



# Integration approach to EU biodiversity financing

*Evaluation of results and analysis of options for the future*

**SUMMARY REPORT**  
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## THE REPORT IS SUPPORTED BY THE FOLLOWING STAND-ALONE DOCUMENTS

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Kettunen, M. and Illes, A. (eds.) (2017) Opportunities for innovative biodiversity financing in the EU: ecological fiscal transfers (EFT), tax reliefs, marketed products, and fees and charges. A compilation of cases studies developed in the context of a project for the European Commission (DG ENV) (Project ENV.B.3/ETU/2015/0014), Institute for European Policy (IEEP), Brussels / London

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## Key messages

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The review of existing evidence reveals a range of shortcomings in the EU co-financing framework for biodiversity. These shortcomings limit the ecological effectiveness, cost-effectiveness and legitimacy of the framework, which risks jeopardising the successful delivery of EU's biodiversity objectives and targets.

The review also highlights a number of positive aspects of the current EU financing approach. Some existing EU funds (LIFE, EAFRD and, to some extent, ERDF) have been shown to be able to deliver a range of conservation outputs in a relatively effective and efficient manner when the funded measures have been appropriately designed and properly implemented. By engaging stakeholders at different governance levels and at different stages of decision-making, integrated biodiversity financing has demonstrated a potential to advance the legitimacy of biodiversity conservation.

The following necessary improvements to the existing framework are identified:

- Earmarking expenditure for biodiversity priorities under the sectoral EU funds
- Addressing eligibility gaps
- Improving coordination and coherence
- Reducing the administrative burden
- Improving monitoring
- Continuing efforts in awareness raising and stakeholder cooperation

The adoption of a new dedicated EU fund for biodiversity is considered to have the potential to address a number of the current shortcomings, in particular to lessen the competition for funding between biodiversity and other sectoral priorities, improve the match between the funding framework and priority funding needs, and facilitate the monitoring and evaluation of ecological effectiveness. However, the risks associated with a dedicated EU funding instrument for biodiversity are significant. Seeking to establish a dedicated fund may reduce the potential for integrating biodiversity financing needs in other funds. There are also no foreseen guarantees that the level of funding made available would be able to match the needs any better than under an integrated approach. The benefits and risks of adopting such a dedicated EU biodiversity fund would need to be considered in adequate detail, reflecting the possible scope and priorities for such a fund.

Finally, mainstreaming the use of a range of different innovative (non-EU) instruments, while understanding the role that they can play in the overall conservation policy mix, has a considerable potential to contribute to the existing funding basis. However, it is unlikely to transform biodiversity funding in the EU, at least in the short to medium term.

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# 1 Introduction

EU funding plays an important role in the implementation of the EU biodiversity objectives, including the Natura 2000 network. The EU's approach to financing biodiversity and nature is based on the so-called "integrated financing" approach (Box 1.1). Within this framework, the EU uses a range of existing funding instruments - including a range of instruments financing the EU's sectoral policies - to further biodiversity and nature objectives, and seeks to integrate biodiversity and nature priorities into these different funds. In addition to the sectoral funds, dedicated funding for biodiversity is delivered through the LIFE fund.

Experiences with the EU integrated financing approach for biodiversity and the Natura 2000 network have been both positive and negative; while the efforts to mainstream biodiversity across sectors have increased, there continue to be constant challenges to the actual uptake of opportunities. It is therefore appropriate to take stock of the aspects of the integrated approach which are working and of those which do not deliver the expected results.

Furthermore, in view of increased pressure on public budgets due to spending cuts and slow recovery of the economy and amidst calls to improve the efficiency of public spending, it is becoming even more important to use existing sources of financing effectively and efficiently and to diversify sources of financing for nature protection and biodiversity (including through innovative instruments).

## **Box 1.1 EU financing framework for biodiversity and Natura 2000 in a nutshell**

Since 2007, EU funding for biodiversity and the Natura 2000 network has been made available by integrating biodiversity goals into various existing EU funds or instruments.

The EU funds available for financing Natura 2000 during the periods of 2007-2013 and 2014-2020 include:

- European Agricultural Fund for Rural Development (EAFRD);
- European Fisheries Fund (EFF), succeeded by European Maritime and Fisheries Fund (EMFF);
- European Fund for Regional Development (ERDF);
- European Social Fund (ESF);
- Cohesion Fund;
- European financial instrument for the environment (LIFE<sup>1</sup>) currently called Programme for the Environment and Climate Action; and
- Framework Programmes for research and innovation (FP7 and Horizon 2020).

Under this integrated framework only LIFE provides dedicated support to biodiversity and Natura 2000; whereas all other EU funding instruments are primarily targeted to deliver the EU goals on rural, regional, infrastructural, social and scientific development. While this allows the integration of biodiversity into broader rural and regional contexts, it also makes the availability of funding dependent on the overall goals and mechanisms of the given funding instruments, thereby creating a need to demonstrate compliance with each funds' specific rules.

To strengthen coordination and integration of financing for biodiversity and Natura 2000, there was an agreement to adopt Prioritised Action Frameworks (PAFs) for the 2014-2020 period. PAFs set out a national or

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<sup>1</sup> In 2007-2013 it was called "LIFE+"

regional strategy for protection and management of Natura 2000 within the context of the relevant EU financial instruments, identifying required Natura 2000 conservation priorities.

