

ANNEX 2

of the Commission Implementing Decision on the 2015 Annual Action programme for the Partnership Instrument

Action Fiche for Natural Capital Accounting and Valuation of Ecosystem Services

1. IDENTIFICATION

Title of the action	Natural Capital Accounting and Valuation of Ecosystem Services			
Countries/ Regions	Brazil, China, India, Mexico, South Africa			
Total cost	Total estimated cost: € 7.000.000 Total amount of the EU budget contribution: € 7.000.000			
Total duration	66 months ¹			
Method of implementation	Direct management Grants – direct award			
Markers (from CRIS Dac form)	Rio Convention Markers	Not targeted	Significant objective	Main objective
	Biological diversity	<input type="checkbox"/>	<input type="checkbox"/>	X
	Combat desertification	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. RATIONALE AND CONTEXT

2.1. Summary of the action and its objectives

Biodiversity – the variety of ecosystems², species and genes – is the world’s natural capital, delivering ecosystem services³ that underpin our economy and well-being supports directly or indirectly our survival and quality of life. As an example, climate regulation is one of the most important ecosystem services both globally and on a European scale. European ecosystems play a major role in climate regulation⁴. Another example is water purification, as

¹ The total duration is calculated as from the adoption of the Financing Decision. As a result it takes into account of: (i) the contracting phase (indicatively 18 months); (ii) the implementation of the action (36 months); (iii) the closure phase (indicatively 12 months)

² A dynamic complex of plant, animal, and micro-organism communities and their non-living environment interacting as a functional unit, e.g. ecosystems include deserts, coral reefs, wetlands or rainforests.

³ The benefits, closely dependent on biodiversity, that human beings obtain from ecosystems.

⁴ As an example, Europe’s terrestrial ecosystems represent a net carbon sink of some 7-12% of the 1995 human generated emissions of carbon.

forests, wetlands and protected areas with dedicated management actions often provide clean water at a much lower cost than man-made substitutes like water treatment plants.

The rationale behind Valuing⁵ and Accounting⁶ Natural Capital is that nations need to monitor the quality of their ecosystems and the state of nature just as they monitor GDP and other economic, social and demographic indicators. Under this project, the EU, with the United Nations Statistics Department (UNSD), will build on existing agreed methodology at UN level and develop new analyses, tools and operational approaches with a view to assessing the benefits that ecosystems and biodiversity can provide to the economy. As a result, it is expected to ensure and demonstrate that the output is used by policy makers in partner countries to make better-informed decisions in relation to policies impacting biodiversity and the environment more broadly.

With this project, the EU is taking concrete actions to engage strategic partners on reducing biodiversity loss by transferring EU know-how. Supporting such a large project with strategic partners would result in supporting the mainstreaming of biodiversity in policy decisions internationally.

2.2. Context

The EU is a member of the Convention of Biological Diversity (CBD⁷), whose overarching objective is the reduction of biodiversity loss.

The EU has decided to engage with Brazil, China, India, Mexico, and South Africa (which have ratified the CBD) on making progress on Experimental Ecosystem Accounting and valuation. It has selected these strategic partners because they are large countries, very rich in nature and biodiversity and very much suffering from the global biodiversity loss and damage to the environment. The EU is strongly committed to further strengthening the CBD as the key international instrument for achieving global biodiversity targets and to making sure that it is effectively implemented.

The project will test the methodology developed by SEEA⁸ (System of Environmental and Economic Accounts). It will carry out valuation of ecosystem services using support from existing frameworks in the context of TEEB⁹.

2.3. Lessons learnt

Parallel on-going projects have offered a number of lessons:

⁵ Ecosystem "valuation" aims at assigning an economic value to an ecosystem or its ecosystem services.

