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Integrating Climate Foreign Policy into European Finance

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The European Union (EU) uses various financial instruments like the Neighbourhood, Development and International Cooperation Instrument – Global Europe (NDICI-GE) and strategies like Global Gateway to advance climate foreign policy; yet they are not without challenges. As the EU's next Multiannual Financial Framework (MFF) is negotiated, Germany should seek to strengthen these instruments to reinforce the EU's position as a global leader in climate action.

INTRODUCTION

Climate change poses increasing challenges for the European Union (EU), its member states, and the international community. Solutions must be found globally and quickly, requiring cooperation with partner countries to reduce emissions, promote sustainability, and increase climate resilience worldwide. This requires substantial financial investment, a task that has become more difficult amid rising climate change denial and hostility toward the climate and environmental protection agenda from the US administration under Donald Trump. This memo examines the foreign policy dimension of the EU's climate policy and its financing, including the Neighbourhood, Development and International Cooperation Instrument – Global Europe (NDICI-GE) and Global Gateway. Drawing on literature review and expert interviews, it offers recommendations to enhance these external efforts in the context of the upcoming Multiannual Financial Framework (MFF).[1]

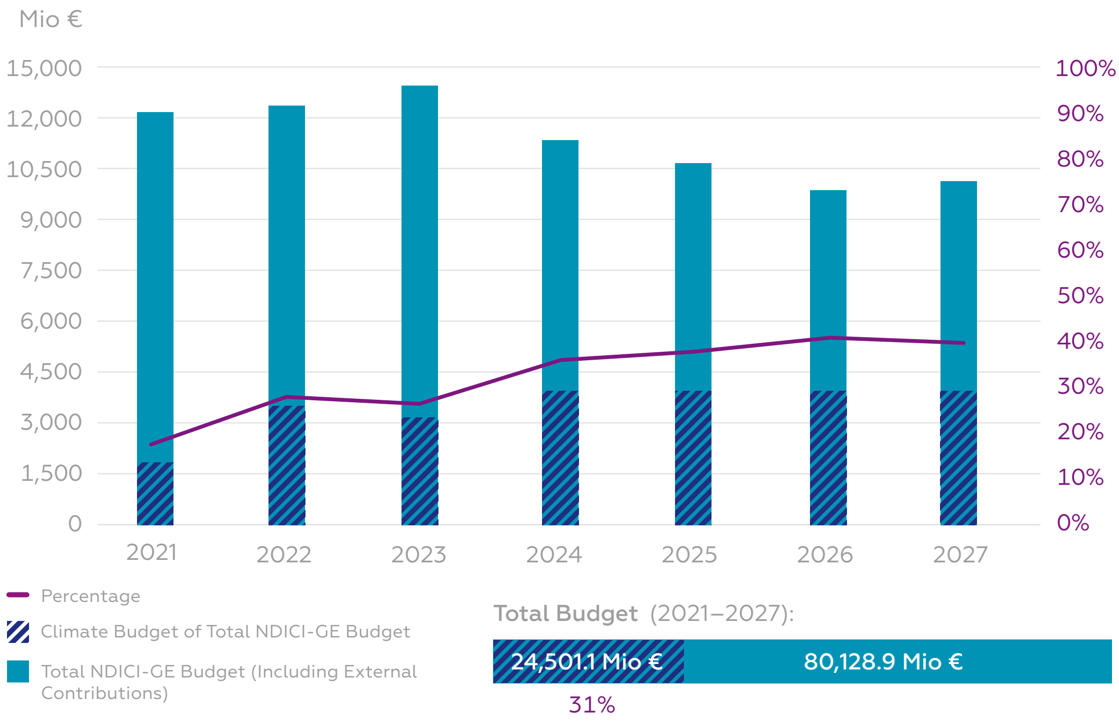
The 2021-2027 MFF outlines the EU's finance priorities with a €1.2 trillion budget, complemented by €806.9 billion under the temporary Covid pandemic recovery plan NextGenerationEU (NGEU). While NGEU focuses on projects within the EU, the MFF supports both internal and external initiatives. The 2024 mid-term revision increased the MFF by €64.6 billion, bringing the EU's combined financial resources from the MFF and NGEU to over €2 trillion. The current MFF dedicates 30 percent of its budget to climate action, which the Commission estimates at €382.05 billion. Despite its political weight, the MFF represents just over one percent of the EU's total GDP. Several experts stressed the need to increase the size of the MFF and to better target its allocation. At the same time, balancing budgetary constraints in member states with spending on the EU's strategic priorities remains challenging. The Commission is expected to present a proposal for the MFF post-2027 before July 2025.