This study provides an analytical review of the experience to date of the integrated approach to co-financing Natura 2000 and wider biodiversity conservation from the EU budget. In particular, the study focuses on identifying the overall performance of the integrated approach in meeting estimated biodiversity financing needs and assessing how the approach could be developed and used more effectively in the future.

The study builds on and integrates the findings from a range of previous EU studies, using them as evidence to evaluate the success of integrated financing to date and support the thinking on the post-2020 financing period. In addition, a survey on the social impacts, legitimacy and institutional aspects of the current funding framework has been carried out, targeting Member State authorities responsible for administering EU funding. A common methodology has been developed and used to frame the analysis (see Box 1.2). The same methodology has been used to assess possible future financing arrangements in the EU, both in terms of the EU co-financing framework and complementary non-EU instruments.

On the basis of the assessment, the study provides a synthesis of the overall performance of the EU co-financing framework, outlining its strengths and weaknesses. This synthesis explores to what extent the integration approach remains appropriate and sufficient for EU biodiversity and Natura 2000 financing in the future, and identifies and analyses opportunities for possible improvements of the framework in terms of its scope, management and governance. Finally, a set of possible options for the post-2020 EU framework is provided, including a preliminary assessment of their foreseen impacts. The option analysed in explicit detail is the establishment of a dedicated EU fund for biodiversity, managed jointly by the EU and Member States.

#### Box 1.2 Assessment methodology

The overall adequacy of the funding arrangements for biodiversity – as well as the role of specific elements within it – has been assessed with respect to four criteria:

**Ecological / conservation effectiveness** – degree to which the level of funding and the chosen mix of funding instruments address the identified needs and reach the specified objectives for biodiversity, taking account of the range of different priorities and contexts within which they operate.

**Efficiency and cost-effectiveness** – the relationship between the conservation results achieved (i.e. delivered conservation objectives) and financial resources used. This builds on the relation between benefits and costs, and considers instruments' ability to provide cost-effective solutions that meet the targets for biodiversity and the needs of stakeholders.

**Institutional and legal fit** – the match of the financial policy instrument mix with the existing institutional framework, and the ability of the institutions in place to harness and successfully apply the available funding.

**Legitimacy and impacts on stakeholders** – the acceptability of the instruments among stakeholders; perceived fairness and compatibility with societal goals as well as the legitimacy of decision-making processes in designing and allocating funds.

The full report can be found with the following reference:

*Kettunen, M., Illes, A., Rayment, M., Primmer, E., Verstraeten, Y., Rekola, A., Ring, I., Tucker, G., Baldock, D., Droste, N., Santos, R., Rantala, S., Ebrahim, N. and ten Brink, P. (2017) Integration approach to EU biodiversity financing: evaluation of results and analysis of options for the future. Final report for the European Commission (DG ENV) (Project ENV.B.3/ETU/2015/0014), Institute for European Policy (IEEP), Brussels / London*

Furthermore, a compilation of case studies on innovative (non-EU) instruments developed in the context of this study and completing the findings related to the EU framework can be found in:

*Kettunen, M. and Illes, A. (eds.) (2017) Opportunities for innovative biodiversity financing in the EU: ecological fiscal transfers (EFT), tax reliefs, marketed products, and fees and charges. A compilation of cases studies developed in the context of a project for the European Commission (DG ENV) (Project ENV.B.3/ETU/2015/0014), Institute for European Policy (IEEP), Brussels / London*

## 2 EU framework for financing biodiversity – what works, what does not?

### 2.1 Ecological effectiveness and efficiency

The evidence to date suggests that delivering ecologically effective finance for biodiversity and Natura 2000 remains a significant challenge and it is clear that ecologically effective interventions are currently not sufficient in scale to address biodiversity priorities at EU level. While ecologically effective outcomes are being delivered under the existing integrated arrangements through some parts of the EU budget (e.g. LIFE funded programmes, some EAFRD agri-environment schemes, some ERDF and CF programmes), there remains a significant funding gap for Natura 2000 and biodiversity, such that meeting conservation objectives requires significant upscaling of well-designed and targeted approaches to financing.

The presence of funding gaps was identified as one of the most significant challenges for delivering the Natura 2000 network and related conservation objectives in the recent European Commission study supporting the fitness check of EU nature legislation<sup>2</sup>, and is highlighted consistently by all stakeholders involved in biodiversity funding across the EU. The most recent assessments suggest that current EU funding meets at most 20% of the estimated costs of managing the network, and that national funding is insufficient to fill the gap. Achieving the wider EU biodiversity targets requires substantial additional funding on top of that allocated to Natura 2000. While overall estimates for both the needs and financing available to implement wider EU targets are not available, the existing studies on certain biodiversity related objectives (e.g. restoration, conservation of agricultural and forestry land, invasive alien species etc.) suggest that there are also significant funding gaps.

Effective project-level indicators have typically been created and assessed for projects funded through the LIFE programme, with conclusive evidence that LIFE has delivered positive ecological outcomes in terms of the conservation of species and habitats, the restoration of green infrastructure and the delivery of ecosystem services. However, landscape-level and cumulative assessments of LIFE funding have in the past been lacking, preventing evaluations of the overall impact of the programme. This is currently being rectified through improvements in the indicators used for LIFE. Other funds such as EAFRD and ERDF have also delivered ecological benefits, though evidence is incomplete and indicators for these funding streams are often not fit for purpose, preventing evaluation even at a project level. It is therefore not possible to determine the overall effect of integrated financing on EU biodiversity beyond extrapolations from general trends, or to determine best practices and the most effective interventions or programmes. This hinders the ability to improve the deployment of funding in the post-2020 biodiversity framework.