⁶ Ecosystem "accounting" is an approach to the assessment of the environment through the measurement of ecosystems, and measurement of the flows of services from ecosystems into economic and other human activity. http://unstats.un.org/unsd/envaccounting/seearev/Chapters/SEEA_EEA_v1.pdf

⁷ The Convention on Biological Diversity (CBD), known informally as the Biodiversity Convention, is a multilateral treaty, has three main goals:

- a. conservation of biological diversity (or biodiversity);
- b. sustainable use of its components; and
- c. fair and equitable sharing of benefits arising from genetic resources

The Convention was opened for signature at the Earth Summit in Rio de Janeiro on 5 June 1992 and entered into force on 29 December 1993. One hundred and ninety-five states and the European Union are parties to the convention.

⁸ The System of Environmental-Economic Accounting (SEEA) contains the internationally agreed standard concepts, definitions, classifications, accounting rules and tables for producing internationally comparable statistics on the environment and its relationship with the economy. <http://unstats.un.org/unsd/envaccounting/seea.asp>

⁹ The Economics of Ecosystems and Biodiversity (TEEB) is a global initiative focused on drawing attention to the economic benefits of biodiversity. Its objective is to highlight the growing cost of biodiversity loss and ecosystem degradation. TEEB presents an approach that can help decision-makers recognize, demonstrate and capture the values of ecosystems & biodiversity, including how to incorporate these values into decision-making. (<http://www.teebweb.org/about/>)

- It is crucial that this project funds national experts in the countries of implementation in order firstly to ensure their buy-in and secondly to develop capacity and know-how of EU-accepted methodologies in these countries. In terms of sustainability, each country will explore the possibility to continue to finance these positions after the end of the project.
- It is important to involve all major funding entities (e.g. through dedicated funding for relevant events) in order to get the lessons learnt and identify synergies.
- There is an international divide on the right methodological approach for valuation in the framework of NCA. Some experts argue in favour of exchange values (which are based on market prices and shadow prices¹⁰), others argue in favour of welfare values (which are based on benefits to society as a whole). Until the moment no unique approach is agreed upon internationally, the Commission's view is that both approaches should be adopted as they are equally important.

2.4. Complementary actions

The Commission has taken into account several complementary actions. Ongoing work on ecosystem accounting in the countries in scope is very limited. A one year project funded by Norway included Mexico and South Africa as pilot countries on advancing SEEA-Experimental Ecosystem Accounting. This presents opportunities for synergies as the Norway-funded project had a "scoping" focus in the relevant partner countries, on which this project can build. Other relevant initiatives at global level are: the World Bank WAVES¹¹ covering developing countries only (funded by the EU and several EU and non-EU donors). The TEEB programme¹² (funded by the Commission and implemented by UNEP); and BIOFIN¹³ (funded by the Commission under ENRTP¹⁴, Germany and Switzerland):

As UNEP will be part of the implementation of this project, duplication of work will be avoided while potential synergies will be sought. Additionally, as the governments of Brazil, India, China and South Africa have started their own process of assessment, valuation and accounting, this project will complement them in order to add capacity and demonstrate to partner countries that EU and their agendas and priorities are aligned on the topic of natural capital assessment, valuation and accounting.

10 Used to refer to monetary values assigned to currently unknowable or difficult to calculate costs (i.e. markets prices are distorted by subsidies or taxes).

¹¹ Wealth Accounting and the Valuation of Ecosystem Services (WAVES) is a global partnership that aims to promote sustainable development by ensuring that natural resources are mainstreamed in development planning and national economic accounts. Covering Botswana, Colombia, Costa Rica, Guatemala, Indonesia, Madagascar, the Philippines and Rwanda: <https://www.wavespartnership.org/en>

¹² Covering China, Georgia, Liberia, Tanzania, Bhutan, Philippines, Ecuador.

¹³ The Biodiversity Finance Initiative (BIOFIN) aims to develop and pilot a new approach and methodology for leveraging increased biodiversity investment at the national level. It covers: Botswana, Chile, Colombia, Costa Rica, Ecuador, Fiji, Guatemala, India, Indonesia, Kazakhstan, Malaysia, Mexico, Peru, Philippines, Seychelles, South Africa, Thailand, Uganda and Zambia

¹⁴ Environment and Sustainable Management of Natural Resources. http://ec.europa.eu/europeaid/funding/funding-instruments-programming/funding-instruments/geographic-instruments/environment-and_en

3. DETAILED DESCRIPTION

3.1. Objectives

The overall objective is to engage at national level with five EU strategic partners where biodiversity is at stake, so as to enhance their knowledge of valuation of ecosystems and their services. Building on an EU-agreed methodology and on the development of national competences, the project will initiate pilot testing in each country. The outputs are expected to influence policy-makers at national, regional and local level to take action in line with the EU's environmental priorities and international commitments. In addition, the project will ensure awareness-raising for the private sector and the civil society.

