

Tracking Biodiversity Expenditure in the EU Budget

*PART I - Guidance on definition and
criteria for biodiversity expenditure
in the EU budget*

FINAL REPORT

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In collaboration with



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Executive summary

This document outlines a workable approach for tracking the biodiversity related expenditure in the EU budget. It includes the background and objectives of the process, a general approach to tracking biodiversity expenditure, a proposed definition and typology of expenditure, and a workable approach to tracking expenditures at different levels and stages of the budgeting process. It also discusses the key challenges as regards the use of the approach.

For the purposes of biodiversity tracking in the EU, biodiversity related expenditure can be defined as:

Expenditure that supports activities that contribute to the three objectives of the Convention on Biological Diversity (CBD) and the targets and actions set out in the EU Biodiversity Strategy to 2020.

These include activities that support:

- *The conservation and restoration of biodiversity (ecosystems, species, and genetic diversity) and the maintenance of related ecosystem services;*
- *The sustainable use and management of biodiversity and ecosystems (including activities within agriculture, forestry, fisheries and other sectors); and*
- *The fair and equitable sharing of the benefits of the utilisation of genetic resources, with foreseen benefits to the conservation, sustainable use and management of biodiversity and ecosystem services.*

As well as activities involving the direct protection and management of biodiversity and ecosystems, this definition includes supporting actions such as research, awareness raising, capacity building, policy development and enforcement, planning and monitoring.

The proposed methodology builds on the Rio markers and distinguishes between expenditures for which biodiversity is a principal objective (for which a 100 per cent weighting factor is applied), significant objective (40 per cent weighting factor) or not a significant objective (0 per cent weighting factor). The following criteria for the use of the Rio markers in the context of the EU budget are suggested:

100 per cent marker: Activities that have the conservation, restoration and sustainable management of biodiversity (ecosystems, species, and genetic diversity) and the maintenance of related ecosystem services as their primary objective and are expected to lead to direct effects / benefits with regard to biodiversity. The activity would not have been carried out in the absence of such objectives / intended effects for the conservation and restoration of biodiversity;

40 per cent marker: Activities where the conservation, restoration and sustainable management of biodiversity (ecosystems, species, and genetic diversity) and the maintenance of related ecosystem services are one of the principal reasons for undertaking

the activity; expected effects on / benefits for conservation and restoration of biodiversity and related ecosystem services are significant but not the primary intended effect; and

0 per cent marker: Activities which neither directly nor indirectly seek to contribute significantly to the conservation, restoration or sustainable management of biodiversity (ecosystems, species, and genetic diversity) and the maintenance of related ecosystem services.

This first Part of this Guidance Document provides general advice and a typology for applying the markers to the EU budget. More detailed advice on the use of the markers for particular EU funds is provided in a standalone Part II of this Guidance.

List of acronyms

ABS	Access and Benefits Sharing
CAP	Common Agricultural Policy
CBD	Convention on Biological Diversity
CF	Cohesion Fund
COP	Conference of the Parties
COSME	EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs)
CRIS	Common RELEX Information System
CRS	Creditor Reporting System
DAC	OECD's Development Assistance Committee
DG	Directorates-General
DG BUDG	Directorate-General for Budget
DG CLIMA	Directorate-General for Climate Action
DG DEVCO	Directorate-General for Development and Cooperation
DG ELARG	Directorate-General for Enlargement
DG R&I	Directorate-General for Research and Innovation
EAFRD	European Agricultural Fund for Rural Development
EHS	Environmentally Harmful Subsidies
EIB	European Investment Bank
EIF	European Investment Fund
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
ESI	European Structural and Investment Funds
EU	European Union
GI	Green Infrastructure
IAS	Invasive Alien Species
MFF	Multi-annual Financial Framework
NBSAP	Nation Biodiversity Strategies and Action Plans
NCCF	Natural Capital Financing Facility
NGO	Non-governmental Organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OOF	Other Official Flows
R&D	Research and Development
REDD+	Reducing Emissions from Deforestation and Forest Degradation
UNDP BIOFIN	United Nations Development Programme, The Biodiversity Finance Initiative

1 Background, introduction and objectives

The European Commission is in the process of developing a methodology to track biodiversity related expenditure in the EU budget, similar to the one being developed for climate related expenditure.¹

As well as informing the EU's monitoring of its own expenditure, tracking is needed to fulfil the EU's commitment, along with that of other CBD Parties, to report on both domestic and international biodiversity related financing flows, using the CBD financial reporting framework. The EU has committed under the CBD to contribute to the doubling of total biodiversity related financial resource flows to developing countries by 2015, and at least to maintain this level until 2020, and to mobilize domestic financial resources from all sources to reduce the gap between identified needs and available resources at domestic level.² This requires mainstreaming biodiversity throughout the EU budget, as indicated in the Communication 'A budget for Europe'.³ It follows that the EU's methodology for tracking biodiversity expenditure – and the definitions and criteria used within it – need to be appropriate for identifying and tracking both domestic expenditure and international resource flows, and for assessing plans and commitments (*ex ante*) and actual expenditure (*ex post*) (See Chapter 4).