Various studies suggest that - on a general level, considering a wide variety of socio-economic and wellbeing benefits - the benefits of action for biodiversity and Natura 2000 significantly exceed the

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<sup>2</sup> [http://ec.europa.eu/environment/nature/legislation/fitness\\_check/index\\_en.htm](http://ec.europa.eu/environment/nature/legislation/fitness_check/index_en.htm)

costs. Furthermore, while EU funding sources for implementing the biodiversity objectives are broadly seen as insufficient across the EU, funds are often seen as being used efficiently. However, there is limited evidence in relation to the cost-effectiveness of specific funding allocations.

The existing evidence, as supported by the survey carried out in the context of this study clearly highlights issues with the administrative burden associated with the funds, including both the application and implementation stages of funding. The costs of administering and accessing finance are large for some EU funds, reducing the cost-effectiveness of the funding process.

Overall, the analysis suggests that actions to address priorities for biodiversity and Natura 2000 represent good value for money, although there is an ongoing need to strengthen evidence relating to the benefits of conservation action. This finding suggests that evidencing the benefits of – and need for – biodiversity action is not the main constraint to the application of the integrated approach. The analysis identifies constraints relating to competing priorities for limited public budgets, mismatches and competition between available funding (i.e. biodiversity objectives vs. sectoral priorities), institutional capacity issues and burdensome administrative processes. These all highlight the need to address other aspects such as institutional and legal fit, social impacts and legitimacy in enhancing the effectiveness of the integrated approach.

## **2.2 Social impacts, legitimacy and institutional aspects**

The current institutional framework at the EU level complies with the underlying principle of environmental mainstreaming and provides a solid legislative basis for biodiversity financing and allows biodiversity conservation to be supported through integrated financing across different sectors. While from the perspective of biodiversity conservation the sectorally oriented framework used to finance biodiversity conservation appears fragmented and only indirectly relevant by scope, from the perspective of biodiversity mainstreaming it is logical to address conservation funding in a way that is embedded in different sectoral policy goals and implementation structures.

Legitimacy refers to the acceptability of the rules governing the EU funds as well as the experienced fairness and appropriateness of the implementation process. The existing literature indicates that the main challenges lie in the openness and inclusiveness of the procedures of specification and delivery of biodiversity policies. The literature indicates that biodiversity conservation has been commonly perceived by stakeholders as a top-down process and a constraint to economic activity, hindering legitimacy.

In general, while improvements to the EU integrated financing framework are clearly needed, the existing information and survey results seem to indicate that the framework is suitable for addressing a number of key challenges. By engaging stakeholders from different sectors, at different governance levels and at different stages of decision-making, integrated biodiversity financing has the potential to advance the mainstreaming and legitimacy of biodiversity conservation. According to the empirical results of this study, stakeholder consultation and engagement are important factors in conditioning the legitimacy and effectiveness of the delivery of funds. Engagement and collaboration have been major targets of development during recent years, which can be seen as a success of the integrated approach to biodiversity financing.

In general, widening the range of beneficiaries helps to support the legitimacy of funding. According to the survey respondents, biodiversity funding benefits a range of stakeholders in many ways. Administration is considered a major beneficiary, and the natural resource funds (EAFRD and EFF/EMFF) identify their target groups, farmers and fishermen as important direct beneficiaries.

Most funds consider local inhabitants as indirect beneficiaries and LIFE is considered to also benefit the NGO sector. All instruments benefit nature conservation but LIFE in particular supports access to public benefits and strengthens engagement. The lack of consensus on whether funds should benefit certain stakeholders directly or whether they should be targeted at the production of public goods remains a challenge.

According to the survey respondents, the shortage of funds is a constant concern with some respondents also identifying too stringent and/or unsuitable eligibility criteria as a limiting factor. As highlighted above, the most acute institutional challenge - influencing also the legitimacy of biodiversity financing - is the administrative burden. Bureaucratic tasks and application procedures generate costs to the applicants. Cumbersome application and reporting procedures can even limit the interest of relevant applicants. The administrative burden should be reduced in the future development of biodiversity financing, while acknowledging and respecting the differences in decision-making practices and traditions between sectors.

Finally, the empirical results suggest that monitoring of the outcomes of biodiversity funding is considered an area that needs development. The interviews and survey responses show that monitoring and evaluation are a concern both at the EU level and at the national level, with the EU level stakeholders highlighting the importance of verifying funding outcomes and the Member State stakeholders highlighting some dissatisfaction with the outcomes of evaluation and auditing.

### 2.3 Needs and opportunities for improvement

Building on the review of existing information, including empirical evidence from stakeholders gained in the context of this study, the following necessary improvements to the existing framework are identified and suggested:

**Earmarking expenditure for biodiversity priorities:** Earmarking under the sectoral EU funds is seen as one of the most effective ways to increase the contribution of the EU budget to biodiversity. This earmarking could be carried in different ways, including setting a general target (%) for biodiversity priority related spending across the whole EU budget (as current done for climate) or setting targets (%) for individual EU funds or by “nesting” a dedicated amount of funding (€) for biodiversity to be delivered within different individual funds.

**Addressing eligibility gaps:** A systematic eligibility review, covering all EU funding instruments relevant for biodiversity, should be carried out to identify key eligibility mismatches and possible areas of ambiguity and to explore how they could be addressed. Furthermore, increased support – both political and technical - to the development and implementation of multifaceted and/or multi-functional projects is needed to increase effectiveness and overcome the difficulties in financing conservation measures within funding frameworks for sectoral policies.

