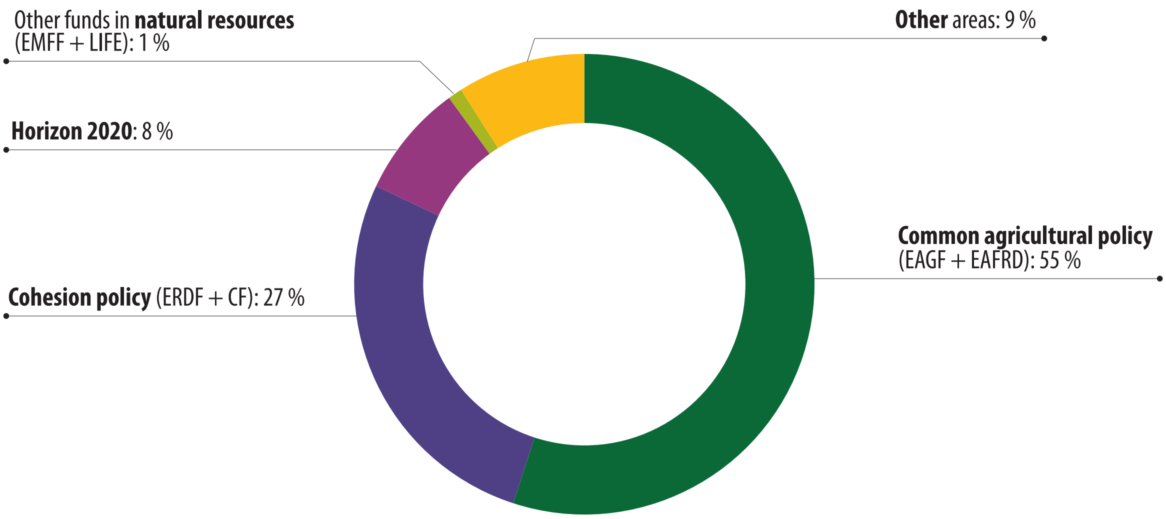
33

Since 2014, the biggest contributors on climate action have been the common agricultural policy and cohesion policy (see ***Figure 5***). Agricultural and rural development funds, namely the EAGF and EAFRD, are playing a key role in the efforts to achieve the target. The Commission has forecast that they will contribute 47 billion euros and 57.2 billion euros in climate funding respectively. The Commission estimated that 51.9 % of the climate funding planned under the 2014-2020 multiannual financial framework would come from agricultural funds, which is more than their 37.7 % share of the EU budget.

22 The European Earth Observation Programme (known as Copernicus), the Connecting Europe Facility, and the Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises. The Commission expects these three programmes to provide 43 % of the climate funding in this budget area.

Figure 5

Climate funding in 2014-2016 by EU budget area



Source: Commission's programmes statements of draft budgets of 2014, 2015 and 2016.

The Commission's tracking method builds on international methodologies yet has weaknesses

34

Some measures contribute to climate change mitigation and adaptation more than others. A system therefore had to be devised to identify what action could be counted towards the 20 % target. The Commission built on an internationally established methodology, namely the OECD's 'Rio markers', which assign categories to expenditure according to the rules mentioned in ***Table 2***. The EU's tracking methodology is a system for gauging the contribution from different funding instruments and policy areas to climate action by establishing three categories of expenditure. In order to transform these 'Rio markers' into financial data, the EU climate coefficients of 0 %, 40 %, and 100 % were applied to the EU expenditure, following rules specific to the various spending areas.

Table 2

OECD categories and EU climate coefficients

OECD		EU	
Applicable category	**Categories of activity**	**EU climate coefficients**	**Example: Criteria used in European Structural and Investment Funds**
2	Expenditure for activities for which climate is the **principal** (primary) objective.	100 %	The support makes a **significant** contribution towards climate change objectives.
1	Expenditure for activities for which climate is a **significant, but not the principal**, objective.	40 %	The support makes a **moderate** contribution to climate change.
0	Expenditure not targeted at climate objectives.	0 %	The support does not contribute towards those objectives or the contribution is insignificant.

Source: Handbook on the OECD-DAC Climate Markers, http://www.oecd.org/dac/stats/48785310.pdf; Article 8 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Structural and Investment Funds (OJ L 347, 20.12.2013, p. 320).

35

The audited Commission directorate-generals and Member States found the use of these three climate coefficients to be a pragmatic approach for tracking climate expenditure. However, we found two main weaknesses in the tracking system:

— The EU climate coefficients applied in certain areas failed to respect systematically the conservativeness principle (see paragraphs 51 to 59), developed by the World Bank in order to avoid overestimates in climate funding (see ***Box 2***). This failure resulted in over-estimates of the amounts allocated on climate action.

— The European Structural and Investment Funds Regulation adopts an approach which deviates from the OECD categories; the 100 % coefficient is applied to support making a significant contribution to climate change, while the 40 % coefficient is a marker of a moderate contribution. Assigning the top weighting to contributions which are merely 'significant', rather than only to those where climate change is the primary objective, increases the number of cases in which the maximum coefficient can be used. This leads to a risk of climate-related amounts being overestimated.

36
We found weaknesses in the reporting arrangements. Unlike other international systems (see ***Box 2***), the EU's tracking system provides no information on how much is spent on climate change mitigation and adaptation[23].

23 According to the Commission, the only exception is the climate tracking applied for external instruments, as reported by the Directorate-General for International Cooperation and Development to the OECD. We audited this area in Special Report No 17/2013, 'EU climate finance in the context of external aid' (http://eca.europa.eu).

Box 2

Principles developed by international actors for tracking climate financing

The 'Common Principles for Climate Mitigation Finance Tracking', developed by the joint climate finance group of Multilateral Development Banks[24] and the International Development Finance Club, include the principle of conservativeness, which dictates that 'where data is unavailable, any uncertainty is to be overcome following the **principle of conservativeness** where under-reported rather than over-reported climate finance is preferable'.

The **EIB** has incorporated this principle within its general principles for recording its climate action lending:

'**Credibility**: the recording system must maintain the credibility of the Bank's reporting on climate action, and thus, in the case of doubt or uncertainty around climate impacts, the presumption will be to exclude.'

The EIB's other general principles include that, as far as possible **only the climate relevant parts of projects and programmes** should be recorded, and that **mitigation and adaptation** are to be recorded separately.

24 The African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter American Development Bank, and the International Finance Corporation, World Bank from the World Bank Group.

Source: Common Principles for Climate Mitigation Finance Tracking, 31 March 2015. European Investment Bank, EIB Climate Strategy, Mobilising finance for the transition to a low-carbon and climate-resilient economy, 22 September 2015.

37
In 2014 the Commission proposed at least doubling expenditure via financial instruments under the European Structural and Investment Funds for the programming period from 2014 to 2020[25]. Approximatively 21 billion euros will be allocated to financial instruments from these funds[26]. Such financial instruments aim to revolve and to have a multiplier effect generating additional investments. For example, the EU contribution of 10 million euros in 2016 to the Natural Capital Finance Facility[27] is included in the climate tracking exercise. This facility's actual contribution could be 10 times as high[28]. Tracking progress towards the 20 % in the EU core budget does not reflect the full financial effects of EU spending on climate action.

38
At the same time, we found a potential overestimate of the Natural Capital Finance Facility's contribution to climate action. This is because it can also invest in fields which do not have climate expenditure as either a principal or significant objective.

Overall progress made towards reaching the target, but reporting only partially reliable and not focused enough on results

39
The system used to monitor progress towards the 20 % target is incorporated in the Commission's annual budgetary procedure. Each directorate-general determines the level of tracking detail required and reports the aggregates to Directorate-General Budget. Both Directorate-General Budget and Directorate-General Climate Action monitor progress on an annual basis.

40
On average, the climate contribution rate has stood at 17.6 % between 2014 and 2016. The Commission working document accompanying the mid-term review of the multiannual financial framework[29] suggests that progress has been made between these years (see ***Figure 6***), since the total EU budget contribution to climate funding was estimated by the Commission to be 13.6 % in 2014, 17.3 % in 2015 and 20.9 % in 2016. For 2017, the Commission estimates — based on its draft budget proposal — the climate funding to be 19.3 %.

25 COM(2014) 903 final of 26 November 2014, 'An investment Plan for Europe', pp.7, 10 and 11.

26 Commission estimate as at the end of 2015, see Special Report No 19/2016 'Implementing the EU budget through financial instruments — lessons to be learnt from the 2007-2013 programme period', paragraph 21 (http://eca.europa.eu).

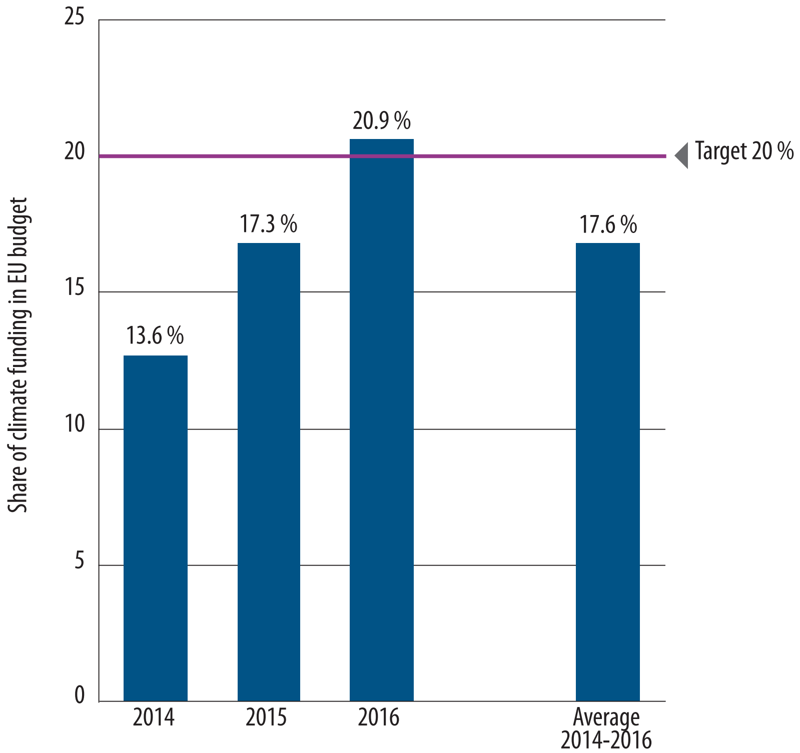
27 Developed by the European Investment Bank and the Commission, this financial instrument, which is part of the LIFE programme, seeks to use public funds to leverage private investment in natural capital activities.

28 The Natural Capital Finance Facility is expected to provide finance of 100 to 125 million euros between 2015 and 2017.

29 SWD(2016) 299 of 14 September 2016 accompanying the mid-term review of the multiannual financial framework COM(2016) 603 final.

Figure 6

Overview of climate-related spending plans for 2014 to 2016



Source: Commission data, mid-term review of the multiannual financial framework 2014-2020, SWD(2016) 299 final.

41

The Commission acknowledged in a 2015 annual activity report that it was not in a position to assess with confidence whether it was on track to reach the 20 % objective for the 2014-2020 multiannual financial framework period overall[30]. The Commission assessed progress towards the 20 % target in the multiannual financial framework mid-term review, published on 14 September 2016. It estimated that 18.9 % of the EU budget would be spent on climate action. We found that the figures for 2014 and 2015 were largely based on estimates. This was particularly the case with the European Structural and Investment Funds.

30 See the Directorate-General for Climate Action's Annual Activity Report for 2015, p. 7.

42
While this was unavoidable, since the spending instruments for the new programming period had only just been set up, and so some information was not yet available, these limitations hampered the comparability from one year to the other of the data provided for the period 2014-2016 (see ***Figure 6***). In addition, the approval of the multiannual spending programmes in 2015 automatically contributed to the increase in climate action funding since as programmes were approved their climate-related plans were entered into the system. As a result, the evolution between 2014 and 2016 cannot be taken as a trend for the whole period.

43
In the fisheries spending area, Member States do not have to report their planned climate measures to the Commission until 2016. Until they do so, Directorate-General Maritime Affairs and Fisheries cannot verify the accuracy of the indicative contribution to climate change action objectives communicated by the Member States in their operational programmes.

44
To date, no tool has been available to provide a multiannual consolidated update on the situation across the EU budget. The Commission has recently updated climate-relevant spending data for the whole financial period in the context of the multiannual financial framework mid-term review.

45
The established approach presents an inherent risk, since it focuses on identifying the plans for future expenditure. Planned expenditure on climate action does not, however, necessarily translate into actual spending. While this audit did not look at actual expenditure, and, in general, data on actual expenditure is not yet available, we found instances which highlighted this inherent risk. When comparing actual expenditure at project level against plans in the LIFE programme, we found that the LIFE projects chosen represented an EU climate action contribution of 34 % of the total EU funds allocated to LIFE. This fell short of the 49.3 % anticipated in the budgetary documents.

46

This case illustrates the need for the authorities to re-evaluate any projected climate funding contributions once they are sufficiently certain of the nature of their forthcoming expenditure, while avoiding extra administrative costs. The Commission has not yet developed a procedure for doing so.

47

In addition, the Commission's approach to the 20 % target is solely focused on financial data. Information on what funds plan to achieve or have achieved in terms of results such as greenhouse gas reductions is only available for parts of the budget. The information is also not comparable, which hampers the consolidation of the results achieved in different areas.

48

In the European Regional Development Fund, Member States are not obliged to use the common greenhouse gas reduction output indicator apart from in the energy investments. While Member States may opt to include other areas, we found that not all of the audited Member States did so. In addition, different methodologies and tools[31] are used to calculate greenhouse gas emissions and reductions. Several Member State authorities are developing tools to calculate emissions for certain project types such as climate-friendly transportation in the European Regional Development Fund. As a result, there is a lack of information about the extent to which climate-related action will contribute to the CO_2 emission reductions, and the available data may not be comparable across Member States. We found that where indicators existed, they focused on mitigation within the energy sector, while adaptation related indicators are rare.

31 For instance, the Commission has referred to its experience with some tools within the budget (e.g. CO2MPARE), and to approaches used at the EIB, the World Bank and other IFIs, and by private investors (e.g. SEI metrics, IIGCC).