3.2. Expected results and main activities

- Result 1: By the end of the project, the partner countries are expected to have specific outputs on ecosystem accounting, describing the state of the various ecosystems in scope of each country, and providing a tested methodology that can be applied in other neighbouring countries;
- Result 2: By the end of the project, the partner countries will adopt the monitoring of the state of ecosystem services in their national accounts, as they do with GDP and other economic, social and demographic indicators;
- Result 3: The partner countries will generate case studies which will help finalise or contribute to the SEEA methodology for Ecosystem Accounting. It will have a positive impact on its wider acceptance as an international standard for environmental accounting.

Main indicative activities:

- Complement existing macroeconomic indicators and guide sustainable development and macro-economic monitoring. Ensure collective data gathering in complementarity with parallel projects and establish connections with national policy and statistical institutions.
- Carry out an analysis of the methodology of ecosystem and ecosystem services accounts used in the countries. It includes mapping of existing relevant projects related to NCA.
- Develop and implement biophysical data accounts¹⁵. It includes scoping, collection and compilation of data and resources for implementation of natural capital accounting in a priority region or in the whole territory.
- Carry out the necessary biophysical assessment and valuation of ecosystem services and create a valuation or pricing framework that could be utilised in line with biophysical ecosystem services data and indicators.
- Carry out an analysis of the situation and values of ecosystem services under different resources use scenarios. Demonstrate how and ensure that public authorities use

¹⁵ Biophysical measures of natural capital (i.e. nitrogen in rivers) are used to evaluate the price of ecosystem services.

ecosystems data for decision-making and planning through case studies of different ecosystems and that businesses and society have increased awareness of the topic.

- Create capacity building and produce communication materials. It will mainstream and disseminate the results and analyses to various stakeholders including national government departments, local authorities, NGOs, businesses, civil society and neighbouring countries.

3.3. Risks and assumptions

Assumptions:

- Continued political commitment on the side of partner countries (Brazil, China, India, Mexico, and South Africa)
- Commitment of partner countries that they will devote resources (including human resources) to improve the valuation of natural capital and ecosystems services.

<i>Risk</i>	<i>Mitigation</i>
Overlapping with other international initiatives	The Commission is involved in the major NCA-related international initiatives and is in regular contact with their project managers. This will allow mitigating risk of overlap.
Lack of experts on ecosystem valuation and accounting in the respective partner countries	The fact that the contractor is the international organisation specialised in the subject matter will help mitigate this risk.
Lack of access to resources and data in the respective partner countries	The project is implemented by international organisations (UNSD and UNEP) having regular dialogues at technical level with the five partner countries.
Delay in the implementation of the NCA project.	The Steering Group will ensure through regular meetings that the project deliverables are timely and that delays are minimised.

3.4. Stakeholders

Stakeholders include the Commission, EU Member States, especially those¹⁶ involved in NCA-related projects, the World Bank, as well as the relevant Ministries of partner countries and respective regional authorities, as well civil society, including the private sector (i.e. businesses).

A broad consultative process with various stakeholders from national governments, international agencies, academia, NGOs and scientific and business community will be put in

¹⁶ The World Bank WAVES project is funded by **Denmark**, the European Commission, **France**, **Germany**, Japan, **the Netherlands**, Norway, Switzerland, and **the United Kingdom**.

place to discuss the proposed broad set of indicators before testing them in pilot countries and other interested countries. A national coordination mechanism consisting of the key stakeholders will be established to steer and manage the project. Experts from government, academia (bio-physical modellers, economists etc.), NGO and civil society will discuss progress of testing of the SEEA Experimental Ecosystem Accounting and the research agenda as agreed by the UN Committee of Experts on Environmental Economic Accounting (UNCEEA).