**Coordination and coherence:** There are a range of opportunities to improve the effectiveness of PAFs as a coordination tool. Improving their integration into the national and regional process - with a view to create shared ownership between sectors and to increase their influence - should be one of the key priorities. Prioritised Action Frameworks (PAFs) could be made more effective by providing a more explicit analysis of the problems (i.e. causes of biodiversity decline and related challenges for conservation in the given region / Member State), linking this information to foreseen solutions (i.e. measures) and estimated costs, and then clearly highlighting the identified priorities for action. In this context, PAFs could play a greater role in identifying and elaborating on specific areas where conservation needs could be better linked with the delivery of national and regional

socio-economic priorities as identified in different national policy documents (e.g. employment creation, rural development, public health, climate adaptation). PAFs could also be used to identify key national priority areas for developing the innovative non-EU funding for biodiversity, including highlighting key sectors, actors and EU funds for such cooperation. Finally, in addition to PAFs the increasing number of LIFE integrated projects – and lessons learned in the context of these projects - can increasing can support further coordination and coherence for integrated funding in practice.

**Addressing the administrative burden:** A consolidated effort to reduce complexity of application and implementation processes across all EU funds is required. Addressing the administrative burden should be supported by a dedicated EU-wide assessment, with explicit focus on identifying feasible opportunities for lowering the administrative burden related to the EU funding application and reporting processes.

**Improving monitoring:** There is a need for the development of a more systematic procedural framework for monitoring, evaluation and learning from the outcomes of EU funded actions. This includes, for example, further development of outcome-focused biodiversity targets and indicators to assess the effectiveness and efficiency of the different EU funds, both on a project and landscape level.

**Awareness raising and stakeholder cooperation:** Continued efforts on awareness raising of the multiple benefits of nature and how financing biodiversity conservation helps reach socio-economic objectives is required. This is required to further improve legitimacy of conservation measures among sectoral stakeholder and also to broaden the group of stakeholders coming forward with project ideas for multipurpose projects. Stakeholder cooperation need to be further encouraged to support more multipurpose projects and stakeholder initiatives.

## 3 Options for the post-2020 EU framework

### 3.1 Possible options for the future EU framework

A number of possible options for the EU funding approach can be identified and outlined, with different foreseen levels of effectiveness in addressing the identified shortcomings.

**Integration BAU:** The BAU (business as usual) option refers to maintaining the EU co-financing arrangements for biodiversity and Natura 2000 as is, i.e. continuing with the integrated funding approach with no significant changes to the current scope, functioning and implementation of the EU funds. Under this future option EU funding for Natura 2000 is foreseen to be provided by existing (or similar) EU funds (LIFE, EAFRD, EMFF, ERDF, ESF, Cohesion Fund and Horizon 2020) with priority setting and coordination between funds foreseen to be supported by PAFs.

**Integration+ (voluntary):** This option follows the BAU approach but with enhanced processes for targeting funds to prioritised conservation measures (e.g. EAFRD agri-environment measures to Natura 2000 sites), monitoring and capacity building to support integration, backed up by opportunities to use EU funding to support such actions at the Member State level. Integral to the option is a comprehensive, detailed and fit-for purpose EU-wide tracking approach for biodiversity financing<sup>3</sup>, with a view to improve monitoring of both the overall level of biodiversity financing and fund specific spending. The tracking framework could be supported by a comprehensive EU-wide approach for biodiversity proofing the EU budget expenditure, with timely involvement of and explicit suggestions from DG Environment as regards integration throughout the EU budget cycle in the context of the EU Semester Process. Mechanisms could also be put in place to support the targeting and effectiveness of funded measures (e.g. via result-based EAFRD agri-environment schemes), and the building of capacity and partnerships for integrated projects under different funds (e.g. awareness raising, identifying and securing co-funding opportunities) following the current example set by the LIFE integrated projects. Voluntary improvements to the monitoring of biodiversity outcomes, including through development of guidance and indicators, and more proactive advisory and pilot projects receiving potential support from EU funds are also foreseen. At the EU level, a dedicated effort would be made to reduce the administrative burden associated with different stages of the EU funding process.

**Integration++ (obligatory):** This option is as the *Integration+* above but with additional dedicated processes and legislation in place to back up the implementation of further integration. In particular, this includes obligatory earmarking of required minimum levels of expenditure on biodiversity (or priority components linked to EU policy objectives, such as Natura 2000) from the EU budget possibly with agreed principles for the allocation of the required minimum expenditure (with possible difference between Member States). Furthermore, the option foresees broadening the eligibility criteria to include certain additional management activities and/or stakeholders. Finally, an obligation to adopt and use a more comprehensive set of indicators for biodiversity outcomes is included in the framework, to considerably improve the assessment of conservation outcomes of

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<sup>3</sup> An approach that uses a more appropriate higher resolution of funding contributions than the 3-level Rio markers

spending under different funds. As with *Integration+*, LIFE integrated projects can be used to promote and pioneer approaches for improved coordination and mobilisation of resources from different funding sources.

Reflecting the foreseen trends in the uptake of innovative non-EU instruments, further ongoing development of these approaches is considered as a complementary component to all of the different integration approaches to EU-co-funding.