The Commission's emerging approach to tracking biodiversity and climate related expenditure is based on the established OECD 'Rio markers' methodology. However, it does not exclude the use of more precise methodologies in policy areas where these are available⁴. This system has already been used by the Commission (DG DEVCO and DG ELARG) for reporting international biodiversity (and climate) related expenditure.⁵ In order to transform the 'Rio markers' into financial data, a weighting system has been applied by the Commission, applying reduction factors in the form of codes (100 per cent, 40 per cent, and 0 per cent). This means that the biodiversity related expenditure can be allocated according to the following categories:

- Expenditures where biodiversity is the **principal (primary) objective** are those for which biodiversity objectives can be identified as fundamental in the design and

¹ Commission Implementing Regulation (EU) No 215/2014 of 7 March 2014 laying down rules for implementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund with regard to methodologies for climate change support, the determination of milestones and targets in the performance framework and the nomenclature of categories of intervention for the European Structural and Investment Funds

² Decision adopted by the Conference of the Parties to the Convention on Biological Diversity XII/3. Resource Mobilisation, COP XII, Agenda item 14, Pyeongchang, Republic of Korea, 6-17 October 2014; <http://www.cbd.int/doc/decisions/cop-12/cop-12-dec-03-en.pdf>

³ European Commission (2011) A budget for Europe 2020, Commission Communication, COM (2011)500, 29.6.2011, Brussels

⁴ European Commission (2011) A budget for Europe 2020, Commission Communication, COM (2011)500, 29.6.2011, Brussels

⁵ The use of the Rio markers has been compulsory since 2008. Since 2009, encoding in the Common RELEX Information System (CRIS) is compulsory for every project managed by EuropeAid.

impact of the activity and are an explicit objective of the activity. These are to be counted as **100 per cent** biodiversity related;

- Expenditures where biodiversity is a **significant, but not predominant objective** are those for which, although important, biodiversity objectives are not one of the principal reasons for undertaking the activity. These are to be counted as **40 per cent** biodiversity related; and
- Expenditures **not targeted at biodiversity objectives** are to be counted as **0 per cent** biodiversity related.

In order to classify expenditure under relevant EU funding instruments, it is necessary to define biodiversity related expenditure and to specify criteria that can be used to distinguish between those types of expenditures for which biodiversity is a primary objective (100 per cent marker), a secondary but significant objective (40 per cent marker) and those which should not be regarded as biodiversity related (0 per cent marker).

The definitions and criteria chosen should be designed to allow expenditure to be categorised consistently across different EU funding programmes and instruments recognising that the specifics of each EU instrument and the context in which projects are co-financed should also be taken into account. Definitions need to be general enough so as they encapsulate the range of agreements taken with different DGs but provide the basis for a common approach. As far as possible and appropriate, they should also be consistent with international definitions and criteria including those developed by the CBD and OECD, to facilitate international reporting and comparisons to the extent possible.

The proposed definition of biodiversity related expenditure, and associated eligibility criteria, should ideally be consistent with:

- The OECD's definition of biodiversity expenditure, which underpins the internationally recognised methodology for tracking;
- The CBD's definitions, which form the basis for international reporting of expenditure under the Convention; and
- The EU's own biodiversity priorities, as set out in the EU Biodiversity Strategy.

1.1 EU priorities for biodiversity funding

Biodiversity related expenditure in the 2014-2020 EU budget can be defined as expenditure linked to the main objectives of the EU Biodiversity Strategy. The Strategy sets out six targets and 20 actions which aim to halt the loss of biodiversity in the EU and to contribute to efforts to halt biodiversity loss internationally (Table 1).⁶

Together these targets and actions contribute to the three CBD objectives of biodiversity conservation, sustainable use and fair and equitable sharing of benefits, and translate at EU level the CBD Strategic plan and its Aichi targets. Although they do not systematically categorise all relevant expenditures, they can be taken to cover the range of biodiversity

⁶ European Commission (2011) Our life insurance, our natural capital: an EU biodiversity strategy to 2020. Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions. Brussels, 3.5.2011. COM(2011) 244 final.

actions in the EU. For example, while none of the actions specifically relates to species conservation except within fisheries, relevant activities could fall under Targets 1-5 and their respective actions (e.g. actions 3, 5, 6, 9, 12, 13, 16). Therefore, they can form a basis for establishing criteria for biodiversity expenditure in the EU and furthermore support the development of a typology for expenditure.