THE EU'S CLIMATE FOREIGN POLICY WITHIN THE NDICI-GE

The NDICI-GE, established in 2021 as the EU's main financial instrument for external cooperation, consolidates previously separate funding mechanisms. It brings together grants, mixed financing, and guarantees for a total budget of €80.1 billion for 2021-2027 (including external contributions). It is intended to help partner countries address global challenges and contribute to the achievement of international agreements, such as the Paris Agreement on climate change.

1 Methodological Note: This memo builds upon expert interviews with ten EU officials, scientists, and civil society actors, obtained with prior and informed consent. The interviews were held in English and transcribed.

Annual Climate Budget Commitments Under the NDICI-GE



Sources: European Commission, Budget Contribution – Climate (commitments, million EUR) (June 2024), European Commission, Neighbourhood, Development and International Cooperation Instrument – Global Europe – Performance (graphic: own illustration).

The NDICI-GE is structured around three pillars:

- a geographic pillar with regional envelopes (€60.39 billion),
- a thematic pillar (€6.36 billion), aimed at "actions linked to the pursuit of the SDGs at global level," and
- the rapid-response pillar (€3.18 billion) for situations of crisis, instability, and fragility.

A further €9.53 billion has been earmarked as a cushion for unforeseen emerging developments. However, an external evaluation found that "some 80% of the cushion had been used," largely for support to Ukraine, leaving limited budget for other needs until 2027.

In line with the MFF's climate spending target, the NDICI-GE set horizontal targets, including allocating 30 percent of its budget to climate action. However, the 2021-2022 figures were below this target, reaching a cumulative total of around 22 percent. While the Commission estimates that up to 30.58 percent (€24.5 billion) of the NDICI-GE budget between 2021-2027 will be allocated to climate measures, sustained effort and monitoring are needed to ensure this. Some civil society organizations have raised concerns about the clarity of funding data and access to funds for local organizations, highlighting the need for more transparent and inclusive processes.

THE EU'S CLIMATE FOREIGN POLICY WITHIN THE GLOBAL GATEWAY

The Global Gateway strategy, launched in 2021, aims to mobilize €300 billion for international investments by 2027. Operating under the "Team Europe" approach, it brings together EU institutions, member states, the private sector, and financial and development institutions. The heterogeneity of these actors often results in complex internal and external communication, and limited alignment of funding priorities.

Often framed as the EU's response to China's Belt and Road Initiative, this financing will target connectivity sectors such as digitalization, climate and energy, education and research, transportation, and health. Global Gateway is described as "a climate-neutral strategy." Notably, energy and climate projects represented 56 percent of projects in 2023 and 44 percent in 2024. Africa remains a key regional priority, with a €150 billion Africa-Europe investment package and 116 of the 225 projects from 2023 and 2024 targeting the region.

However, concerns about the efficiency of fund distribution persist. Moreover, clear communication of Global Gateway's objectives and achievements is still lacking. Transparent, user-friendly website platforms that detail funding sources, project outcomes, and evaluations are essential for enhancing accountability and trust-building in target regions. Without this, the EU risks a missed opportunity, as identifying lessons learned could help foster support for external spending.

STRENGTHENING CLIMATE FOREIGN POLICY AT THE EU LEVEL: RECOMMENDATIONS FOR THE NEXT MFF

As climate impacts intensify and actions on the ground fail to stem catastrophic climate change, it is imperative that the EU uses existing financing to enhance emissions mitigation efforts abroad. To ensure effective climate foreign policy, we recommend the German government take the following actions in view of the upcoming MFF negotiations:

Support Strengthening Financial Resources
Germany should support an expansion of the coming MFF budget, targeting expenditures in strategically important areas to address global crises. Prioritizing may become even more crucial should the overall size of the MFF be reduced due to NGEU repayments, budgetary constraints, and growing nationalist and euroskeptic tendencies in some member states. These lead to a prioritization of national sovereignty and a reluctance to contribute more to the EU budget. Leveraging the EU's own resources, such as the Carbon Border Adjustment Mechanism (CBAM), could provide financial autonomy. While it is not possible to earmark incoming temporary revenues from the CBAM, the EU could consider reinvesting amounts similar to those expected revenues into international climate action. This would signal the willingness to deepen international collaboration in climate action and potentially increase acceptance of the controversial instrument that imposes a carbon price on certain imports into the EU.