**New, dedicated and comprehensive EU instrument:** This option foresees limiting the focus of biodiversity integration under different EU sectoral funds. This reduced level of integration would be compensated by adopting a new comprehensive and dedicated instrument for funding biodiversity and Natura 2000, with significantly increased scope and budget in comparison to current LIFE funding. To maximise its cost-effectiveness it is foreseen that the new instrument would be best targeted to EU biodiversity policy priorities such as financing the implementation of the Natura 2000 network and other Biodiversity Strategy targets.

As with the variation of integrated approaches, dedicated simultaneous efforts are foreseen to be needed to significantly increase the support from non-EU funds. This includes the establishment of mechanisms to support stakeholder capacity and partnerships to access non-EU funds, including innovative funding mechanisms supported by private funding (e.g. awareness raising, guidance, targets and capacity building measures). The non-EU funds with explicit focus could include: payments from water suppliers etc. for conservation of basic resources, mechanisms to encourage direct ownership by NGOs and perhaps individuals, and mechanisms based on payments for carbon sequestration.

It is important to note that even under this scenario abandoning integration in its entirety is not considered feasible or appropriate. Biodiversity is integral to the EU policy principle of environmental mainstreaming and the conservation of well-functioning ecosystems underpins the objectives of the various EU funds. Consequently, this option foresees the return to a more distinct (and restricted) financing provided to biodiversity within the different sectoral EU funds, with the delivery of co-benefits to biodiversity and other sectors (e.g. nature-based solutions under ERDF and support to high nature value systems under EAFRD) and mechanisms to prevent negative impacts of investment in biodiversity becoming core elements of sectoral integration. In other words, while biodiversity proofing financial investment remains a key requirement for all EU funds, there would be less of a push to allocate sectoral funding to conservation actions that have limited synergies with sectoral policy goals.

### 3.2 Comparison of the options

A comparison of the different identified options for the future leads to the following preliminary conclusions as regards the likely overall effectiveness.

**Ecological effectiveness and cost-effectiveness:** The lack of financing for biodiversity is considered to be the major obstacle in delivering biodiversity conservation outcomes in the EU. Against this backdrop, the most successful approach to EU co-funding in terms of ecological effectiveness would be the one with the most potential for upscaling the level of funding. *Integration++* (i.e. integration supported by obligatory elements and enforcement) would clearly be best placed to deliver this requirement. This improvement would rely in particular on the dedicated earmarking of funding for biodiversity priorities (e.g. Natura 2000) across and/or under different EU funds.

*The dedicated and comprehensive EU instrument*, supported by a basic level of integration, also has the potential for increasing funding for biodiversity from the EU budget. In particular, the reduced competition with other policy goals and removed needs to fit biodiversity funding needs into frameworks designed to fund other sectoral policies is foreseen to lead to a more effective uptake of funds, supporting also the cost-effectiveness of funding. Furthermore, the administrative demands caused by using multiple EU sources to finance biodiversity conservation are also likely to diminish. These views are supported by the evidence on the effectiveness of LIFE-nature funding in delivering concrete biodiversity outputs. The unknowns and risks associated with dedicated funding instrument are, however, not to be ignored as there is no guarantee that the total level of funding made available (e.g. funding additional to the current LIFE-nature funding) would be able to match the needs any better than under the integrated approach (although it might be expected to be more cost-effective). Furthermore, the arrangements associated with EU shared-management funds are likely to introduce different – or even additional - burdens to national and regional biodiversity administration and stakeholders continuing to receive funding from several EU sources.

As regards cost-effectiveness, the approaches retaining the status quo (i.e. *Business as usual* and *Integration+* (i.e. integration supported by voluntary measures) have the least implications in terms of increasing administrative costs. However, given their limited contribution to enhancing the financing for biodiversity it is unlikely that either of approaches would considerably improve the cost-effectiveness of EU funding. From the perspective of administrative costs, the overall administrative costs of a dedicated EU instrument for biodiversity depend on the national setup for implementing such a fund. A dedicated fund is likely to be the most cost-effective means for delivering biodiversity funding at the project level, given that it can be fully focused on biodiversity objectives and targeted to biodiversity priorities. However, the project level effectiveness might be jeopardised at the overall framework level, as caused by the reduced level of biodiversity integration into sectoral funds and related possible decrease in the overall level of nature conservation at landscape level. Continued integration of biodiversity into sectoral funds will remain the most cost-effective solution where there is joint delivery of conservation and other benefits – such as through well designed agri-environment programmes

Finally, improving the targeting and monitoring of conservation outcomes linked to EU biodiversity expenditure seems to be necessary under all of the future options. This will help to improve the cost-effectiveness of funded measures while also supporting the legitimacy of conservation (below).

**Institutional and legal fit:** Integrated financing for biodiversity is considered to be an integral part of the EU environmental mainstreaming. Consequently, the different EU funds relevant to biodiversity are foreseen to maintain a certain level of biodiversity integration under all future options. Shifting the delivery of EU co-financing to a new dedicated EU fund for biodiversity would have implications as regards the institutional status quo of the EU and national biodiversity governance and would therefore require a dedicated assessment of the required arrangements and their foreseen impacts.

**Legitimacy and impacts on stakeholders:** The integration of biodiversity objectives into different EU financing schemes contributes to the legitimacy of biodiversity conservation by engaging actors and reconciling different types of activities. Consequently, continuing with the integrated approach to EU funding seems to best support the legitimacy of nature conservation among a range of sectoral stakeholders. On the other hand, a dedicated fund for biodiversity conservation is likely to be highly supported among nature conservation stakeholders and some other sectors such as recreation and tourism.