Table 1: Targets and Actions in the EU Biodiversity Strategy

Targets	Actions
Target 1: Fully implement the Birds and Habitats Directives	<p>Action 1: Complete the establishment of the Natura 2000 network and ensure good management</p> <p>Action 2: Ensure adequate financing of Natura 2000 sites</p> <p>Action 3: Increase stakeholder awareness and involvement and improve enforcement</p> <p>Action 4: Improve and streamline monitoring and reporting</p>
Target 2: Maintain and restore ecosystems and their services	<p>Action 5: Improve knowledge of ecosystems and their services in the EU</p> <p>Action 6: Set priorities to restore and promote the use of green infrastructure</p> <p>Action 7: Ensure no net loss of biodiversity and ecosystem services</p>
Target 3: Increase the contribution of agriculture and forestry to maintaining and enhancing biodiversity	<p>Action 8: Enhance direct payments for environmental public goods in the EU Common Agricultural Policy</p> <p>Action 9: Better target Rural Development to biodiversity conservation</p> <p>Action 10: Conserve Europe’s agricultural genetic diversity</p> <p>Action 11: Encourage forest holders to protect and enhance forest biodiversity</p> <p>Action 12: Integrate biodiversity measures in forest management plans</p>
Target 4: Ensure the sustainable use of fisheries resources	<p>Action 13: Improve the management of fished stocks</p> <p>Action 14: Eliminate adverse impacts on fish stocks, species, habitats and ecosystems</p>
Target 5: Combat invasive alien species	<p>Action 15: Strengthen the EU Plant and Animal Health Regimes</p> <p>Action 16: Establish a dedicated instrument on Invasive Alien Species</p>
Target 6: Help avert global biodiversity loss	<p>Action 17: Reduce indirect drivers of biodiversity loss</p> <p>Action 18: Mobilise additional resources for global biodiversity conservation</p> <p>Action 19: ‘Biodiversity proof’ EU development cooperation</p> <p>Action 20: Regulate access to genetic resources and the fair and equitable sharing of benefits arising from their use</p>

Source: European Commission (2011) Our life insurance, our natural capital: an EU biodiversity strategy to 2020

1.2 Structure of the report

The remainder of the report is structured as follows:

- Chapter 2 sets out a proposal for an EU level definition and typology for biodiversity related expenditure, which includes a set of broad categories of expenditure that are related to biodiversity, distinguishing between examples of expenditure to which the 100, 40 or 0 per cent marker apply.
- Chapter 3 identifies potential 'grey areas' where the tracking of biodiversity related expenditure is not always straightforward.
- Chapter 4 provides an overview of the different levels and stages of the EU budget cycle and the ways in which these different management modes and budget levels influence the tracking process.
- Chapter 5 sets out a set of principles for tracking the biodiversity relevance of financial instruments.
- Chapter 6 sets out some overall conclusions and recommendations of the study.
- Annex 1 sets out definitions of biodiversity related expenditure used by the OECD and CBD.
- Annex 2 provides a summary of the key outcomes of a workshop held in Brussels on tracking biodiversity expenditure in the EU budget.

2 Proposed EU definition and typology for biodiversity related expenditure

For the purposes of biodiversity tracking in the EU, biodiversity related expenditure can be defined as:

Expenditure that support activities that contribute to the three objectives of the Convention on Biological Diversity (CBD) and the targets and actions set out in the EU Biodiversity Strategy to 2020.

These include activities that support:

- *The conservation and restoration of biodiversity (ecosystems, species, and genetic diversity) and the maintenance of related ecosystem services;*
- *The sustainable use and management of biodiversity and ecosystems (including activities within agriculture, forestry, fisheries and other sectors); and*
- *The fair and equitable sharing of the benefits of the utilisation of genetic resources, with foreseen benefits to the conservation, sustainable use and management of biodiversity and ecosystem services.*

As well as activities involving the direct protection and management of biodiversity and ecosystems, this definition includes supporting actions such as research, awareness raising, capacity building, policy development and enforcement, planning and monitoring.