There is a serious risk that the target will not be met

49
We estimated that the rate of climate funding must be increased to an average of 22 % across the remaining years of the current multiannual financial framework, i.e. for 2017 to 2020, to reach the overall target of 20 % by the end of 2020. This matches the estimate produced by the Directorate-General for Climate Action[32]. Compared to 2014-2016, this means that an increased effort will be required for 2017-2020. However, the mid-term review estimates an 18.9 % spending on climate action for the period of 2014-2020.

50
We also conducted an analysis in order to assess the Commission's prognosis. Assuming that the areas responsible for most climate funding (see ***Table 1***) actually provide the anticipated amounts of climate funding, we estimated that the rate of climate funding to be achieved in 2014-2020 in the areas of the EU budget not listed in ***Table 1***[33] was 18.2 %. This would mean doubling current efforts in these areas[34]. We could find no evidence showing that the Commission was increasing efforts in these areas and how such a doubling would be feasible.

51
In addition, there are serious risks that could affect the expected contribution in the areas mentioned in ***Table 1***, which are to provide most of the planned climate funding on 2014-2020 multiannual financial framework. The main risks are examined sector by sector in the three following sections:

— Assumptions concerning the largest contribution from agricultural direct payments to the climate action target are insufficiently justified and this may lead to overestimation (paragraphs 52 to 54).

— Application of EU climate coefficients has led to overestimation of the contribution to climate of rural development (paragraphs 55 to 59).

— We adapted the climate contributions from agricultural direct payments and rural development measures where necessary to be in line with the principle of conservativeness (see paragraphs 54 and 58). These adjustments would reduce agricultural climate funding by up to approximately 33 billion euros, which represents around 15 % of the overall target.

— Horizon 2020 has fallen behind its 35 % target and needs to catch up (paragraphs 60 to 64).

32 See graph in the Directorate-General for Climate Action's Annual Activity Report for 2015, p. 12.

33 They are mainly research programmes (excluding Horizon 2020) and the spending programmes under budget headings dealing with security and citizenship, and external relationships of the EU.

34 On the basis of the rate of 11.4 % expected to be achieved for the years 2014-2016, we estimated that a rate of 23.2 % would need to be achieved on average for the remaining years 2017-2020 if the overall target of 20 % was to be reached.

Assumptions concerning the contribution from agricultural direct payments to the climate action target lack sound justification

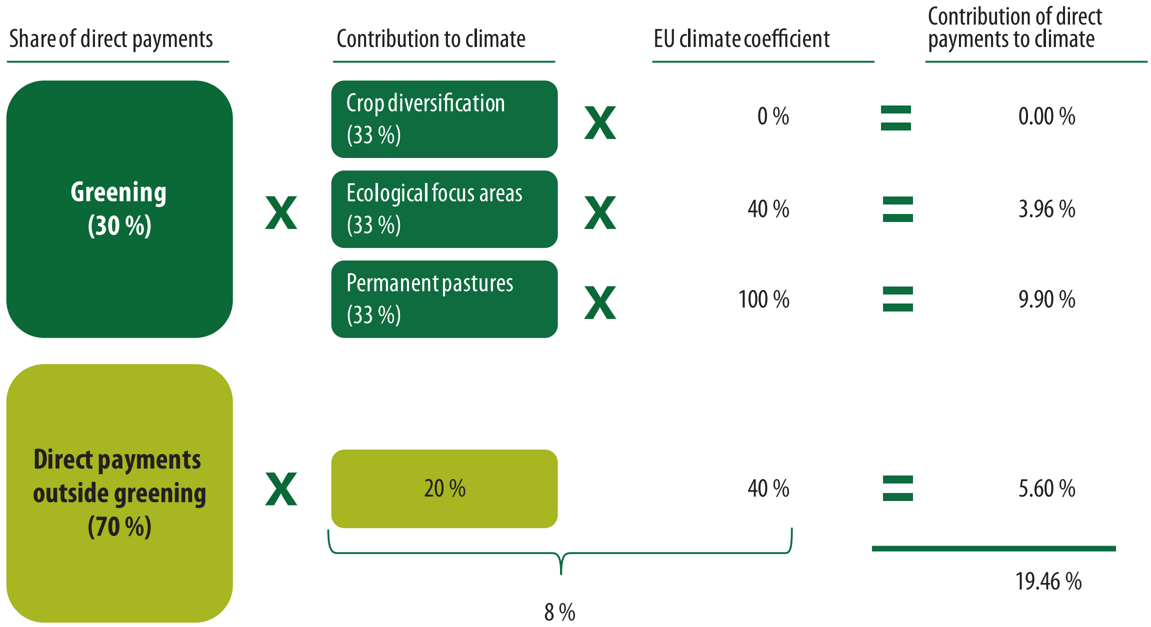
52

Agricultural direct payments are composed of a greening component, which represents a 30 % share, and of a non-greening component, representing the remaining 70 %. The Commission estimates that the contribution from agricultural direct payments to climate change will be around 20 % per year in 2016-2020[35]. The climate funding is calculated by adding the greening component which contributes 14.0 % and the non-greening component which contributes 5.6 % (see ***Figure 7***).

35 However, on average for the whole 2014-2020 period, the contribution is estimated to be 16.3 % since the payments for agricultural practices beneficial for the climate and the environment, known as 'greening payments', have only been included in the calculation since 2016.

Figure 7

Overview of the method designed by the Commission to calculate climate funding from agricultural direct payments



Source: Explanation of the methodology for applying climate tracking to direct payments (European Commission).

53
The method and the EU climate coefficients applied when calculating the climate contribution of the greening component fairly reflect the climate-relatedness of the three farming practices[36] connected with this payment. However, we found there to be a lack of quantifiable elements justifying the 20 % applied to non-greening direct payments (see ***Box 3***). The Commission considers the final climate contribution of 8 %, i.e. 20 % x 40 %, to be conservative.

36 The three farming practices are the following: crop diversification, having ecological focus area on the agricultural area, and maintaining existing permanent grassland.

Box 3

Lack of appropriate justification for non-greening direct payments' climate contribution

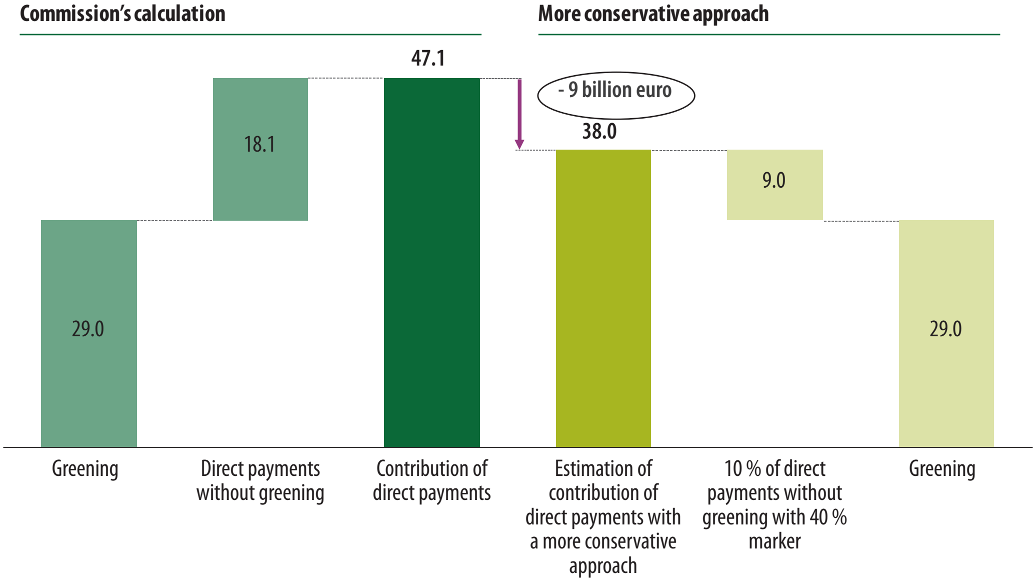
The Commission believes that some non-greening agricultural direct payments provide benefits for the climate, largely through cross-compliance standards. The Commission acknowledged that quantifying this contribution would be a very difficult and costly exercise, and decided to label 20 % of the budget for non-greening direct payments as climate-related.

The Commission considered using the penalty system for cross-compliance infringements to justify this 20 % share. We found, however, that there were no clear grounds for doing so.

54
In order to reflect the climate contribution of cross-compliance, a more conservative approach was considered by the Commission, which would have considered the part of the non-greening direct payments to be taken into account to be 10 % instead of 20 %. This would have resulted in a lower contribution from agricultural direct payments to climate action. As shown in ***Figure 8***, the contribution would be decreased by 9 billion from 47.1 to 38 billion euros. If the conservativeness principle developed by the World Bank (see paragraph 35) is applied, the Commission should have been taken into account the lower amount of climate contribution.

Figure 8

Comparison between the Commission's chosen approach and a more conservative one (in billion euro)



Source: Commission data and European Court of Auditors' estimates based on Commission data.

Applying a different set of tracking coefficients based on internationally established methodologies to the European Agricultural Fund for Rural Development would reduce climate funding by 40 %

55

Regulation (EU) No 215/2014[37] lays down a methodology for tracking climate spending under each of the five European Structural and Investment Funds. For the European Agricultural Fund for Rural Development, this entails applying the EU climate coefficients to rural development priorities and focus areas, regardless of the measures and sub-measures used to achieve these policy objectives.

37 Commission Implementing Regulation (EU) No 215/2014 of 7 March 2014 laying down rules for implementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council 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 and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund with regard to methodologies for climate change support, the determination of milestones and targets in the performance framework and the nomenclature of categories of intervention for the European Structural and Investment Funds (OJ L 69, 8.3.2014, p. 65).

56
The Commission deemed the OECD's 'Rio markers' methodology inappropriate in the EAFRD field because the measures have multiple and systematic co-benefits of an environmental, economic or social nature. The Commission's approach rightly awards a 100 % climate coefficient to climate-related Union priority 5 'Promoting resource efficiency and supporting the shift towards a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors'. However, the Commission has applied the same 100 % climate coefficient to all focus areas included under environment-related Union priority 4 'Restoring, preserving and enhancing ecosystems related to agriculture and forestry', despite the difference in focus between these two priorities. The Commission decided that a coefficient of 40 % was too low due to the characteristics of the rural development measures. As a result of the Commission's approach, the 40 % climate coefficient was applied to only 10 % of the planned climate funding under the EAFRD; the remaining 90 % of the planned climate funding is weighted with the 100 % coefficient.

57
In the EAFRD, unlike in the other European Structural and Investment Funds, we found that there was a need to use different EU climate coefficients for each measure. The approach followed for the EAFRD does not distinguish sufficiently between the climate contributions made by different activities, leading to an overestimation of contributions to climate action. For example, payments for 'areas under natural constraints', aiming to prevent land abandonment, were weighted at 100 %. While such activities can mitigate climate change depending on the actual land use, this is not assured, and cannot be compared with activities such as forestry, which also receive 100 % (see ***Box 4***).

Box 4

Illustration of the difference of rationale between measures

Payments for **'areas under natural constraints'** compensate farmers for disadvantages stemming from natural or other constraints. Their ultimate aim is to prevent land abandonment. We found that while such payments could help prevent climate change, this was not their primary objective and so a climate coefficient of 40 % would be more prudent. This correction alone would reduce the EAFRD's contribution to climate funding by 16 %, or 9.2 billion euros, for the 2014-2020 period.

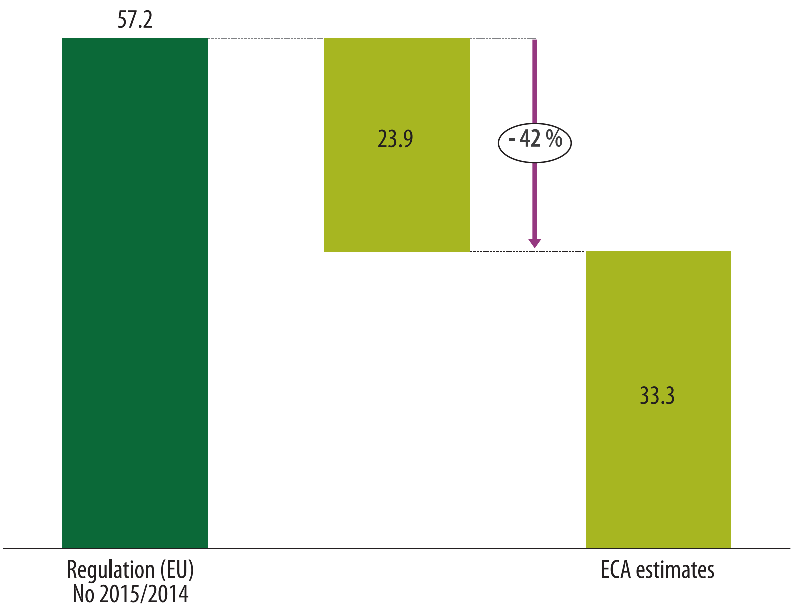
Forestry activities like afforestation play an important role in helping to meet some of the key ecological objectives of the EU Rural Development Policy. Afforestation and the creation of woodland respond to the need to enhance ecosystems and carbon sequestration and to switch to a low-carbon economy. Afforestation also helps to prevent natural hazards and fires, and contributes to the adaptation to climate change. We found that this rationale justified a climate coefficient of 100 %.

58

When assessing the Member States' rural development programmes, we found that the Commission's approach had led to more expenditure being labelled as climate action than would have been the case had each measure been reviewed separately and classified according to international standards. In the light of this finding, we revised the climate coefficients (***Annex***), and estimated, for the whole EU, the revised amount of climate funding from the EAFRD for 2014-2020. Our estimates suggested that the EAFRD climate amounts should be reduced by 42 %, or by 23.9 billion euros (see ***Figure 9***).

Figure 9

Variation in EAFRD climate amounts (in billion euro)



Source: European Court of Auditors' estimates based on data extracted from SFC2014 via Infoview as at 30 May 2016 — Planned EAFRD expenditure per focus area and measure of approved rural development programmes.

59

In the ERDF and CF, the Commission faced similar issues in the classification of expenditure, but managed to apply a more detailed approach. We also found good practice within the same budget area as rural development: the LIFE Programme's tracking practices are more conservative than those of the EAFRD. Different tracking coefficients are used for the LIFE Programme's Environment and Climate Action sub-programmes (similar to rural development priorities 4 and 5 respectively) (see ***Box 5***).