Under all future scenarios, there is a risk that diverting funds from other priorities to biodiversity conservation might raise legitimacy issues among certain stakeholders, simply due to the overall

competition for scarce public resources. These risks could be addressed – at least partly - by consolidated efforts in supporting the development and uptake of multipurpose projects that deliver concrete win-wins for biodiversity and wellbeing.

As regards the procedural legitimacy, the acceptability of the arrangements associated with a dedicated fund - especially among farmers, foresters and fishermen - would depend on the administrative complexities associated with its use.

The empirical evidence from this study indicates that the EU level administration is, in general, in favour of continuing with the integrated financing approach. The views of national level stakeholders are more mixed with a range of shortcomings related to the integration model being identified. However, in general the responses gathered as part of the stakeholder survey seem to point towards expectations for – and possible advances in – further integration, especially as regards EAFRD and ERDF.

## 4 Establishing a new dedicated fund for biodiversity

The allocation of the total EU budget between different sectoral financing instruments is a result of a political process. Consequently, the establishment of a dedicated EU instrument for biodiversity does not necessarily mean that, come the next multiannual financing framework, there would be more funding made available for biodiversity in total. It means that (a majority of) the available funding would be distributed through a different mechanism; a mechanism aimed at addressing the shortcomings of the current framework. Given that a significant part of failures associated with the existing framework stem from the difficulties in sectoral integration, a new dedicated instrument could lead to a net increase in biodiversity funding. On the other hand, failing to gain political acceptance and/or acceptance among certain sectoral stakeholders or Member States to the new instrument could even result a decrease in net biodiversity funding, if the dedicated fund was not sufficiently large to offset a reduction in biodiversity finance from existing funds.

As highlighted above it is considered unfeasible - and even undesirable – for the establishment of a dedicated EU instruments for biodiversity to result in entirely abandoning the integration of biodiversity financing into the other EU funds. Consequently, issues related to the interplay between a dedicated fund and other EU funding mechanisms – in particular possible implications to conservation objectives closely linked to sectors such as agriculture and forestry, especially high nature value farming and forestry systems - should be kept in mind when considering the establishment of a dedicated instrument for biodiversity.

Based on the above, some key considerations and preliminary options for a dedicated EU instrument for financing biodiversity are explored below.

**The instrument's funding base:** For a dedicated instrument to address the weaknesses of the existing framework, such as the competition between biodiversity and other priorities, and mismatches between conservation needs and sectoral orientation of funds, (some of) the funding currently distributed under the different EU sectoral funds needs to be shifted to be channelled through this new instrument. Logically, the new instruments would also absorb the dedicated funding for biodiversity conservation currently allocated through the EU LIFE programme.

While shifting funding currently spent on biodiversity under sectoral funds to a dedicated biodiversity fund could enhance the access to and effectiveness of funding (e.g. enhancing delivery, monitoring and evaluation against biodiversity goals), determining the share of funds shifted from the existing sectoral funding instruments to the new instrument is likely to be a challenging – and highly political – issue, in particular given the insufficient amount of existing allocations. As highlighted above, there is expected to be political resistance and/or resistance among some sectoral stakeholders to shifting funding away from sectoral budgets. If such resistance cannot be overcome, catering for the needs of a dedicated instrument also means finding additional funding that can be dedicated to biodiversity on top of the existing spend. Alternatively, if as a result the net funding dedicated for biodiversity under the EU budget decreases slightly, better targeting (e.g. better designed measures and enforcement) could in principle still be able to result in net positive overall impact.

**Instrument type and scope:** In practice the new instrument would be several orders of magnitude larger than the current LIFE fund and the LIFE Biodiversity and Nature component in particular. This

in turn indicates that establishing shared management between the Commission and Member States - similar to the EAFRD, EMFF and ERDF - would be the most likely organisational arrangement for the fund. Consequently, assessing the pros and cons associated with delivering EU policy through shared-management instruments – with explicit consideration of how these pros and cons affect the delivery of biodiversity objectives - plays a key role in exploring the opportunities for a dedicated instrument. This is of particular importance, given the documented successes of the centrally managed LIFE fund.

The existing shared-management funds - while operating within the framework of EU-wide priorities - allow Member States considerable amount of freedom to prioritise and target funding according to national priorities. Shifting the emphasis of dedicated EU biodiversity funding from a centrally managed set-up (i.e. the Commission managed LIFE) to a lead role for Member States within an EU framework could help to improve matching funding with the identified conservation needs at national level, in particular with the competition currently hindering biodiversity financing under the existing shared-management funds removed (see below). For example, this could improve the targeting of funding to habitats, species and/or stakeholders that require it the most. Furthermore, depending on the global rules and regulations (e.g. WTO), Member States might be able to determine more appropriate (compensation) payment levels so as to reflect the national situation in individual Member States.

On the other hand, devolving prioritisation to Member States is likely to reduce the integration of an EU-wide perspective into the funding decisions and therefore hinder the implementation of projects and initiatives with EU added value in the light of the EU Biodiversity Strategy. The existing gap between the needs for, and availability of, funding means that there is also a risk that funding channelled through a dedicated instrument would end up being targeted by Member States to finance “basic” biodiversity conservation measures only (e.g. day-to-day management of the Natura 2000 network). This would introduce the risk of low added value for EU funds and diminish the scope for sharing best practises and developing new innovations (e.g. habitat restoration techniques, techniques for the removal of invasive species) across the EU, i.e. aspects currently identified as key benefits of LIFE.