Focusing on Climate-Specific Funding and Criteria
Climate finance should be strategically aligned with geopolitical goals. The EU should increase the 30 percent climate target to 40 percent, turning it into a central part of the next MFF, with well-defined criteria and clear allocations for domestic and international efforts. Financing strategies should be more closely linked to state-of-the-art scientific developments, drawing from EU Horizon projects and scientific advisory boards to improve spending effectiveness. Innovation and long-term solutions should be prioritized. All financing tools should adhere to the "do no harm" principle, ensuring no projects undermine climate objectives.

Given the increasing severity of climate impacts, the EU should adopt flexible funding mechanisms, similar to the NDICI-GE cushion, to enhance disaster response mechanisms and the growing need to address loss and damages also within the EU. At the same time, private sector participation should be encouraged through de-risking mechanisms (e.g., guarantees), bankability, and early involvement in project design. Building on existing investments and exploring innovative tools like well-monitored debt-for-climate swaps could offer greater flexibility, e.g., in politically unstable regions.

Improving Communication, Transparency, and Accessibility

The EU could increase public and partner support by clearly articulating the costs of inaction and the financial, economic, security, political, and moral benefits of climate foreign policy. Targeted public communication could improve the visibility of EU climate finance initiatives to foster greater understanding and engagement while also mobilizing more financial resources for climate action. This could also increase the EU's visibility as a unified global climate leader.

Accessible website platforms to track climate finance (including clear methodologies, funding sources, partners, impacts, and independent evaluations) enhance transparency and provide accurate data for informed decision-making, improvements, and advocacy. To improve and simplify financial access, the EU should create clear points of contact and transparent processes. It should also reduce intermediaries where possible to ensure efficient disbursement of funds and timely access for partners. Projects should be assessed not only on their short-term financial metrics but also on their long-term qualitative and developmental impact, including alignment with the UN's Sustainable Development Goals (SDGs) and the Paris Agreement.

Strengthening Institutional Capacity for Climate Foreign Policy
The staffing of EU institutions such as Directorates-General for Climate Action, International Partnerships, Neighbourhood and Enlargement Negotiations, and the European External Action Service should be expanded to reflect the growing importance of climate foreign policy and its expected spillovers into other policy fields. Staff should receive improved and comprehensive training to integrate climate considerations into their roles effectively. The "Team Europe" approach should be advanced with clearer

responsibilities and transparent decision-making through dialogue platforms with dedicated personnel to coordinate funding efforts and communication among EU actors.

Fostering Strategic Partnerships

To advance a transformation towards a climate-neutral economy, the EU should prioritize mutually beneficial and equitable international partnerships with early involvement of local stakeholders. The EU should clearly define its interests and objectives and balance those with the priorities of the partner countries. Doing so will allow the EU to advance other foreign policy goals, such as enhancing its global leadership and reducing its dependency on China by diversifying access to new growth markets and energy and critical material suppliers.

To fully realize the potential of the NDICI-GE and Global Gateway, the EU should develop a cohesive strategy that aligns with the Paris Agreement, geostrategic objectives, and the SDGs. Given the broad goal of Global Gateway, sharpening its thematic and geographic focus with climate action as a core priority could help strengthen its momentum. The EU should streamline Global Gateway's governance to ensure coherence across EU institutions, member states, and external actors. Establishing clear contact points for partners and unified memoranda of understanding will reduce duplication of efforts for partner countries. To maintain legitimacy with partners, Germany/the EU should practice strategic communication of the European Green Deal and present an ambitious Nationally Determined Contribution to climate goals as outlined in the Paris Agreement at an early stage.

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