Box 5

Tracking methods applied in the LIFE Programme

In the LIFE Programme, in line with the OECD methodology, expenditure items have been assigned to one of three categories: primarily climate-related (100 %); significantly climate-related (40 %); and not climate-related (0 %).

Most of the amounts planned to be spent under the Environment sub-programme are tracked with a 40 % coefficient[38], while they are tracked with a 100 % coefficient under the Climate Action sub-programme[39].

The LIFE Programme provides us with a clear example of a case where environmental expenditure (with a maximum of 40 %) is not fully assimilated to climate, in contrast with practice in the rural development field. As a result, climate funding between areas cannot always be compared.

38 An example of a typical project under the Environment sub-programme would be the development of wastewater treatment plants to minimise the pollution of receiving waters. The main objective is environmental, i.e. reducing pollution, but part of such a project might cover urban drainage networks, thereby contributing to adaptation to climate change, through flood management.

39 An example of a typical project under the Climate Action sub-programme would be renovation of the existing building stock in order to save energy and to reduce greenhouse gas emissions.

Prompt action required as contribution from research funding is falling significantly behind

60
Horizon 2020's climate tracking results for 2014 show that 24 % of the budget was dedicated to climate action[40]. This is considerably below the 35 % target (see ***Figure 4***). The regulatory requirement[41] for the multiannual work programme to include an indication of the amount of climate-related expenditure was not adhered to in either 2014-2015 or 2016-2017. Therefore, no quantified target has been assigned to the individual work programmes identifying their contribution towards the objective to spend at least 35 % of the overall Horizon 2020 budget on climate action.

61
Horizon 2020 distinguishes between and sets out the relative budget proportions for programmable and bottom-up actions[42]. For programmable actions, the climate-related expenditure can be estimated by applying EU climate coefficients to the relevant expenditure categories. However, the Commission considers that the results from bottom-up areas are unpredictable by nature[43]. In 2014, the bottom-up actions represented 35 % of the total Horizon 2020 budget, and, of these, 8.5 % were considered climate related.

62
Using the projected climate contribution from programmable actions for the years 2014 to 2017, we calculated[44] that between 2018 and 2020 the average share of climate-related expenditure in Horizon 2020 would have to reach 47 % to achieve the 35 % target for the whole 2014-2020 multiannual financial framework. This represents a substantial increase compared with the rate of 24 % already achieved. ***Figure 10*** shows an example of the path that the climate allocations under Horizon 2020 will have to take if the 35 % target is to be met.

40 According to the Commission, data on climate-related expenditure does not yet take into account some of the financial instruments which are tracked at project level, i.e. in a bottom-up manner (InnovFin SMEG and InnovFin SME VC) due to the biennial nature of the European Investment Fund's reporting.

41 Council Decision 2013/743/EU of 3 December 2013 establishing the specific programme implementing Horizon 2020 (OJ L 347, 20.12.2013, p. 965) states that the multiannual work programmes for Horizon 2020 must provide an indication of the amount of climate-related expenditure, where appropriate.

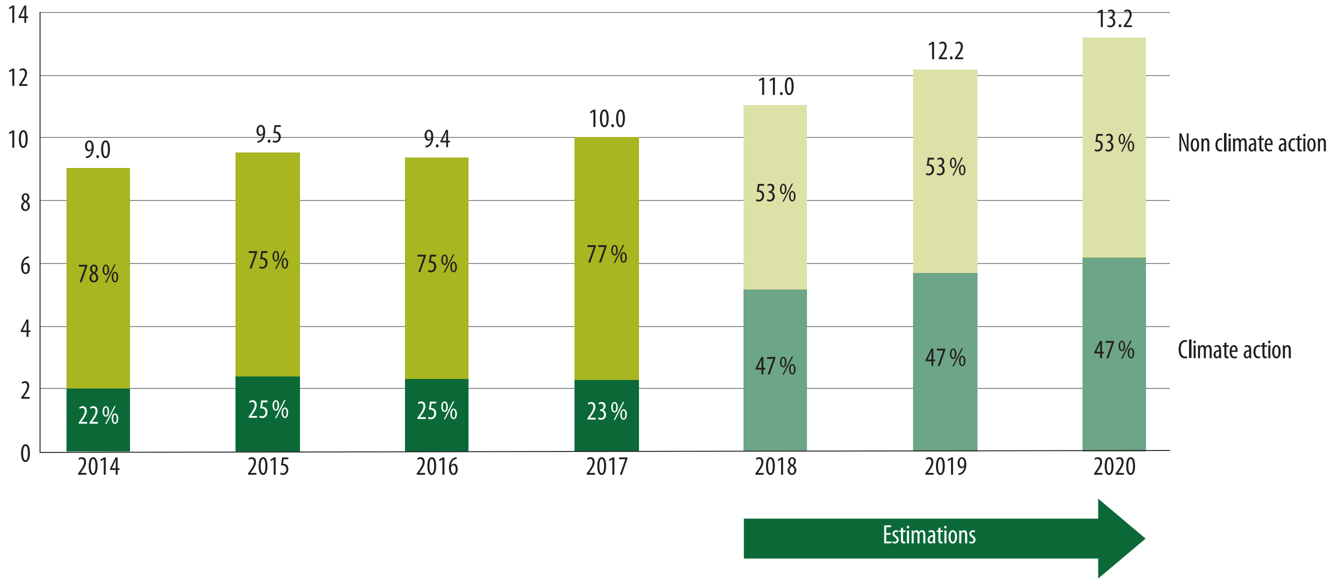
42 Programmable actions have a clear thematic objective corresponding to one of the topics defined in the Commission's work programme. For bottom-up actions, thematic objectives are not predetermined and can vary depending on the project.

43 Which share of bottom-up actions can be considered climate-related depends upon researcher proposals, which are evaluated for their scientific excellence.

44 Data source is Draft budget for the year 2017, Heading 1A: Competitiveness for growth and jobs, section 3.2.2 Contribution to mainstreaming of climate action. The calculation is based on the fact that in 2015-2017 (as in 2014) bottom-up actions accounted for 35 % of the total budget and that in that period (as in 2014) 8.5 % of the budget for bottom-up actions was climate-related.

Figure 10

An example of a path for climate allocation if the 35 % target for Horizon 2020 is to be met (in billion euro)



Source: Commission's data for 2014-2017 (draft budget 2017) and European Court of Auditors' estimates of climate action for 2018-2020.

63

In November 2015 the Commission devised an action plan[45] in order to remedy Horizon 2020's sub-optimal progress towards its 35 % target. We analysed whether this action plan contained adequate provisions to deliver the necessary catch-up in research. The action plan introduces some measures from the 2016-2017 work programme onwards and recognises the need to do more in the 2018-2020 work programme. For example, the Commission intends to introduce compulsory climate-related checks to be performed on the whole work programme prior to approval. In addition, climate-related considerations are to be included in the standard project proposal templates and in the award criteria. Allocating a sufficient budget to measures that make a sizeable contribution to climate change objectives would be another means, recommended in the action plan, by which to help meet the general 35 % target.

45 The Strategic Research and Innovation Directors-General Group endorsed on 12 November 2015 the measures included in the Action Plan for increasing mainstreaming of climate action in Horizon 2020 and climate-related expenditure.

64

While the action plan includes useful proposals, it fails to present any quantifiable targets or models as to how the 35 % target might be met. For example, the action plan does not include related calculations, nor does it provide a roadmap on how the relatively low share of climate-related expenditure in the years 2014-2017 can be compensated for in 2018-2020.

More and better-focused climate action funding in some European Structural and Investment Funds, but largely business as usual in others

65

The target to spend 20 % of the EU budget on climate action can be factored into the various policy areas through spending more on existing climate-related programmes, creating new programmes or developing features to target spending more towards climate-related objectives. A sign of 'better focused spending' would be funds and programmes setting requirements which are more geared towards climate-related objectives than they were in the 2007-2013 period. Overall, we were unable to determine whether and to what extent the 20 % target represents an increase in climate action spending compared to 2007-2013 (see paragraph 27).

66

We examined the European Structural and Investment Funds and the agricultural direct payments, since these areas under shared management account for around three quarters of the planned climate funding (see paragraph 19). For these funds, we looked at whether, compared with 2007-2013, the 20 % target had added value to the fight against climate change through:

- a larger allocation of EU funds to climate action — a quantitative improvement — and/or
- better focused EU funding for climate action — a qualitative improvement.

67

Since spending has just started for the 2014-2020 period, we analysed the quantitative and qualitative improvements by auditing the design of measures in the spending programmes as well as planned expenditure, and not actual expenditure at project level. The examples mentioned in the section therefore primarily act as case studies to illustrate the strengths, weaknesses and good practices we noted.

Higher climate allocations in the ERDF and CF demonstrate that better focus on climate can be achieved

68

We assessed whether the inclusion of climate action under the 2014-2020 ERDF and CF operational programmes had resulted in more funds being allocated to climate investments compared with 2007-2013. Since climate action spending was not specifically monitored in the 2007-2013 programmes, to perform our assessment we first identified which investment categories, known as intervention fields, were comparable to the 2014-2020 climate-related categories. In a second step, we applied the 2014-2020 EU climate coefficients to the EU expenditure made in the relevant 2007-2013 investment categories.

Mainstreaming in the ERDF and CF resulting in higher climate allocations …

69

Compared with 2007-2013, climate-related expenditure in 2014-2020 across all ERDF and CF programmes, including the European Territorial Cooperation framework, is planned to increase by around 69 %, from 32.4 billion euros to 54.7 billion euros. When viewed in terms of its proportion of total ERDF and CF financing, climate-related expenditure is set to increase from 12 % in 2007-2013 to 21 % in 2014-2020.

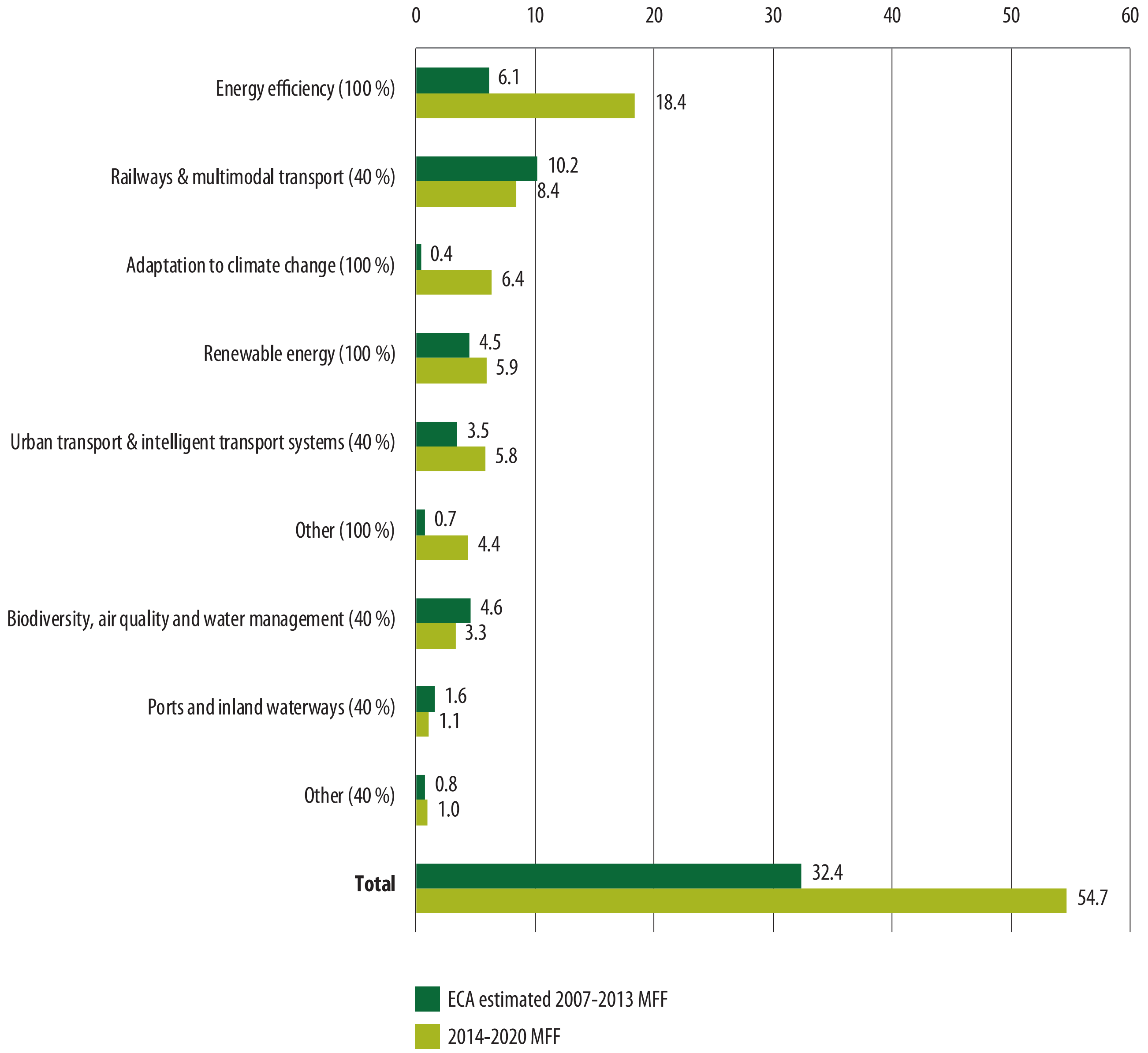
70

As shown in ***Figure 11***, the nature of climate-related expenditure changed between the two funding periods. Whereas in 2007-2013 railways and multimodal transport made the largest climate contribution, with this category accounting for 32 % of the total, in 2014-2020 energy efficiency investments come out on top, representing 34 % of the total estimate for climate action (see ***Box 6*** for an example[46]).

46 The sample project is intended to illustrate ERDF and CF spending on climate action. We did not audit the performance nor the cost-effectiveness of this project. See Special Report No 21/2012 'Cost-effectiveness of cohesion policy investments in energy efficiency' on cost-effectiveness issues regarding renewable energy (http://eca.europa.eu).

Figure 11

Comparison of estimated contribution of ERDF and CF to climate action by sector and years (in billion euro)



Source: European Court of Auditors' estimates based on Commission data.