Given the above, one possibility could be to explore a dedicated instrument consisting of elements managed in both central and shared manner. Such an instrument could be based on the EMFF-type arrangement where most of the fund is under shared management but where a part of the fund remains centrally managed by the Commission with a view to deliver EU-wide policy objectives (for EMFF 89% and 11% of the fund, receptively). Under such an arrangement, the centrally managed share of the fund could be designed to continue the current LIFE Biodiversity and Nature setup (e.g. continue initiating projects similar to LIFE integrated projects) while the element under shared management could finance conservation actions agreed to be subject to prioritisation at the Member State level (see below). The overall effectiveness of such a fund would depend on establishing a well-functioning framework and institutional arrangements for the fund, including an appropriate flow of information between the two elements and joint planning, monitoring and assessment of outputs.

Finally, determining the precise scope of interventions by a dedicated EU instrument is one of the key challenges, in particular when aiming to continue a certain basic level of integrated financing through EU sectoral funds. As suggested above, the new instrument should be targeted to financing EU biodiversity policy priorities such as the implementation of the Natura 2000 network and other Biodiversity Strategy targets. However, the priorities and measures shifted in order to be financed from a dedicated instrument and the ones remaining to be integrated into the different sectoral instruments (e.g. EAFRD, EMFF and ERDF) need to be carefully considered and assessed.

Consequently, establishing a set of principles for financing biodiversity related actions from the dedicated fund versus the sectoral funds is considered of key importance.

As highlighted above, where there is scope to deliver existing funds in a way that delivers co-benefits for biodiversity while meeting other policy priorities, it would seem most appropriate and efficient to continue funding measures through the integration approach. For example, the agri-environment expenditures may benefit farmed habitats and species while also addressing other priorities for farming, rural development, natural resource management and climate change mitigation and adaptation. Given the size of the CAP, it would be difficult to envisage a biodiversity fund allocating resources to the agricultural sector on a very large scale and there seems a clear case for continuing – and enhancing the effectiveness of - the integrated approach. Similar considerations are likely to apply to some extent with respect to the forest environment and the management of fisheries and the marine environment.

As regards stakeholders, the diminished need to compete with other sectoral priorities and reduced necessity to seek funding from a range of different sources is likely benefit the nature conservation sector, e.g. the application and administrative culture could be attuned to better fit biodiversity aims and there would be a likely reduction of the project application and reporting related burden on nature conservation administrations and protected area managers. However, depending on the scope of the new fund, the administrative arrangements for stakeholders such as farmers, forester and fishermen could risk becoming more complicated, depending on the application, reporting and monitoring arrangements for the new fund vis-à-vis payments under other EU funds. These more complicated arrangements might result from the greater efforts and information requirements necessary to enhance ecological effectiveness.

**Allocation of funds under the instrument:** A shift to a dedicated instrument operating under shared management raises a range of questions as regards the criteria for allocating funding to the Member States, and programming, monitoring and reporting on the funding.

At the EU level, one of the major questions is determining the principles and criteria for allocating funding between Member States, assuming a fixed budgetary envelope would be used. The possible aspects taken into consideration in a distribution key could include, for example, estimated relative “EU conservation burden” per Member State (e.g. share of Nature 2000 network), status of biodiversity (e.g. share of habitats and species in favourable / unfavourable conservation status), status of the protected area network and its management (e.g. completeness of the network, coverage of management plans) and estimated funding needs associated with delivering the EU objectives. The case study exploring the use of ecological fiscal transfers (EFT) at the EU level provided some initial ideas as regards the possible outcomes resulting from the use of Natura 2000 related criteria to establish “need” across the EU (Chapter 6).

The selected principles and criteria for determining allocation of funds between Member States would need to accurately reflect the situation in different countries while being feasible to assess and monitor across all Member States. Given the known difficulties in both monitoring the status of biodiversity in Member States - as highlighted by the Habitats Directive reporting process – and assessing the financing needs for biodiversity conservation the establishment of EU-wide principles and criteria for allocating funding between Member States in a robust, equitable and transparent manner while appropriately reflecting the EU, not national, biodiversity objectives is unlikely to be trivial.

Finally, given the foreseen increase in the amount of funding channelled through the dedicated instrument (e.g. in comparison to the existing LIFE and its nature component) it is likely that the

Commission's biodiversity conservation administration is will require additional resources in comparison to the existing setup.

At the national level, while the amount of resources and administrative burden linked to funding biodiversity from a range of EU sources diminishes, the management of a dedicated fund will introduce a different kind of administrative burden on national stakeholders. It is likely that a new dedicated setup for programming, distributing, reporting and monitoring EU biodiversity spending at the national level needs to be established, reflecting the current arrangements for other EU funds under shared management. As highlighted above, the administrative burden on stakeholders such as protected area managers is likely to decrease as a result of, for example, a diminished need to apply for and report on funding originating from several sources. Furthermore, institutional inefficiencies and capacity issues associated with biodiversity authorities and stakeholders seeking funding from non-biodiversity sources - and non-biodiversity authorities administrating biodiversity funding – are likely to diminish.

However, impacts on the national and regional biodiversity administration and other stakeholders (farmers, foresters, fishermen) depend on the new setup and are more complex to estimate. Furthermore, some requirements under the new instrument may become more burdensome, e.g. criteria for assessing ecological effectiveness. Finally, it is not guaranteed that a dedicated instrument will be able to address shortcoming related to the information flow between different governance levels (EU, national, local) and remaining issues with stakeholder involvement (e.g. business sector).