2.1 Developing criteria and a typology for applying the Rio markers

To apply the Rio markers to track biodiversity related expenditure, it is necessary to further distinguish between the use of the 100, 40 and 0 per cent markers. We propose the following criteria for the use of the markers:

- **100 per cent marker:** Activities that have the conservation, restoration and sustainable management of biodiversity (ecosystems, species, and genetic diversity) and the maintenance of related ecosystem services as their primary objective and are expected to lead to direct effects / benefits with regard to biodiversity. The activity would not have been carried out in the absence of such objectives / intended effects for the conservation and restoration of biodiversity;
- **40 per cent marker:** Activities where the conservation, restoration and sustainable management of biodiversity (ecosystems, species, and genetic diversity) and the maintenance of related ecosystem services are one of the principal reasons for undertaking the activity; expected effects on / benefits for conservation and restoration of biodiversity and related ecosystem services are significant but not the primary intended effect; and
- **0 per cent marker:** Activities which neither directly nor indirectly seek to contribute significantly to the conservation, restoration or sustainable management of biodiversity (ecosystems, species, and genetic diversity) and the maintenance of related ecosystem services.

It should be noted that, for EU instruments where information about individual projects is available at some point in the implementation of the EU Multi-annual Financial Framework (MFF), using the markers against stated objectives and intended effects is possible, and the approach to tracking should be based on these. However, in the case of shared management instruments, information about individual projects/measures may not be available in the context of the tracking approach, which means that the criteria for the use of the different markers should also take account of expected results for / potential benefits for biodiversity.

The proposed markers build on the proposals and recommendations made in the study 'Tracking system for climate expenditure in the post-2013 EU budget: making it operational' for DG CLIMA, European Commission,⁷ whilst acknowledging that the EU biodiversity objectives are different from those of climate action and that different definitions will be used in applying the Rio markers in the two processes.

Annex 1 sets out definitions of biodiversity related expenditure used by the OECD and CBD. The application of markers for EU biodiversity expenditure needs to be consistent with these international definitions. Consequently, the markers proposed in the document are intended to be compatible with the CBD's distinction between 'directly related' and 'indirectly related' expenditure.

The OECD's criteria focus on the stated objectives of the relevant activities and expenditure, recognising that some types of activity may have biodiversity as a primary or a significant objective dependent on the specific context. OECD notes that the markers indicate donors' policy objectives in relation to each aid activity, and suggests that activities marked as having a 'principal' biodiversity objective would not have been funded but for that objective; activities marked 'significant' have other prime objectives but have been formulated or adjusted to help meet biodiversity concerns.

However, in practice, individual projects and programmes - and possible programme related measures, such as measures under the Common Agricultural Policy (CAP) - may specify a range of specific objectives and/or activities that relate to biodiversity and related topic areas, without necessarily identifying 'biodiversity' per se as a primary or secondary objective. Biodiversity objectives may sometimes be implicit rather than explicit in relevant activities and expenditures. In applying the proposed markers, it is therefore useful to give some examples of the types of expenditures which fall into each category:

- **Expenditures with a primary biodiversity objective (100 per cent)** – any expenditure supporting an action specifically designed to further the conservation or sustainable management of biodiversity (ecosystems, species, genetic diversity) and the maintenance of related ecosystem services, or the equitable sharing of benefits of genetic diversity for these purposes. Examples include:
 - The designation, protection and management of Natura 2000 sites;
 - Species protection measures;
 - *In situ* and *ex situ* conservation of species and genetic diversity;

⁷ <http://www.ieep.eu/work-areas/climate-change-and-energy/climate-change-and-the-eu-budget/2014/03/tracking-climate-related-expenditure-in-the-post-2013-eu-budget>

- Conservation, restoration and assessment of ecosystems, including their ability to maintain ecosystem services with clear links to and benefits for biodiversity;
 - Measures within agriculture, fisheries, forestry and other sectors that are specifically concerned with the conservation and management of biodiversity (species, habitats, ecosystems and genetic diversity) and related ecosystem services;
 - Control of invasive alien species;
 - Measures to promote access and benefits sharing; and
 - Research, awareness raising, education, training, planning, policy, incentive and enforcement measures that contribute to the above.
- **Expenditures with a significant biodiversity objective (40 per cent)** – any expenditure where the conservation or sustainable management of biodiversity (ecosystems, species and genetic diversity) and the maintenance of related ecosystem services, or the equitable sharing of benefits of genetic diversity for these purposes, is a significant but not the main objective. These types of expenditures typically support broader sustainability measures which are designed to provide biodiversity as well as other benefits. Examples include investments in:
 - Actions designed to enhance the sustainability of agriculture, forestry and fisheries where biodiversity (species, habitats, ecosystems and genetic diversity) and related ecosystem services are one of the benefits identified;
 - Pollution control and resource efficiency measures for which biodiversity (species, habitats, ecosystems and genetic diversity) and related ecosystem services are one identified benefit; and
 - Research, awareness raising, education, training, planning, policy, incentive and enforcement measures that contribute to the above.