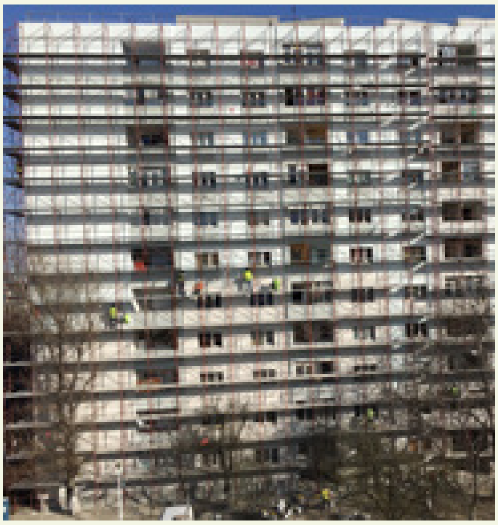
Box 6

Example of an energy efficiency investment co-financed by the ERDF in Romania

Energy efficiency projects for private and public buildings[47] are planned to account for around 6 % of total EU co-financing in **Romania** in 2014-2020, compared with about 1 % in 2007-2013. The expenditure for such projects is weighted with a 100 % climate action coefficient.

One example of such projects aimed at increasing the **energy efficiency of residential building** was funded in District 3 of Bucharest. The ERDF co-financing from the 2007-2013 Regional Operational Programme amounted to around 162 500 euros. The project was completed in 2015. Thermal insulation of the block of flats and renovation of the heating system resulted in a reduction of annual energy consumption from 331 kWh/m^2 to 143 kWh/m^2, i.e. by 57 %. The CO_2 emission savings are estimated to be 238 tonnes/year.

Block of flats before the investment (next to the project site)



Ongoing works (next to the project site)

Block of flats after the investment (project site)

47 Including high-efficiency co-generation and district heating.

Source: European Court of Auditors.

71
The general trend at EU level is also mirrored in all three Member States visited for the audit in the area of cohesion policy. Here too the climate expenditure under all ERDF and CF operational programmes is planned to increase in 2014-2020. However, we also saw significant variations between Member States in terms of their financial commitments for climate action under the EU budget (see ***Table 3***).

Table 3

Climate funding of ERDF and CF in 2007-2013 and in 2014-2020

Member States	Estimated share of climate funding in 2007-2013	Estimated amount of climate funding in 2007-2013 *(billion euro)*	Share of climate funding in 2014-2020	Amount of climate funding in 2014-2020 *(billion euro)*
Germany	7.0 %	1.20	27.0 %	2.90
Poland	8.0 %	5.60	15.0 %	11.60
Romania	9.0 %	2.20	19.0 %	4.30

Source: European Court of Auditors' estimates based on programming documents and national reporting.

… and cases of better focus on climate do exist

72
In addition to conducting a financial assessment, we also examined whether incorporating climate action into the 2014-2020 ERDF and CF operational programmes had resulted in investment activities which are better focused on climate action. We identified qualitative improvements in certain areas. Firstly we found that management processes were taking more account of the climate issue. Across Germany, Poland and Romania we noted qualitative improvements in how grant applications were taking climate into account, including requirements to describe the climate change impacts and risks or the project's climate change contribution. Secondly, we found instances where changes were being made to focus on climate action (see ***Box 7***).

Box 7

Examples of a better focus on climate change in the audited ERDF and Cohesion Fund programmes

In **Germany**, the Federal Ministry for Environment, Nature Conservation, Building and Nuclear Safety set up a solely nationally funded project to encourage the active participation of environmental partners in the ERDF programming process and to support the incorporation of environmental and climate issues. Among other things, the project resulted in the production of two programming manuals. These included, for instance, examples of good practice for incorporating climate action into projects in different areas. The EU climate coefficients were labelled as a first step in the right direction, while stressing that ecological sustainability had to be integrated in all measures.

Under the **German Saxony** operational programme, the selection criteria stipulate that company buildings must be renovated to energy efficiency standards which exceed legal requirements by 10 %. Furthermore, in energy-efficiency renovations, funding is targeted at only those parts of a project which bring added climate value, whereas previously whole projects were supported.

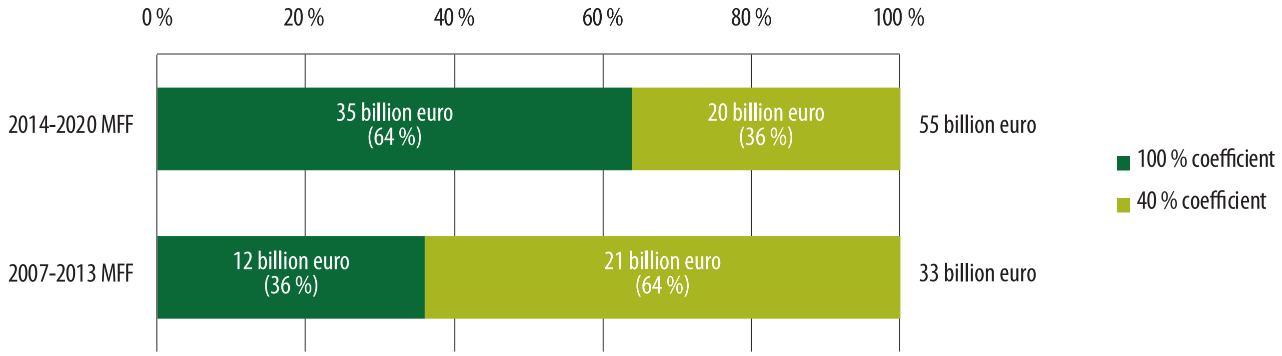
Romania awards higher scores to projects in the Large Infrastructure Operational Programme providing higher savings in energy consumption. We also noted that the **Polish and Romanian** national authorities had set eligibility conditions designed to obtain greater synergies with the relevant broader strategies like the Sustainable Energy Action Plans or Sustainable Urban Mobility Plans.

73

In 2014-2020 up to 64 % of climate-related expenditure under the ERDF and CF operational programmes is expected from the investment categories for which the 100 % EU climate coefficient is applied. This means that they make a significant contribution towards climate change objectives (see ***Table 2***). This is an increase compared with 2007-2013, when most of the climate-related expenditure came from activities with only a moderate contribution to climate change (see ***Figure 12***).

Figure 12

Share and amounts of climate action expenditure according to the EU climate coefficients in the two periods



Source: European Court of Auditors' estimates based on Commission data.

74

Although in 2014-2020, the funding of measures deemed primarily directed at climate action is set to increase in each of the three Member States visited, the extent of this increase differs significantly. In Poland and Romania, mainly due to the continued support of railways and urban transport[48], around half of the climate-related funding across all operational programmes is assigned a 100 % coefficient, while in German operational programmes nearly all of the climate-related expenditure is weighted at 100 % due to its significant contribution to climate action.

75

However, the role of climate action in research and innovation and in the field of small- and medium-sized enterprises was found to be relatively small. In the audited programmes in Germany and Romania, we found that the Commission had not pushed strongly during programming negotiations significantly to increase the amount of climate action taken in the research and development nor business development fields in programmes where this amount was either low or non-existent. Member States were able to hit the 20 % target without having to adapt funding in these areas. This means that not all the potential opportunities for financing climate-related action were fully utilised.

48 These projects are considered as 40 % climate related.

The European Social Fund's potential contribution to climate action — more could be achieved

76

The Commission has acknowledged an increasing demand for green jobs, with the energy efficiency sector expected to employ 2 million by 2020, and the renewable energy sector 3 million[49]. Matching the supply of 'green workers' to the increased demand will prove crucial to the establishment of a green economy. A lack of qualified specialists and workers in the green jobs sector would trigger costs and delays[50] in the implementation of climate-related actions.

77

At the same time, the transition to a low-carbon economy will also lead to job cuts in the fossil fuel-based sectors, leaving workers from these sectors with a need to acquire new skills[51]. Compared to the other cohesion policy funds, the ESF operational programmes explicitly allocated a very low share to climate action, specifically 1.4 % of 83 billion euros.

78

The Commission considered that the share of the ESF allocated to climate-related expenditure established on the basis of the information reported by the Member States in the ESF operational programmes may underestimate the expected contribution of the ESF to climate action in the 2014-2020 period, the final extent of which will only be known after the programmes' implementation. Not having set appropriate requirements for the ESF to take climate action into account represents a missed opportunity for this area to contribute more to the shift to a low-carbon economy and to climate action in general.

79

When the 2014-2020 operational programmes were under approval, there was no requirement for Member States to provide the Commission with any justification of the ESF allocation to climate action objectives. Therefore, the programmes were not systematically checked to see whether they would target the demand for green jobs or support the transition to a low-carbon economy.

49 See the Commission Staff Working Document 'Exploiting the employment potential of green growth' of 18 April 2012.

50 The UK House of Commons Environmental Audit Committee report 'Green Jobs and Skills' concludes that 'relying exclusively on the market to address skills gaps is causing delays in greening the economy.' http://www.publications.parliament.uk/pa/cm200910/cmselect/cmenvaud/159/159i.pdf

51 See e.g. paragraphs 324 and 325 of the OECD report 'Aligning Policies for the Transition to a Low-Carbon Economy' http://www.oecd.org/env/Aligning-policies-for-the-transition-to-a-low-carbon-economy-CMIN2015-11.pdf

No significant change in the common agricultural policy spending, although good practices exist in rural development

80

This section assesses whether the incorporation of climate action into the agricultural direct payments and the rural development programmes under review has resulted in positive changes in the quantity of climate spending — measured by an increased volume of funds for climate-related spending — and in its quality — measured by its better focus on climate-related operations. We reviewed available evidence upon the cross-compliance system and agricultural direct payments and also the 2014-2020 rural development programmes for Andalusia, Poland and the Rhône-Alpes and compared them to the 2007-2013 programmes.

Introduction of a Green Payment does not guarantee a significant change of the contribution of direct payments to climate

81

In a recent report[52], we concluded that the changes to the common agricultural policy for the period 2014-2020 reduced the number of the cross-compliance rules, by removing requirements which were not sufficiently relevant to the farming activity.

82

The greening component was introduced as a new feature of the common agricultural policy for the period 2014-2020. Although it includes requirements relevant to climate (see paragraph 53), it is largely based on the previous good agricultural and environmental conditions, which covered similar agricultural practices, such as protection of permanent pastures or retention of landscape features. Available information shows that 64 % of beneficiaries of direct payments are exempted from greening requirements[53]. As a result, there is a risk that reorientation of direct payments towards climate action will be limited. The Commission plans to evaluate the environmental achievements of the green payment in 2017 and at the end of 2018.

83

The multiannual financial framework 2014-2020 contribution to agricultural direct payments is expected to amount to 288 billion euros. This amount is comparable to the amount of 276 billion euros of direct aid paid to producers in the financial years 2007 to 2013[54].

52 Special Report No 26/2016 ‘Making cross-compliance more effective and achieving simplification remains challenging’ (http://eca.europa.eu).

53 Commission Staff Working Document of 22.6.2016 ‘Review of greening after one year’ — SWD(2016) 218 final, see p. 14 of Annex 2, part 3/6.

54 This amount has been estimated by adding the indicative figures on direct aid payments to producers according to Council Regulation (EC) No 1782/2003) (OJ L 270, 21.10.2003, p. 1) and Council Regulation (EC) No 73/2009 (OJ L 30, 31.1.2009, p. 16) provided in the reports on the distribution of direct aid to farmers for the financial years 2007 to 2013: http://ec.europa.eu/agriculture/cap-funding/beneficiaries/direct-aid/index_en.htm

Climate funding in rural development: no increase in the focus on climate action

84

Due to the specificities of rural development, a comparison across all rural development programmes was not possible because programme measures are implemented through different types of operation from one programme to the next. Based on three rural development programmes, we estimated the share of climate funding in 2007-2013 and compared it against the plans for 2014-2020. Across these programmes, we saw no real upward or downward shift in investments (see ***Table 4***).

Table 4

Climate funding in 2007-2013 and in 2014-2020

Rural development programmes reviewed	Estimated share of climate funding in 2007-2013	Estimated amount of climate funding in 2007-2013 *(billion euro)*	Share of climate funding in 2014-2020	Amount of climate funding in 2014-2020 *(billion euro)*
Andalusia, Spain	66.2 %	1.38	55.0 %	1.05
Poland (one rural development programme for the whole of the Member State)	37.0 %	0.50	39.4 %	0.34
Rhône-Alpes, France	78.0 %	0.51	75.0 %	0.80

Source: European Court of Auditors' estimates based on programming documents.

Good practices exist in rural development but generally business as usual prevails

85

When assessing the programmes for any qualitative improvements, we found so far no significant change in the key features of the management process, such as the requirements or eligibility and selection criteria. This was particularly true of financially significant measures, such as measures dealing with areas under natural constraints or organic farming.

86

The design of some less material measures had, however, been modified to make them more climate-related. We estimated that around 10 % of the EAFRD climate funding in the Rhône-Alpes, 22 % in Poland and 36 % in Andalusia are related to measures which better target climate action compared to 2007-2013. We found several examples of emerging good practice contributing directly to tackling climate change (see ***Box 8***).

Box 8

Examples of better targeting climate change in the audited EAFRD programmes

The design of certain **forestry measures** we came across in **Poland**, the **Rhône-Alpes** and **Andalusia** had been improved to support carbon storage, or to boost the resistance of forests to climate change. The Rhône-Alpes programmes also included one measure helping to develop locally generated renewable energy by supporting investments from small forest-based companies in wood fuel.

We also found improvements in the three programmes' design of climate-friendly **agri-environment-climate** measures. Poland has started chemically analysing the organic carbon content of soil, and intercropping in order to achieve a positive balance of organic matter on an agricultural plot. In Andalusia, new requirements have been introduced to tackle the issue of soil erosion which blights olive production.

87

We also found examples of good practice in measures created in 2007-2013 which are still being implemented in 2014-2020 (see ***Box 9***).

Box 9

Example of continuation in climate funding from the Rhône-Alpes regional programme in France

The 2014-2020 programme continues to support investment projects which contribute directly to mitigating climate change, for example through developing **methane-production methods for agriculture**. The objective is to facilitate the supply and use of renewable energy sources. Justifiably, the projects are tracked with a 100 % climate coefficient.

The project pictured below, funded in 2012 and completed in 2015, is an example of such a project, producing energy from waste. Half of the waste input into the facility is of agricultural origin, while the other half is locally sourced green waste provided by a local company. The outputs improve the food self-sufficiency of the farm, and also meet the heating needs of a local school and other local premises. The total EAFRD eligible cost for the methane-production facility was 881 000 euros. The project was 37.36 % funded through public support, with 105 000 euros provided in EAFRD grants and 224 415 euros of national co-financing.