Finally, the experience also shows that, if not adequately resourced, Member States' authorities can find it difficult to respond to the administrative demands of shared-management funds which can lead to underspending of EU funding. For example, EAFRD is known to have been subject to such difficulties. The risk of possible underspending is worth a dedicated assessment, in particular reflecting the pros and cons of the current centrally managed LIFE funding.

## 5 Conclusions

The systematic and comprehensive review of existing evidence carried out in the context of this study reveals a range of shortcomings in the EU co-financing framework for biodiversity. These include: the overall lack of funding, low incentives for take up of conservation measures (EAFRD), mismatches and competition between biodiversity and other sectoral policy goals, inadequate information on the conservation outputs of funding, high administrative burdens creating institutional barriers and affecting the cost-effectiveness, and a range of institutional inefficiencies and legitimacy deficiencies. These shortcomings limit the ecological effectiveness, cost-effectiveness and legitimacy of the framework, which risks jeopardising the successful delivery of EU's biodiversity objectives and targets.

The above limitations are not new as they have been identified by a number of studies and stakeholder consultations since the adoption of the EU integrated financing approach in 2007. While there have also been a range of successes, this seems to indicate that the success of the EU financing framework will not significantly improve without a considerable and consolidated effort in addressing the identified deficiencies.

However, the review of existing evidence also highlights a number of positive aspects of the current EU financing approach. In particular, LIFE, EAFRD and, to some extent, ERDF have been shown to be able to deliver a range of conservation outputs in a relatively effective and efficient manner when the funded measures have been appropriately designed and properly implemented. A number of improvements to increase the delivery of biodiversity benefits under these funds can, however, be identified and need to be addressed.

In terms of social impacts and legitimacy, by engaging stakeholders at different governance levels and at different stages of decision-making, integrated biodiversity financing has the potential to advance the mainstreaming and legitimacy of biodiversity conservation. According to the empirical results of this study, stakeholder consultation and engagement are important factors in conditioning the legitimacy and effectiveness of the delivery of funds. Engagement and collaboration have been major targets of development during recent years, which can be accounted as a merit for the integrated approach to biodiversity financing.

The adoption of a new dedicated EU fund for biodiversity has been suggested by a number of stakeholders as an alternative to the integration approach. Such a fund is considered to have the potential to address a number of the current shortcomings, in particular to lessen the competition between biodiversity and other sectoral priorities, improve the match between the funding framework and priority funding needs and also perhaps to reduce the administrative burden to (some) stakeholders. Even if the net EU funding for biodiversity were to decrease somewhat, better targeting (e.g. better designed measures and enforcement) could in principle be able to result in net positive overall impact to conservation. These views are supported by the evidence on the effectiveness of LIFE-nature funding in delivering concrete biodiversity outputs.

However, the risks associated with a dedicated EU funding instrument for biodiversity are significant as there are no foreseen guarantees that the level of funding made available (e.g. funding additional to the current LIFE-nature funding) would be able to match the needs any better than under an integrated approach. For example, the administrative requirements to stakeholders such as farmers, foresters, fishermen and national biodiversity administration could even increase as a result of additional administration systems and adopting more comprehensive monitoring arrangements.

Furthermore, integrated financing for biodiversity is considered to be an integral part of the underlying EU policy principle of environmental mainstreaming, even contributing to the delivery of different sectoral policies through increased environmental sustainability and a range of nature-based solutions. The different EU funds relevant to biodiversity would therefore need to maintain a certain level of biodiversity integration even if a dedicated instrument for biodiversity were to be adopted. Determining the new level of biodiversity integration under different EU funds in a manner that does not undermine the biodiversity conservation at the wider land- and seascape level is likely to be a challenging and time consuming exercise. The benefits and risks of moving towards adopting such a dedicated EU biodiversity fund would need to be considered in adequate detail, reflecting the possible scope and priorities for such a fund (e.g. Natura 2000).

As regards the innovative non-EU financing instruments, the study reveals a range of opportunities in upscaling the use of different instruments. However, it is unlikely that the uptake of innovative instruments on its own will be able to bridge the existing financing gap for biodiversity, at least in a short term. Mainstreaming the use of a range of different instruments – while understanding the role that they can play in the overall conservation policy mix – is nevertheless important as such instruments have considerable potential to contribute to the existing funding base. An elaborated consideration of innovative non-EU instruments could be, for example, integrated into the future PAFs with a view to identify the possible candidates at Member States, their role in the instrument mix and key drivers for the uptake.

The reduction and/or reform of perverse incentives, such as grants for modernisation of farming systems and afforestation that can undermine the economic viability of biodiversity measures, is needed to prevent undermining the effectiveness of conservation actions and related funding. While exploring the needs and opportunities linked to the reform of harmful subsidies falls outside the scope of this study, parallel advancement on this policy agenda is considered of crucial importance to the overall delivery of biodiversity objectives and increasing the future success of biodiversity financing.

Finally, the common assessment framework developed in the context of this study - and applied throughout the study - is considered to provide a good systematic basis for identifying and assessing the key attributes determining the overall success of biodiversity funding arrangements, i.e. ecological effectiveness, cost-effectiveness, institutional aspects and legitimacy. The framework is designed to be applicable at all levels of biodiversity financing in the EU, allowing the integration of local, national and regional funds with the EU co-funding framework. Consequently, the benefit of integrating such an approach into the future PAFs could be considered.