The ownership of the partner countries will be ensuring by directly funding at least one national expert per country for the 3 year duration of the project. The national expert will work full time on the SEEA experimental ecosystem accounting and valuation described above. The EU will ask the partner countries to commit to continue funding the national experts after the project ends in order to ensure continuity.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

4.1.1. Grants: Direct award (direct management)

(a) Objectives of the grant

The project will be implemented exclusively through the signature of a grant agreement. As a result, objectives, expected results and main activities are those defined above under section 3.1 and 3.2.

(b) Justification of a direct grant

Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to the UN Statistics Division (UNSD). Two UN entities (UNEP and the Secretariat for the Convention on Biological Diversity) are expected to be co-beneficiaries of the grant.

In accordance with the provisions of article 190(1)(f) of the RAP, characteristics of this action require a particular type of body, notably UNSD, on account of its technical competence, its high degree of specialisation and administrative power. The need for close contacts with the authorities of the five beneficiary partner countries require expertise at institutional level that can only be provided by UN, which combines both technical knowledge and institutional access.

Within UN, UNSD is officially responsible at international level for coordinating actions on Natural Capital Accounting. In fact, the UNCEEA has been mandated to implement the System of Environmental and Economic Accounts (SEEA) at global level. UNSD ensure the Secretariat of the UNCEEA and in this capacity it manages and coordinates UNCEEA's functions.¹⁷

¹⁷ The Terms of reference of the UN Committee of Experts on Environmental Economic Accounting (UNCEEA) (http://unstats.un.org/unsd/envaccounting/ceea/documents/torunceea_final.pdf) clearly stated that the UNCEEA has the mandate to implement the SEEA in countries. Also the UN Statistical Commission in 2013 adopted the SEEA implementation strategy and requested the UNCEEA to develop a programme of work on the SEEA implementation (See UNSC report of the 44th session 44/104, <http://unstats.un.org/unsd/statcom/doc13/2013-Report-E.pdf>). UNSD is the Secretariat of the UNCEEA and as such provides the management and coordination function for the UNCEEA.

(c) Essential selection and award criteria

The UNSD shall have sufficient sources of funding and the technical competencies and qualifications to carry out the action.

The verification of the financial capacity shall not apply to them and the obligation to verify their operational capacity is waived in accordance with Article 131 (3) of the Financial Regulation.

The essential award criteria are relevance of the proposed action to the objectives of the project: design, effectiveness, feasibility, sustainability, cost-effectiveness, as well as the added value for the EU, including with regard to visibility.

(d) Maximum rate of co-financing

The grant will cover 100% of the eligible costs of the action.

The maximum possible rate of co-financing may be up to 100 % in accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012 if full funding is essential for the action to be carried out. The essentiality of full funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative trimester to conclude the grant agreement

The grant agreement will be concluded indicatively during Q1 of 2016.

4.2. Indicative budget

Method of Implementation	Amount in EUR million
4.1.1 Grant - Direct award (direct management)	7
Total	7

4.3. Performance monitoring

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports and final reports.

A Steering Committee will be established and will be composed of the Commission (mainly DG ENV and FPI but DG DEVCO and DG RTD as well), EU Delegations in the five respective countries of implementation, UNSD and UNEP.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews.

4.4. Evaluation and audit

For this action or its components the Commission may carry out interim and/or final/ex-post evaluation(s) via independent consultants contracted by the Commission based on specific terms of reference.

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments.

As the "N+1" applies for contracting under this decision, external evaluations and audits, as well as additional external monitoring referred to under section 4.3 above, will be funded from sources other than those allocated to this specific action.

4.5. Communication and visibility

Communication and visibility will be an integral part of the project. The implementing partner will establish a communication plan in line with relevant guidelines that, inter alia, will define the key messages and specific communication/EU visibility actions to be taken.

All documentation and promotional material produced in the framework of the project shall bear the EU flag and mention that it is financed by the EU.