Example of an agricultural climate-related project

Source: Conseil Régional Auvergne Rhône-Alpes.

Very limited increased focus on climate action in the European Maritime and Fisheries Fund

88

Climate change was not mainstreamed into the 2007-2013 European Fisheries Fund and the Directorate-General Maritime Affairs and Fisheries therefore has not calculated its contribution to climate action in that period. We estimated[55] EFF's contribution to climate action to have been around 1 billion euros in 2007-2013, representing 26 % of the Fund. For 2014-2020, the aggregated estimates of climate action contributions (see paragraph 43) provided in all EMFF operational programmes by the Member States also stand at around 1 billion euros, representing around 18 % of the EMFF.

89

One of the main reasons for this stability in absolute terms is the reduced support which the EMFF has assigned to fleet management measures. There was a decrease in the related support for the replacement or modernisation of engines and for the permanent or temporary cessation of fishing activities, which measures are tracked with 100 %, 100 % and 40 % coefficients respectively.

90

We have compared the current legal framework with the 2007-2013 period to ascertain whether the current maritime and fisheries fund has moved towards a better integration of climate change objectives in the content of its measures. This was done for the measures which can be traced back to the 2007-2013 period. Direct and clear references to climate change objectives, both mitigation and adaptation, are still rare and, as a result, the fisheries fund had not widened the scope of its contribution to climate action (see ***Box 10***).

55 Our estimate was mainly based on the methodology used by Directorate-General Maritime Affairs and Fisheries in the budgetary documents for 2014 to 2016, although we also included permanent and temporary cessation measures under the EFF, applying a coefficient of 100 % and 40 % respectively. This addition is the only deviation from the methodology used by Directorate-General Maritime Affairs and Fisheries, as it reflects at face value the coefficient for fleet adjustment measures laid down in Commission Implementing Regulation (EU) No 1232/2014 of 18 November 2014 amending Commission Implementing Regulation (EU) No 215/2014 in order to adapt references therein to Regulation (EU) No 508/2014 of the European Parliament and of the Council and correcting Implementing Regulation (EU) No 215/2014 (OJ L 332, 19.11.2014, p. 5).

Box 10

Examples of better targeting climate change in the audited European Maritime and Fisheries Fund

Compared to the previous period, we have identified a limited number of improvements in the EMFF. Out of the 50 measures supported by the EMFF, three previously existing measures[56] were improved to incorporate climate action and two new measures with climate change objectives were created[57]. In addition, the EMFF now contains a stand-alone measure for energy efficiency and climate change mitigation, although similar operations were eligible for financing previously. This clearly climate-targeted measure, tracked with a 100 % coefficient, should benefit 3 738 projects across the EU, the vast majority of which would concern engine replacement and modernisation.

56 These measures were on 'Inland fishing and inland aquatic fauna and flora', on 'Productive investments in aquaculture' and on 'Processing of fishery and aquaculture products'. References were mainly made to improving energy efficiency.

57 These two new measures related to 'Mutual funds for adverse climatic events and environmental incidents' and 'Aquaculture stock insurance'.

Conclusions and recommendations

91
The EU institutions made a political commitment for the 2014-2020 multiannual financial framework to mainstream climate action across EU budget spending, and to ensure that at least one euro in every five from the EU budget is spent on climate-related activities. The main aim of this pledge is to respond to the challenge posed by climate change and the substantial investment needs for climate action. We sought to determine whether the target to spend at least 20 % of the EU budget on climate-related action was likely to be met and whether the approach employed was likely to add value, by leading to more and better-focused funding on climate action.

92
We found that ambitious work was underway and that, overall, progress had been made towards reaching the target. However, there is a serious risk of falling short of meeting the 20 % target without more effort to tackle climate change. The implementation of the target has led to more, and better-focused, climate action funding in some of the European Structural and Investment Funds namely the European Regional Development Fund and the Cohesion Fund. In other areas, however, such as in the European Social Fund, agriculture, and rural development and fisheries, it is largely business as usual, i.e. there has been no significant shift of these funds towards climate action.

Overall progress has been made, but there is serious risk that the 20 % target will not be met

93
The objective to spend 'at least 20 %' of the EU Budget on climate action is part of the EU's leadership in climate action and represents a clear commitment to tackling climate change. According to Commission figures, the share of funding dedicated to climate action has averaged 17.6 % between 2014 and 2016 (see paragraphs 26 and 40 to 41).

94
To date, no tool has been available to provide a multiannual, consolidated update on the progress across the EU budget in achieving this aim. The Commission has recently updated climate-relevant spending data for the whole 2014-2020 period in the context of the multiannual financial framework mid-term review. Overall, the Commission estimates that 18.9 % would be spent on climate action, thereby falling short of the 20 % objective (see paragraph 44).

95

Weaknesses of the tracking method used by the Commission and Member States concern reporting and comprehensiveness. The tracking method does not reflect the full financial effects of EU spending on climate action through financial instruments and off-balance sheet items, despite their increasing use (paragraphs 37 and 38). It also does not differentiate between mitigation and adaptation measures, thereby making it difficult to assess the level of financing for these different approaches to addressing climate change (paragraph 36).

Recommendation 1 — Robust multi-annual consolidation exercise

The **Commission** should carry out annually, a robust, multi-annual consolidation exercise to identify whether climate expenditure is on track to achieve the 20 % target.

Target implementation date: December 2017.

Recommendation 2 — Comprehensive reporting framework

(a) The **Commission** should report, annually, consolidated information on the progress towards the overall 20 % target in its annual management and performance report and also report, with comprehensive information thereon, in each relevant annual activity report. This should include reporting on progress on action plans where they exist. In addition information on the climate contribution of financial instruments should be reported.

(b) **Member States** should report, in their annual implementation reports to the Commission, on the areas under shared management where there are potential opportunities for climate action, outlining how they plan to increase climate action in these areas.

Target implementation date: Annually, starting from the 2016 annual reports.

(c) The **Commission** and the **Member States** should ensure that data collection differentiates between mitigation and adaptation.

Target implementation date: Development of such a system for the next multiannual financial framework.

96
We estimated that the rate of climate funding must be increased to an average of 22 % across the remaining years of the current multiannual financial framework, i.e. for 2017 to 2020 (paragraph 46), to reach the overall target of 20 % by the end of 2020. The main contributors to the target are agriculture and rural development and the cohesion policy, followed by the Horizon 2020 research programme (paragraph 33). No overall plan outlining which funding instruments could contribute and to what extent was ever devised (paragraph 26). This is likely to prove to be a sub-optimal way of determining the climate action contribution to be made by spending programmes which differ in nature.

Recommendation 3 — Assessment of climate change needs

When planning the potential contribution to climate action from individual budget lines or funding instruments, the **Commission** should ensure that such plans are based on a realistic and robust assessment of the climate change needs and on each area's potential to contribute to the overall target.

Target implementation date: Development of such as system for the next multiannual financial framework.

97
The main areas examined in this audit are expected to account for 84.5 % of expected contributions to the climate action target. Some of these areas have climate-related targets, the Horizon 2020 programme, the European Agricultural Fund for Rural Development, the LIFE programme and the European Regional Development Fund, supporting the delivery of their contribution (paragraphs 28 and 29). However, there are serious risks that could affect the expected contribution in agriculture, rural development and research (paragraphs 49 to 51).

98
The Commission's approach to planning and measuring progress towards the 20 % target across the EU budget was based on an internationally established methodology. The Commission and audited Member States found it to be a pragmatic approach to tracking climate expenditure. However, the EU climate coefficients applied in certain areas failed to respect systematically the conservativeness principle in order to avoid overestimating climate funding (paragraph 35).

99
The assumptions concerning the contribution from agricultural direct payments to the climate action target are insufficiently justified. An application of the principle of conservativeness would result in a decrease of 9 billion euros in climate contributions (paragraphs 53 and 54). Application of EU-climate coefficients led to an overestimation of the contribution to climate of rural development. The approach followed for the EAFRD does not distinguish sufficiently between the climate contributions made by different activities, leading to an overestimation of contributions to climate action. Our estimates suggested that the EAFRD climate amounts should be reduced by 23.9 billion euros (paragraph 58).

100
We estimated that these adjustments together would reduce the agricultural and rural development climate funding contribution by up to approximately 33 billion euros, which represents around 15 % of the overall target (paragraphs 51, 54 and 58).

Recommendation 4 — Correct overestimations

The **Commission** and **the Member States** should apply the principle of conservativeness and correct the overestimations in the EAFRD by reviewing the EU climate coefficients set.

Target implementation date: By December 2017.

101
The Horizon 2020 research programme has fallen behind its 35 % target and needs to catch up. While it is encouraging that the Commission has put in place an action plan, the plan does not set out in sufficient detail how the required catch-up is expected to be ensured (paragraphs 60 to 64).

102
Apart from these risks affecting the delivery of the climate contribution in the main areas, other, less significant, contributing areas would need to double their current efforts to achieve the 20 % target. We could find no evidence, such as an action plan, showing that the Commission is increasing efforts in these areas and how such a doubling would be feasible (paragraph 47).

Recommendation 5 — Draw up action plans

Whenever the annual consolidation exercise reveals a risk that the expected contributions from a particular area may not be achieved, the **Commission** should draw up an action plan for that area, setting out in detail how it expects to ensure the catch-up needed.

Target implementation date: By March 2017 for the drawing up of action plans.

103

The Commission's approach to assessing levels of climate action funding focuses on identifying planned expenditure. Yet this approach carries an inherent risk, since planned expenditure will not necessarily translate into actual spending. Therefore, it is the actual implementation of planned climate funding contributions which should be assessed, while avoiding disproportionate administrative costs. The Commission has not yet developed a procedure for doing so (paragraph 46). Monitoring the actual financial implementation of the 20 % target would, however, not provide any information on results achieved by the climate action spending. We found that information on what funds plan to achieve, or have achieved in terms of results such as greenhouse gas reductions, is only available for parts of the budget and lacks comparability (paragraph 47).

Recommendation 6 — Develop indicators monitoring actual spending on climate action and related results

The **Commission** should:

(a) in cooperation with the **Member States**, in the area of shared management, develop a harmonised and proportionate system for monitoring the actual implementation of climate action;

(b) in line with its 'budget for results' initiative, establish climate-related results indicators in all areas that contribute towards the achievement of the target, in particular to assess greenhouse gas emissions and reductions brought about through EU-funded measures;

(c) facilitate the exchange of good practice on climate-related result indicators between Member States.

Target implementation date: By December 2018.

More and better-focused climate action funding in some European Structural and Investment Funds, but largely business as usual in others

104

Compared with 2007-2013, climate-related expenditure in 2014-2020 across all ERDF and CF programmes, including the European Territorial Cooperation framework, is planned to increase from 32.4 billion euros to 54.7 billion euros. In addition to the financial increase, we identified a better focus on climate action and good practices in certain areas, such as in the programmes' management process or in the type of funded investments (paragraphs 69 and 70).

105

However, in the audited programmes in Germany and Romania, we found that the Commission had not pushed strongly during programming negotiations significantly to increase the amount of climate action taken in the research and development or business development fields. This means that not all the potential opportunities for financing climate-related action were fully explored (paragraph 75).

106

Similarly, the European Social Fund's potential contribution to climate action could be increased in light of the increasing demand for green jobs in the economy. We found that the ESF operational programmes allocated a very low share of 1.4 % of 83 billion euros to climate action. The Commission did not systematically check whether the programmes would target the demand for green jobs or support the transition to a low-carbon economy (paragraphs 76 to 79).

107

Despite some good practices emerging, there has been no significant shift towards climate action in agricultural, rural development or fisheries policies.

108

The introduction of a Green Payment does not guarantee a significant change of the contribution of direct payments to climate. This new scheme, while having a certain climate action impact, rests in practise largely on already existing agricultural practices (paragraphs 81 and 83). Across the three rural development programmes audited, we saw no real upward or downward shift in investments. Regarding the better-targeting of climate action, we found no significant change in the key features of the management process, such as the requirements or eligibility and selection criteria. The design of some less material measures had, however, been modified to make them more climate-related. We also found several examples of emerging good practice contributing directly to tackling climate change (paragraphs 84 to 87).

109

There has been only a very limited increased focus on climate action in the maritime and fisheries fund. Direct and clear references to climate change objectives, both mitigation and adaption, are still rare. As a result, the maritime and fisheries fund has not widened the scope of its contribution to climate action (paragraphs 88 to 90).

Recommendation 7 — Explore all potential opportunities and ensure a real shift towards climate action

The **Commission** should:

(a) identify those areas with underutilised potential for climate action, such as the European Social Fund, and develop action plans for increasing the climate action contribution of these areas;

(b) The **Commission** and **Member States** should increase the mainstreaming of climate action in agriculture, rural development and fisheries, for example, by developing new, or retargeting existing, measures tackling climate change.

Target implementation date: By December 2017.

This report was adopted by Chamber I, headed by Mr Phil WYNN OWEN, Member of the Court of Auditors, in Luxembourg at its meeting of 26 October 2016.

For the Court of Auditors

Klaus-Heiner LEHNE
President

Matrix of coefficients used by the ECA in the field of the rural development policy

The proposed matrix based on the audit visits in the Member States, and also adapted from the preparatory study commissioned by the Commission, remedies the lack of differentiation of EU climate coefficient by measure.

On the basis of the case studies examined in the Member States, a literature review[1], an analysis of Commission internal notes and the application of international standards[2], we established, as a first step, an updated matrix of climate coefficients which takes into account the measures and their policy objectives represented by the focus areas (see below). In a second step, we determined the EAFRD amounts by measure and focus area. The data are available from the Commission to do so. The only case where an assumption had to be made was with union priority 4[3]. Finally, we applied the climate coefficients in the matrix below to the corresponding EAFRD amounts.

1 The matrix has been developed in particular on the basis of the preparatory study commissioned by the Commission, 'Tracking system for climate expenditure in the post-2013 EU budget' — Detailed CAP assessment, Table 5.4 (pp. 25-30).

2 Rio markers of the OECD and tracking principles developed by the Multilateral Development Banks like the World Bank.

3 Union priority 4 is programmed as a 'block' according to the Commission 'guidelines for strategic programming', i.e. there is no allocation of EAFRD expenditure to individual focus areas. Therefore, we divided the planned EAFRD expenditure under this priority by three and allocated an equal EAFRD amount to each of the three focus areas under union priority 4: focus areas 4A (restoring, preserving and enhancing biodiversity), 4B (improving water management, including fertiliser and pesticide management) and 4C (preventing soil erosion and improving soil management).

Proposed matrix

	Priorities and FAs	Priority 2	Priority 3		Priority 4			Priority 5	Priority 6
		Enhancing farm viability and competitiveness of all types of agriculture in all regions and promoting innovative farm technologies	Promoting food chain organisation, animal welfare and risk management in agriculture		Restoring, preserving and enhancing ecosystems related to agriculture and forestry			Promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors	Promoting social inclusion poverty reduction and economic development in rural areas
Measure Code	Measure Name	For all focus areas	Improving competitiveness of primary producers by better integrating them into the food chain	Supporting farm risk prevention and management	Restoring, preserving and enhancing biodiversity	Improving water management, including fertiliser and pesticide management	Preventing soil erosion and improving soil management	For all focus areas	For all focus areas
1	Knowledge transfer and information actions	0 %	0 %	40 %	40 %	40 %	100 %	100 %	0 %
2	Advisory services, farm management and farm relief services	0 %	0 %	40 %	40 %	40 %	100 %	100 %	0 %
3	Quality schemes for agricultural products and foodstuffs	0 %	0 %	0 %	40 %	40 %	40 %	100 %	0 %
4	Investments in physical assets	0 %	0 %	40 %	40 %	40 %	100 %	100 %	0 %
5	Restoring agricultural production potential damaged by natural disasters and introduction of appropriate prevention actions	0 %	0 %	100 %	40 %	40 %	100 %	100 %	0 %
6	Farm and business development	0 %	0 %	0 %	0 %	0 %	0 %	100 %	0 %
7	Basic services and village renewal in rural areas	0 %	0 %	0 %	40 %	40 %	100 %	100 %	0 %
8	Investments in forest area development and improvement of the viability of forests	0 %	0 %	40 %	100 %	100 %	100 %	100 %	0 %
9	Setting up of producer groups	0 %	0 %	0 %	0 %	0 %	0 %	100 %	0 %
10	Agri-environment-climate	0 %	0 %	0 %	40 %	40 %	100 %	100 %	0 %
11	Organic farming	0 %	0 %	0 %	40 %	40 %	100 %	100 %	0 %
12	Natura 2000 and Water Framework Directive payments	0 %	0 %	0 %	40 %	40 %	100 %	100 %	0 %
13	Payments to areas facing natural or other specific constraints	0 %	0 %	0 %	40 %	40 %	40 %	100 %	0 %
14	Animal welfare	0 %	0 %	0 %	0 %	0 %	0 %	100 %	0 %
15	Forest-environmental and climate services and forest conservation	0 %	0 %	40 %	40 %	40 %	100 %	100 %	0 %
16	Co-operation	0 %	0 %	0 %	40 %	40 %	100 %	100 %	0 %
17	Risk management	0 %	0 %	40 %	0 %	0 %	0 %	100 %	0 %
18	Financing of complementary national direct payments for Croatia	0 %	0 %	0 %	0 %	0 %	0 %	0 %	0 %
19	LEADER: Support for bottom-up capacity building that could lead to innovative approaches to meet climate change challenges	0 %	0 %	0 %	40 %	40 %	100 %	100 %	0 %
20	Technical assistance	0 %	0 %	0 %	0 %	0 %	0 %	0 %	0 %

Reply of the Commission

Executive summary

I
The Commission is fully committed to fighting climate change. The EU approach to transitioning to low carbon and climate resilient economy is driven through policy measures, which seek to also shift investment patterns. Public spending from the EU and Member States' national budgets complements and seeks to speed up this transition.

With the proposal to mainstream climate across the EU budget[1] and to increase climate spending to 20 % of the budget, the Commission aimed to make the EU budget a pioneer in fostering mainstreaming. The European Council and the European Parliament supported the mainstreaming approach[2], and confirmed that the 20 % is an appropriate level of support.

II
The European Council explicitly confirmed the Commission's approach to mainstream climate across the budget as the main objective, supported by the political objective of making at least 20 % of EU spending in the current MFF climate relevant.

In addition to mainstreaming, the Multiannual Financial Framework (MFF) also set out a dedicated programme for addressing climate action.

IV
The Commission welcomes the Court's recognition of the ambitious work undertaken and the need to continue the efforts to further improve mainstreaming. At the same time, the Commission considers that significant progress has been made both in including climate considerations in programme development and in developing the unique quantified mainstreaming approach, which now provides a transparent baseline.

The Commission notes, however, that the potential individual contribution of each of the funds varies according to its primary missions, and therefore, it is inevitable that the systems used to programme and to monitor the contribution differ from one fund to another. Also, the reform of the common agricultural policy (CAP) has led to a significant increase in the financing of climate action as compared to the 2007-2013 period. The Commission considers that there is a significant shift towards more climate action.

V
The Commission assessed progress towards the 20 % target in the MFF Mid Term Review (MTR), published on 14 September 2016. The latest data, presented in the Staff Working Document (2016) 299 accompanying the Mid-term Review of the Multiannual Financial Framework (COM(2016) 603) show that over the 2014-2020 period, a total of slightly above EUR 200 billion of climate-related spending will be reached. This is equivalent to around 18.9 % for the whole financial programming period.

See also Commission reply to paragraph 28.

1 See COM(2011) 500 final, Part I, section 6.1.4 http://ec.europa.eu/budget/library/biblio/documents/fin_fwk1420/MFF_COM-2011-500_Part_I_en.pdf

2 See 2013-02-07 European Council Conclusions and the 2013-03-13 European Parliament resolution on the new MFF (P7_TA(2013)0078).

VI

The Commission takes note of the Court's simulations. However, the Commission has established an innovative and detailed tracking methodology built on the OECD's Rio markers.

Nevertheless, the Commission recognises the need to continue efforts to increase climate relevance across EU programmes, including those mentioned by the Court.

The method used by the Commission has been prepared in a transparent and coordinated manner. The EU approach to assessing levels of climate finance in agriculture and rural development is sound. Likewise, for green direct payments the calculation fairly reflects the climate-relatedness of the three farming practices. Also, for non-greening direct payments, the climate impact of 8 % of non-greening direct payments is not overestimated if we look at the benefits for the climate of cross compliance and direct payments.

VII

The Commission recognises that the innovative approach to tracking climate spending and its implementation in the EU budget could be further improved, including in respect of increasing granularity with regard to mitigation and adaptation. At the same time, in light of the unclear administrative impact and the complexity of avoiding double counting while reflecting the frequent associated co-benefits, the Commission does not currently foresee further disaggregation in its tracking system.

VIII

The Commission notes that some of the Court's recommendations have already been or will be addressed (*notably Recommendation 1, 6(b) and 6(c)*), some are partially acceptable (Recommendations 2(a), 3, 4, 5 and 7(a)), some are not appropriate or feasible (*Recommendations 2(c), 6(a) and 7(b)*). Overall, the Commission considers that the mainstreaming approach has increased the climate contribution of the EU budget.

Introduction

01

The Commission is fully committed to fighting climate change. The EU approach to transitioning to low carbon and climate resilient economy is driven through policy measures, which seek to also shift investment patters, as shown for again by the Commission's recent package of measures[3]. The public spending from the EU and Member States' national budgets complements and seeks to speed up this transition.

02

The Commission considers the adaptation to unavoidable climate change and mitigation as complementary policy responses and seeks to address both simultaneously, where relevant.

3 http://europa.eu/rapid/press-release_IP-16-2545_en.htm

05
The adaptation measures seek to reduce the climate-related risks to an acceptable level, based on projections of climate change.

07
There are many drivers of the reduction in greenhouse gas (GHG) emission levels; chiefly, reduced energy intensity (less energy consumed per unit of GDP) and deployment of renewables. Economic growth (GDP per capita) was a positive driver of emissions (i.e. not a contributor to mitigation) throughout the period 2005-2013, though this effect has been weaker since 2007/08[4]. In this context, it is not warranted to single out the impact of the economic crisis on emissions.

08
The Commission highlights that the 20 % objective was announced as one element of the mainstreaming approach in the EU budget, which itself is one element in the EU approach to responding to the investment needs associated with climate change.

The mainstreaming approach in the EU budget demonstrates the EU commitment to and leadership in climate action, like all EU actions to fight climate change.

09
The Commission considers that 20 % was announced as a political and aspirational target to support achieving greater climate relevance across operations financed by the EU budget. The approach was endorsed by the European Council and the European Parliament, and has underpinned subsequent implementation steps. The Commission underlines that, in spirit of the above, both the Commission and the budgetary authority decided not to make this target part of a legal text.

In addition to mainstreaming, the multiannual financial framework (MFF) also sets out a dedicated programme for addressing, inter alia, climate action (under the LIFE programme).

12
The Directorate-General Budget coordinates the allocation of resources in the budget towards policy priorities, including with regard to climate action, collects and consolidates in the Statement of Estimates of the Draft Budget the data to justify the amounts being proposed by the Commission to the Budget Authority for the annual budget procedure.

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4 See EEA decomposition analysis: Section 2.4 of *Trends & Projections in Europe 2015*: EEA Report No 4/2015

Box — The context of mainstreaming in brief
Fourth bullet

EU climate action covers a wide range of measures, and the ambitious targets make the EU a global leader in climate action. Mainstreaming climate across EU policies and programmes is one element of supporting the transition to low carbon and climate resilient society.

The EU approach to climate mainstreaming into the EU's instruments and the budget is conceptualised at four levels, as explained in the Commission reply to paragraph 24.

Observations

24

The Commission considers that the EU budget has made significant progress in climate mainstreaming. The EU approach to climate mainstreaming into the EU's instruments and the budget is conceptualised at four levels:

— The political decisions made by the EU institutions (in the context of the adoption of the MFF 2014-2020) to mainstream climate action[5] and to announce an objective of making at least 20 % of EU spending climate relevant.

— Enshrining climate objectives in the legal/guidance framework (legal basis for the new set of spending programmes, guidelines).

— The implementation of the climate related rules and guidelines (quality of implementation).

— As part of the approach, a common method to track climate-related expenditures in all EU instruments.

We recognise that the audit focusses primarily on the financial objective.

Second indent

The Commission disagrees with the Court's choice to consider a set of principles agreed in 2015 by certain organisations that implement international development assistance as a benchmark for assessing the 'appropriateness' of the innovative and detailed EU mainstreaming approach agreed at EU level.

25

The Commission recognises the Court's decision to consider the 20 % target as a budgetary objective, but reiterates that the target was announced by the Commission as a political objective to support climate mainstreaming in various programmes. Given the nature of the target, the Commission considers that a budgetary interpretation alone does not reflect the EU's approach to mainstreaming.

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5 http://ec.europa.eu/budget/library/biblio/documents/fin_fwk1420/MFF_COM-2011-500_Part_I_en.pdf

26

The Commission stresses that the 20 % political objective was announced to help mainstreaming climate action in the EU programmes (see Commission's reply to paragraph 25). For this reason the Commission has not quantified the share of the investment needs that should be covered by the EU budget, but considered estimates as outlined in the Commission proposal for the MFF[6].

27

The Commission considers that there were significant increases in climate-relevant spending. The Commission confirms, at the same time, that there are no comprehensive and comparable data on climate-relevant spending in the previous MFF, which would have been a prerequisite for developing more detailed targets. Developing a robust and transparent tracking system was one element of the EU mainstreaming approach.

28

The Commission assessed progress towards the 20 % target in the MFF Mid-term Review (MTR), published on 14 September 2016. The data, presented in the Staff Working Document (2016) 299 (SWD) accompanying the Mid-term Review of the multiannual financial framework (COM(2016) 603) show that over the 2014-2020 period, a total of slightly above EUR 200 billion of climate-related spending will be reached. This is equivalent to around 18.9 % for the whole financial programming period. The data published in Annex 2 of the SWD details totals by programme estimates on climate tracking of 20 % target for the full 2014-2020 programming period.

Climate Mainstreaming 2014-2020 — Totals by programme								
(EUR million, commitment appropriations)	2014-2017				2018-2020 estimates			
Programme	2014	2015	2016	2017	2018	2019	2020	Total 2014-2020
For reference: Total EU budget (Section III — Commission, Financial programming)	118 054.4	158 606.8	151 241.6	153 757.8	156 782.8	159 966.3	164 145.4	1 062 554.9
Total Climate Change finance in the EU budget	**16 097.7**	**27 475.7**	**31 634.4**	**29 726.8**	**30 777.7**	**31 883.6**	**32 307.7**	**200 986.9**
Share of Climate Change-relevant spending in EU Budget	13.6 %	17.3 %	20.9 %	19.3 %	19.6 %	19.9 %	19.7 %	18.9 %

Common Commission reply to paragraphs 31 and 32

The Commission reiterates that the political objective of 20 % was announced to foster mainstreaming (see also Commission reply to paragraph 25). The Commission considers such a flexible setting of the 20 % target as appropriate in developing an innovative approach to mainstreaming and tracking climate-relevant spending. The EU mainstreaming approach seeks integrating climate aspects across the EU budget.

The Commission confirms that the co-legislators did not consider specific targets necessary for promoting climate mainstreaming in all programmes. As outlined in the Commission reply to paragraph 24, mainstreaming is pursued in multiple processes, with specific targets being one of these.

The data published in the MFF MTR show that many programmes across the EU budget contribute to climate action. At the same time, the Commission concurs that specific objectives can be useful for advancing climate mainstreaming.

Climate-relevant spending is tracked across the budget; in the case of the European Structural and Investment Funds (ESIF) this tracking requirement was set by the co-legislators.

6 http://ec.europa.eu/budget/library/biblio/documents/fin_fwk1420/MFF_COM-2011-500_Part_II_en.pdf

34
The Commission recognises that the pioneering EU tracking method, unique in its coverage and detail and agreed in the EU legislative process, can be further improved. At the same time, there are no internationally agreed methods for quantified tracking climate spending.

35
The EU method of assigning coefficients to EU expenditure has proven to be an appropriate balance between the robustness of data and the administrative effort required both in the Commission and Member States.

First indent
The Commission recognises the possibility of some over- and under-estimation of climate relevance of certain spending with the current methodology and also as a direct consequence of applying a system based on the three 'Rio markers' average ratios. At the same time, the Commission considers its methodology to be sufficiently conservative and does not consider a set of principles developed by a group of international aid organisations in 2015 for mitigation tracking of their operations to be a relevant point of reference for the approach used by the Commission. The Commission underlines that some of the Court's calculations used in the report used coefficients that differ from the ones used by the Commission.

Second indent
The Commission considers the tracking approach agreed by the EU co-legislators robust and fit for its specific purposes. While useful in informing the EU approach, the OECD categories and methods were not designed with the aim to support mainstreaming and quantified tracking in the EU budget and have therefore been adjusted by the co-legislator to the programme-specific needs in the respective legislative bases.

The Commission points out that the primary objective of different EU programmes is set in the respective legal base, and mainstreaming by nature means making the implementation of the primary objective consistent with EU climate policy, not replacing the primary objective.

36
The EU climate tracking system incorporates specific elements that make it differ from the ones used by the international aid organisations, and therefore comparison to international assistance tracking systems is not relevant.

The Commission recognises that the innovative approach to tracking climate spending and its implementation in the EU budget could be further improved, including in respect of increasing granularity with regard to mitigation and adaptation. At the same time, in light of the unclear administrative impact and the complexity of avoiding double counting while reflecting the frequent associated co-benefits, the Commission does not currently foresee further disaggregation in its tracking system.

37
The Commission agrees with the importance of financial instruments and their contribution to EU climate action and has included the budget contribution to these in its tracking of climate spending.

39
The Commission considers that good progress on climate mainstreaming has been achieved in most respects and that the tracking on budget spending is robust and transparent, as outlined in its replies notably to paragraphs 12 and 28. The Commission recognises the need to further develop its approach to tracking and reporting climate results.

40
See also Commission replies to paragraphs V and 28.

41
The Commission confirms that before the MFF MTR, as detailed in the Commission reply to paragraph 28, it was not in a position to assess with confidence whether it is on track to reach the 20 % target, as information was still lacking on ESIF funds programmed expenditure for the MFF period, and therefore no reliable data was available at the time. The Commission assessed progress towards the 20 % target in the MFF MTR, showing that over the 2014-2020 period, a total of slightly above EUR 200 billion of climate-related spending will be reached. This is equivalent to around 18.9 % for the whole financial programming period.

43
The planned climate measures, with the corresponding coefficients, are listed in the operational programmes (OPs) of the European Maritime and Fisheries Fund (EMFF). The indicative EMFF allocation to each measure is included in the Member States' (MS) annual implementation reports (starting in May 2016). The financial table in those reports and the key characteristics of the supported operations that will appear in the MS annual reports on operations (pursuant to EMFF Article 97(1)(a) will allow the Commission to continuously monitor the level of spending as well as any changes to the indicative contribution to climate change declared in the OP.

44
With the programming processes fully completed, the Commission is now in a position to consolidate reliable data for updated estimates of these programmes with regard to climate spending, and has published the state of play in the context of the MFF MTR. This exercise would have been based on inaccurate data and thus could have led to erroneous calculations and misinterpretations, if undertaken on the basis of 2014-2016 provisional data.

45
The Commission considers that it is most relevant to focus climate tracking on commitment appropriations/programmed and adopted spending, given that expenditure data would not provide useful information for improving mainstreaming due to the time delay in moving from programming to expenditure. The Commission also considers that tracking financial inputs from the EU budget cannot meaningfully be put into a causal relationship with achieving EU climate and energy targets or any estimated level of investment needs.

Introducing a tracking approach at the level of the programmed expenditure was the first natural and essential step to better integrate climate considerations in all EU programmes. The inherent risk the Court identifies is present in all budget plans. The Commission agrees with the Court that planned expenditure does not always translate into payments, but points out that on average 97 % of total 2015 EU budget commitments are realised, which makes the existing system of *ex ante* commitment tracking an efficient proxy also for spending. Also, the Commission points out that the methodologies used to calculate the 34 % and 49.3 % are different in approach and scope.

46
The Commission regularly reviews data and reflects changes in programming in the context of the annual budget procedure and of the execution of the annual budget. Also, the Commission committed in the MFF MTR to assessing progress towards the 20 % target in the mid-term reviews of MFF programmes. The Commission considers the existing tracking and reporting systems as being appropriate, and does not consider the introduction of any additional reporting requirements to be necessary at this stage.

47
The Commission confirms the 20 % target to be expressly related to the EU budget spending, and considers that it would not be appropriate to mix non-financial elements into tracking a financial target.

At the same time, we recognise that the link between spending, mobilised actions, and results should be improved. In the context of different spending programmes and depending on the degree to which they focus on investment in climate action, output and result indicators have been set and, for certain common indicators, can be aggregated at EU level. Such common indicators have been developed based on policy learning within the specific programme concerned (i.e. an indicator measuring GHG emissions from agriculture is included in the monitoring and evaluation framework of the common agricultural policy (CAP). An ERDF specific output indicator of reduction in GHG emissions is defined for funded infrastructure investments).

That said, it is currently not technically possible to prepare consolidated data on, for instance, reduction in GHG emissions from activities financed through the EU budget.

48
ERDF common indicators have common definitions which are recommended in Commission guidance[7], which was discussed with Member State (MS) experts before finalisation. While it was possible to propose a methodology for measuring GHG reductions in renewable sand energy savings, there was no consensus and multiple methods available for other such calculation in other domains. All data that is collected using common or specific indicators will be available for evaluation and can potentially add to further policy learning.

49
The Commission considers that progress on climate mainstreaming has been made in most respects and achieving the target is feasible. The Commission refers to the recent analysis provided in the MFF MTR published on 14 September (as referred to in its reply to paragraph 28, inter alia) and confirms its intention to continue its efforts to mainstream climate in the EU programmes.

7 http://ec.europa.eu/regional_policy/sources/docoffic/2014/working/wd_2014_en.pdf

50
As announced in the MFF MTR, the Commission points out that it plans to assess progress on the 20 % target in the mid-term reviews of individual programmes, which provide an opportunity to further mainstream climate into the EU spending programmes.

51
The Commission reiterates that it does not consider the methodology agreed for the EU climate tracking approach to pose a risk to climate mainstreaming, but takes note of the Court's simulations using different co-efficients for EU agriculture spending.

First indent
The Commission considers that the method it uses has been prepared in a transparent and coordinated manner; it has been communicated to the European Parliament and the Council and it does not lead to overestimation.

See also Commission reply to paragraph 53.

Second indent
Likewise, the climate-coefficients for rural development have been set up in a transparent manner, in line with the political objective of 20 %.

Third indent
The Commission considers that its estimates of the overall climate contribution of both CAP funds is based on an EU agreed methodology, on which full details are provided yearly in the programme statements accompanying the Commission's draft budget.

As pointed out in its reply to paragraph 35, the Commission does not consider a set of principles developed by a group of international aid organisations in 2015 for mitigation tracking of their operations to be a relevant point of reference for the approach agreed at EU level. The Commission underlines that the Court's calculations used in the report differ from the ones agreed at EU level which are sufficiently conservative.

Fourth indent
Horizon 2020 represents a considerable increase in research of this field as regards FP7. The 'Cooperation' part of FP7 is estimated to have contributed EUR 2.4 bn to climate action (2007-2013), whereas for only the first 2 years (2014-2015) of Horizon 2020 the figure is EUR 3.2 bn.

Nevertheless, an action plan for a further boost in this respect is already in place (see Commission reply to paragraph 60) in order to reach the projected spending level (as indicative target) set out in the Horizon 2020 regulation.

53

The Commission takes note of the Court's simulations using different methodologies and general principles agreed by some international aid organisations, but reiterates its commitment to the EU approach. The method used by the Commission is sound, it has been prepared in a transparent and coordinated manner; it is based on Rio markers and it was communicated to the European Parliament and the Council.

The benefit of cross compliance for climate actions can be assessed by applying a Rio marker of 40 % to a share of 20 % of non-greening direct payments. As for any other calculation this is a proxy, based on the penalty system of cross compliance. However, the Commission considers that a climate impact of 8 % of non-greening direct payments is not overestimated considering the benefits of cross compliance and direct payments for the climate.

See Commission reply to paragraph 51.

Box 3 — Lack of appropriate justification for non-greening direct payments' climate contribution

See Commission reply to paragraph 51.

54

The Commission considers that the elements applied are sufficiently conservative.

See Commission reply to paragraph 51, first indent.

55

The climate tracking of the European Agricultural Fund for Rural Development (EAFRD) expenditure follows the principle of applying a marker to policy objectives, as expressed in rural development Union priorities and focus areas. Since MS can programme measures in a flexible manner, depending on their expected contribution to these different objectives, tracking needs to be carried out at the level of these EAFRD priorities rather than at measure level.

Due to this intervention logic and the principle of shared management it is the Member States which determine which priority or focus area a measure contributes to most.

As an example, measure 13 under the areas facing natural constraints (ANC) scheme has been programmed under four different priorities/focus areas. Those MS which have programmed measure 13 under priority four consider it more relevant for achieving the objectives of this priority.

Common Commission reply to paragraphs 56, 57, 58 and Box 4

The Commission takes note of the Court's reflections on the shortcomings of the tracking methodology for the EAFRD and the simulations based on different approaches.

The current tracking methodology for EAFRD tries to strike a balance between providing a reasonably reliable estimate for climate related expenditure and minimising the administrative burden and costs.

The Court's proposed approach of applying different climate coefficients to different measures/operations within specific focus areas and Union Priorities would increase the accuracy, but would also lead to an increase of the administrative burden on national and regional administrations.

Priority 4 should be attributed a 100 % marker since it includes measures which contribute to protecting the environment and strengthening the resilience of ecosystems to adapt to climate change. Taken into account the variety, diversity and complexity of operations under Union priority 4 (e.g. agri-environment and climate measures) a differentiation by measure/operation would render the tracking exercise burdensome and difficult for Member States.

The ANC measure (areas facing natural constraints) in EAFRD is important to prevent land abandonment and maintain the environmental and economic value of farming the areas under natural constraints. It helps to maintain agricultural ecosystems which could be lost without support which is important in the context of both climate change adaptation and mitigation (e.g. pastures). The new designation approach based on commonly agreed biophysical criteria to be set up during the current programming period will lead to a stronger focus on keeping the most vulnerable agricultural land farmed and thus increase the importance of the measure for climate change mitigation and adaptation.

59
The Commission considers that the specific tracking methodologies specified in the Programme Statement of EAFRD and LIFE Programme referred to in this paragraph have been agreed within the EU tracking methodology which was developed to be used over the current programming period.

60
Horizon 2020 represents a considerable increase in research of this field as regards FP7. While direct comparisons of the whole programme are not possible, the 'Cooperation' part of FP7 is estimated to have contributed EUR 2.4 bn to climate action over the 7 years of the programme (2007-2013), whereas the last validated figures for only the first 2 years (2014-2015) of the comparable 'programmable' parts of Horizon 2020 are EUR 3.2 bn. Therefore, although the current figures are below the initial projected spending level, they do represent a positive signal of the Commission's commitment.

The Introductions to the 'main' Work Programmes for 2014-2015 and 2016-2017 have provided clear indications on climate-related expenditure through relevant references to calls/topics, where appropriate. In this context, the Commission services have been carefully and continuously monitoring all Horizon 2020 work programme topics in terms of climate-related expenditure to measure the progress towards Horizon 2020 projected spending level.

The action plan launched last year gives a further boost in this respect. Moreover, the ongoing 2018-2020 strategic programming process recognises the importance of mainstreaming climate action and increasing related expenditure. Once the strategic programming process has been finalised, more quantitative aspects for 2018-2020 can be addressed.

61
The contribution of bottom-up initiatives to climate action cannot be established until the individual projects have been selected for funding and may well vary year on year.

62
The Commission is closely monitoring the progress of this indicator and still has some margin of manoeuvre. By the time the next Work Programmes are approved (ca. autumn 2017) the Commission will have updated figures to determine more accurately the state of play and the budget required for the years 2018-2020. The MFF MTR (as detailed in the Commission reply to paragraph 28) also explicitly highlights elements that should support further climate mainstreaming in Horizon 2020.

63
The 2018-2020 strategic programming process is ongoing and identifies climate action as a strong priority. Once the strategic programming process has been finalised, more quantitative aspects for 2018-2020 including budget allocation for climate action can be addressed.

64
The Commission action plan should be complemented with 'quantifiable targets'. However, the best time to set these is when drafting the Work Programmes for 2018-2020 which are not yet completed.

65
The Commission confirms that no comparable data regarding climate related spending under the previous MFF exist. At the same time, the Commission considers that the major increase in climate spending in the Court's estimates for some programmes (notably those in paragraph 69) broadly confirm the scale of the Commission's working level estimates from the beginning of the MFF.

67
The Commission considers that the primary benefit of climate tracking in the EU budget lies in supporting a climate-friendly design of spending measures across EU programmes. We recognise that the examples highlighted in the section do not provide ground for drawing broader conclusions and can only serve as illustrations.

70
The Commission stresses that the aim of its mainstreaming approach is to integrate climate considerations across the EU budget instruments, and that the change in the composition of climate relevant spending mirrors the changes in the spending priorities in individual programmes and the roles of different financing sources available at country level.

71
The variations in climate relevant spending in different country programmes reflect to a great extent the sector priorities of the country, and thus should not be seen as an indication of broader or narrower commitment to climate action.

75
The targeting of research and innovation (R&I) activities on particular sectors or clusters (such as low carbon economy) were expressly not the subject of detailed discussions in programming. The negotiation of R&I objectives was subject to the *ex ante* conditionality on smart specialisation. Had the Commission intervened to have a stronger climate-related orientation as regards research and innovation in the German and Romania OPs it would have been contrary to the legally established *ex ante* conditionality on smart specialisation strategies for which a bottom-up process is essential. The Commission services are observing that sustainable energy and climate are one of the top priories of these strategies.

76
The Commission notes that the European Social Fund (ESF) programmes can respond to any changes in demand for green skills as and when they emerge.

Common Commission reply to paragraphs 77-79
The Commission notes that while the contribution of all the ESI Funds together to climate action exceeds 25 %, the individual contribution of each of the funds is inevitably set to vary according to how closely its specific primary missions are linked to climate action. For the ESF, such a contribution can only be indirect, in particular through investments into green skills, which are in turn closely related to labour market developments and hence demand-driven.

The Commission notes that the monitoring system to track the ESF contribution to climate action has been strengthened in the 2014-2020 financial period in particular by including climate action as a ‘secondary theme’ for tracking the ESF contribution.

Notwithstanding, the Commission admits that the ESF contribution to climate action can be better valorised, and will consider options to this end in the future.

81
With the last CAP reform the scope of cross compliance was subject to a considerable review in light of the fact if requirements were controllable, directly addressed to farmers and linked to farming activity. As a result, the list of Good Agricultural and Environmental Conditions (GAECs) was shortened by more than 50 % (from 15 to 7) and the statutory management requirements (SMRs) reduced from 18 to 13.

82
The Commission does not share the view that the greening of direct payments is largely based on the previous GAECs. The requirements for ecological focus area and crop diversification are new and the protection of permanent pasture has been strongly reinforced with for instance the full protection of environmentally sensitive permanent grassland and a reduced margin of possibility to plough up permanent grassland.

The Commission also believes that the greening of direct payments has a significant impact rather than a limited impact. The impact fairly reflects the climate-relatedness of the three farming practices. While indeed the greening requirements do not affect all farmers, the available information also shows that 72 % of the total agricultural area is concerned, which is even more relevant with regard to climate action.

84
Climate mainstreaming does not require each region/Member State to step up the investment in climate change mitigation or adaptation. Climate action has to be given due consideration in the SWOT analysis and the identification of needs and are evaluated against other priorities. The basis of comparison has changed in the two programming periods. In particular, the effect of the economic crisis has in many areas led to a greater need of enhancing the economic situation in the farming sector which has been affected by the crisis. Against this background, the stabilisation of climate-related expenditure (even if this cannot be precisely quantified due to a lack of appropriate methodologies) is not a negative outcome.

85
The setting of selection criteria is a responsibility of the Member States. The Commission provided guidance on the 'potential for climate action in EAFRD' which included a recommendation to design selection criteria.

89
The objective to adapt fishing capacity to available resources through financial support to fleet management measures was partially achieved in the last programming period. This explains the reduced support from the EMFF to fleet measures compared to the previous period under the EFF.

Conclusions and recommendations

91
The Commission stresses that the undertaking to increase climate-related spending to at least 20 % of the EU budget was a political commitment intended to mainstream climate action across EU programmes.

92
The Commission considers that, in general, important progress has been made both in including climate considerations in programme development and in developing the unique quantified mainstreaming approach, which now provides a transparent baseline.

The Commission notes, however, that the potential individual contribution of each of the funds is set to vary according to how closely its specific primary missions are linked to climate action. It is, therefore, inevitable that the systems used to programme and to monitor the contribution would differ from one fund to another.

Nevertheless, the Commission considers that it is broadly on track towards the 20 % target, while recognising that further efforts are needed, as outlined in the MFF MTR.

93
The Commission highlights that the 20 % objective was announced as one element of the mainstreaming approach in the EU budget, with is in itself one element in the EU approach to responding to the investment needs associated with climate change (see Commission reply to paragraph 24).

The mainstreaming approach in the EU budget demonstrates the EU commitment to and leadership in climate action, like all EU actions to fight climate change.

The Commission has assessed progress towards the 20 % target in the MFF MTR, as explained in its reply to paragraph 28.

94
With the programming processes completed, the Commission is now in a position to consolidate the reliable data for updated estimates of these programmes with regard to climate spending, and has published the state of play in the context of the MFF MTR. This exercise would have been based on inaccurate data and thus could have led to erroneous interpretations, if undertaken on the basis of the 2014-2016 data.

The MFF MTR estimates that over the 2014-2020 period a total of slightly above EUR 200 billion of climate-related spending will be reached. This is equivalent to around 18.9 % for the whole financial programming period.

95
The Commission underlines that the EU method of tracking climate-related spending is pioneering a quantified approach to monitoring budgetary spending. As such, there are opportunities for further improvement, while overall the methodology is robust and transparent.

Recommendation 1 — Robust multi annual consolidation exercise
The Commission accepts the recommendation with regard to carrying out a robust, multi-annual consolidation exercise to identify whether programmed climate expenditure is on track to achieve the 20 % target, and considers it delivered within the context of the MFF MTR. The Commission plans to continue monitoring progress annually in the context of preparing annual draft budgets.

Recommendation 2 — Comprehensive reporting framework

(a)

The Commission partially accepts the recommendation.

It accepts to show relevant aspects of, and progress made on, climate action in the relevant AARs as appropriate. The new Annual Management and Performance report (AMPR) summarises (section 1) the EU budget performance based on the latest available evidence on the results achieved with the EU budget. This reporting draws on information from the Annual Activity Reports; the budgetary Programme Statements; and other sources such as evaluation and implementation reports on EU programmes. The report provides a summary account whereas further detailed reporting on programmes' objectives and progress on indicators are available in the Annual Activity Reports and Programme Statements.

The Commission does not accept the recommendation to report on financial instruments in the context of tracking budgetary effort towards the 20 % target.

(b)

The Commission notes that this recommendation is addressed to the Member States.

(c)

The Commission does not accept the recommendation. While committed to improving the granularity of data, the implications of such additional administrative burden imposed on both the Commission and the Member States are unclear. The Commission will consider the possibility of differentiating between mitigation and adaptation if the methodology is revised in the future, and highlights that the two are closely interlinked.

96

The Commission agrees that further efforts are needed to mainstream climate across EU programmes. The political objective of 20 % was set to foster mainstreaming (see also Commission reply to paragraph 25). The Commission considers such flexibility in relation to the 20 % target as appropriate in developing an innovative approach to mainstreaming and tracking climate relevant spending. The EU mainstreaming approach seeks to integrate climate aspects into all policies and uses the 20 % target to foster mainstreaming.

The Commission has assessed progress towards the 20 % target in the MFF MTR, as explained in the Commission reply to paragraph 28.

Recommendation 3 — Assessment of climate change needs

The Commission partially accepts the recommendation.

The Commission accepts to consider the climate change needs and the potential to contribute of different areas when proposing a new overall political target. The Commission does not accept to plan specific contributions for each area or programme.

97
The Commission considers that good progress has been made in climate mainstreaming in the EU budget and that the EU methodology is transparent and fit for purpose.

The Commission refers to its reply to paragraph 29 with regard to the nature of the climate spending in various instruments. It points out that the legal texts differ in their integration of the political objective of climate mainstreaming which in several cases is introduced as a political ambition in the preamble, not a legally binding target. See also Commission reply to paragraphs 25 and 26.

The Commission has outlined its projection for climate-related spending until 2020 in the context of the MFF MTR.

98
The EU approach to climate mainstreaming was built on international practices and has developed a quantified tracking methodology that balances the administrative burden and robustness of data.

The Commission notes the Court's calculations based on other methods of climate tracking, but does not consider that these should be given preference over the innovative and detailed mainstreaming approach that has been agreed in the EU.

99
The Commission acknowledges that there is a possibility of over- and under-estimation of certain spending elements of climate relevance under the current methodology. At the same time, we do not consider a set of principles developed by a group of international aid organisations in 2015 for mitigation tracking of their operations to be a relevant point of reference for the approach agreed at EU level. The method used by the Commission is sound and has been prepared in a transparent and coordinated manner and was communicated to the European Parliament and the Council.

The Commission estimates the overall climate contribution of both CAP funds on the basis of a sound methodology, on which full details are provided in the programme statements accompanying the Commission's Draft Budget.

The Commission believes that for green direct payments the impact fairly reflects the climate-relatedness of the three farming practices. For non-greening direct payments, their benefit for climate actions in association with cross compliance can be assessed by applying a Rio marker of 40 % to a share of 20 % of non-greening direct payments. As for any other calculation this is a proxy, based on the penalty system of cross compliance. However the Commission believes that a climate impact of 8 % of non-greening direct payments is not overestimated if we look at the benefits for the climate of cross compliance and direct payments. This calculation fully reflects the principle of conservativeness.

100
The Commission estimates the overall climate contribution of both CAP funds on the basis of a sound methodology, on which full details are provided in the programme statements accompanying the Commission's Draft Budget.

Recommendation 4 — Correct overestimations

The Commission partially accepts the recommendation. The tracking methodology needs to remain stable during the current MFF for reasons of predictability, consistency and transparency. However, the Commission will consider ways of fine-tuning the tracking methodology for the EAFRD for the post-2020 programming period without increasing the administrative burden.

101

The Commission action plan will be complemented with more detailed, quantifiable targets. However, the most suitable time to set these is when drafting the Work Programmes for 2018-2020, not yet completed.

102

The Commission recognises that additional efforts are needed in several programmes to improve mainstreaming, but does not consider specific action plans to increase climate spending would have an added value.

Recommendation 5 — Draw up action plans

The Commission partially accepts the recommendation.

The Commission will assess opportunities to increase climate relevance in the context of the Mid-term Reviews of individual programmes and policies, as set out in the MFF MTR. Pending the outcome of these reviews, the Commission will consider corrective action. Instituting individual action plans would not be appropriate as individual programmes already provide processes for priority setting depending on the management mode.

103

The Commission considers that tracking commitment appropriations was a necessary first step to better integrating climate actions into the EU budget and provides a reasonable proxy, balancing the administrative burden of an additional layer of monitoring. The current estimates are indeed done on the basis of programmed expenditure (draft budget), they are however updated based on the actual voted budget and amending letters. The Commission will assess the cost-effectiveness of providing *ex post* estimates based on actual commitments. However, calculations based on the actual payments would create additional administrative burden since the payments may last for years and may be subject to financial corrections. The Commission can however provide an estimate, as approximately 97 % of commitment appropriations become payment appropriations.

The Commission agrees with the need to strengthen the focus on results of the EU spending. However, the current performance framework set by the legislator provide for climate-related indicators only for a part of the spending and these indicators cannot be aggregated at the level of the EU budget. The lessons learnt will be taken into consideration in the setup of the next MFF performance framework.

Recommendation 6 — Develop indicators monitoring actual spending on climate action and related results

(a)

The Commission does not accept the recommendation to develop a new monitoring system at this stage. It would lead to an increase in the level of the administrative burden imposed on Member States which was not foreseen under the current regulations and were not included in the partnership agreements and Operational Programmes. The Commission will continue to use the monitoring systems in place that also provide data on expenditure.

(b)

The Commission accepts the recommendation and will implement it as explained below.

It will strengthen and improve comparability of the climate-related results indicators in all EU budget areas, and will consider options in the context of the next MFF to establish climate-related results indicators to assess the EU budget contribution to climate action, in particular to assess greenhouse gas emissions and reductions brought about through EU-funded measures.

(c)

The Commission accepts the recommendation which it considers as implemented as explained below.

It will continue to actively promote the exchange of good practices also in the specific area of climate-related result indicators. For example, the Expert group on monitoring and evaluation for the CAP already provides a forum for exchanges of good practices on the evaluation of the CAP, including on such indicators.

105

The targeting of research and innovation activities on particular sectors or clusters (such as low carbon economy) were expressly not the subject of detailed discussions in programming. The negotiation of R&I objectives was subject to the *ex ante* conditionality on smart specialisation. Had the Commission intervened to have a stronger climate-related orientation as regards research and innovation in the OPs this would have been contrary to regulatory requirements, in particular the fact that smart specialisation strategies are a bottom-up process. In that context the trend is that investments in R&I in energy-low carbon themes are likely to be significantly higher that set out in the programmes and captured initially in the tracking methodology.

106

The Commission underlines that as the ESF contribution to climate action can only be indirect, in particular through investments into green skills, which are in turn closely related to labour market developments and hence demand-driven, the actual share of the ESF allocated to climate-related expenditure will only be known after the programmes' implementation.

The Commission considers that the share of the ESF allocated to climate-related expenditure established on the basis of the information reported by the Member States in the ESF operational programmes may therefore underestimate the expected contribution of the ESF to climate action in the 2014-2020 period.

The Commission refers to its common reply to paragraphs 77-79.

107
The reform of the CAP has led to a significant increase in the financing of climate action as compared to the 2007-2013 period.

108
The Commission does not share the view that the greening of direct payments rests in practice largely on already existing agricultural practices. Instead the Commission believes that the introduction of greening will significantly contribute to additional climate actions. The requirements for ecological focus area and crop diversification are indeed new and the protection of permanent pasture has been strongly reinforced with for instance the full protection of environmentally sensitive permanent grassland and a reduced margin of possibility to plough up permanent grassland.

The green payment has de facto increased the baseline beyond which environmental practices can be paid under rural development programmes. The payments granted for types of operations programmed under the agri-environment climate measure can only be made for commitments and requirements going beyond the greening obligations. This implies higher environmental and climatic outcomes.

109
There is an increased focus on monitoring EMFF spending in climate action in the MS EMFF annual implementation reports. See Commission reply to paragraph 43.

Recommendation 7 — Explore all potential opportunities and ensure a real shift towards climate action

(a)
The Commission partially accepts the recommendation in the same sense as for Recommendation 5, i.e. that it will identify the areas with under-utilised potential and consider opportunities and actions to increase climate relevance in their spending programmes in the context of their individual Mid-term Reviews. However, it will not develop specific action plans on climate spending for individual programmes.

Recommendation 7

(b)
The Commission does not accept this recommendation. Changing the multiannual financial programming at this stage in ESIF programmes managed under shared management, with financing structures that are determined by pre-allocated envelopes, is neither practicable nor feasible. Similarly not feasible within this programming period are the development and adoption of new climate action measures in the legislative framework (e.g. of the EMFF).

At the same time the Commission will consider options to strengthen climate mainstreaming in the context of the midterm reviews of individual programmes.

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Event	Date
Adoption of the Audit Planning Memorandum/Start of audit	14.10.2015
Official sending of draft report to Commission (or other auditee)	22.7.2016
Adoption of the final report after the adversarial procedure	26.10.2016
Commission's (or other auditee's) official replies received in all languages	14.11.2016

In order to respond to climate change and the associated substantial investment needs, the EU has agreed that at least 20 % of its budget for 2014-2020 should be spent on climate-related action. We found that ambitious work was underway and that, overall, progress had been made. However, there is a serious risk that the 20 % target will not be met without more effort. The implementation of the target has led to more, and better-focused, climate action funding in the European Regional Development Fund and the Cohesion Fund. In the European Social Fund, and in the areas of agriculture, rural development and fisheries, however, there has been no significant shift towards climate action.

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