Similar types of actions may fall into either of the two groups. For example, an agri-environment measure that specifically aims to improve the management of field margins for farmland birds would be assigned a 100 per cent marker, whereas measures designed to reduce nutrient pollution in order to achieve benefits for water quality, but which also indirectly support objectives for biodiversity and related ecosystem services, would be assigned a 40 per cent marker. Similarly a research project into the effects of herbicides on wild plants would be marked at 100 per cent, but one which also included effects on human health and water quality would receive a 40 per cent marker.

2.2 Examples of typologies of biodiversity related expenditure

Table 2 proposes a typology of biodiversity related EU expenditure, identifying broad categories of expenditures that are related to biodiversity and distinguishing between examples of expenditures to which a 100, 40 or 0 per cent marker should be applied. This draws on the examples given by the OECD and the CBD, as well as analysis by the study team based on the definitions and criteria above. The typology remains subject to further discussion within the Commission.

Table 2: Proposed typology of biodiversity related EU expenditures by the study team

Type of expenditure	Examples of expenditure with a primary biodiversity objective (100% marker)	Examples of expenditure with a significant biodiversity objective (40% marker)	Examples of expenditure which are not biodiversity related (0% marker)
Protected areas	All actions to identify, implement and manage protected areas designated primarily on biodiversity criteria, including: <ul style="list-style-type: none"> • Natura 2000; and • National protected areas. 	Actions which support protected areas alongside other objectives not related to biodiversity.	Actions relating to sites which do not provide biodiversity benefits, e.g.: <ul style="list-style-type: none"> • Built environment designations.
Species conservation measures	<ul style="list-style-type: none"> • All species conservation measures (<i>in situ</i> and <i>ex situ</i>) which focus primarily on the conservation and sustainable use of the species; and • Development and enforcement of policies, plans and strategies designed primarily to further species protection and sustainable use. 	Activities with a significant species conservation objective among other objectives, e.g.: <ul style="list-style-type: none"> • Species research with objectives to further commercial exploitation, where species conservation is a secondary objective. 	Species focused actions with a purely commercial or recreational focus, e.g.: <ul style="list-style-type: none"> • Commercial agriculture and aquaculture, hunting, commercial R&D on use of species.
Infrastructure investments	Green infrastructure: Development, restoration, protection and management of green infrastructure with a primary objective of conservation and management of biodiversity and related ecosystems, e.g.: <ul style="list-style-type: none"> • Habitat restoration, re-creation and management; • Creation of ecological networks; and • Related research, education, advisory and monitoring activities. 	Green infrastructure combined with grey infrastructure: Expenditures which include some green infrastructure elements, where biodiversity is a significant objective alongside other benefits and services, e.g.: <ul style="list-style-type: none"> • Urban drainage and water purification schemes which include some green infrastructure elements; and • Recreation investments for which biodiversity and ecosystems form a significant element alongside other measures. 	Grey infrastructure: Infrastructure investments with no objective relating to biodiversity. This may include expenditures that target specific ecosystem services which are not dependent on the diversity or natural functioning of ecosystems. e.g.: <ul style="list-style-type: none"> • Plantation of single species non-native trees; • Hedges purely for landscaping, screening, prevention of erosion; and • Grey infrastructure projects (e.g. constructed drainage or flood defence schemes).
Conservation of genetic diversity	<i>In situ</i> and <i>ex-situ</i> conservation actions primarily concerned with maintaining genetic	Research, surveys and collections with objectives to further commercial exploitation	R&D activities with a purely commercial focus.

	<p>diversity, e.g.:</p> <ul style="list-style-type: none"> • Management of collections and seed-banks; and • Research into genetic diversity. 	<p>of genetic resources, where conservation is a secondary objective.</p>	
Control of invasive alien species (IAS)	<p>Actions to control IAS, where the primary motivation is to conserve biodiversity, e.g.:</p> <ul style="list-style-type: none"> • Habitat restoration, protection of other species or ecosystem structure and functions. 	<p>Actions to control IAS where biodiversity is a significant but not the primary objective, e.g.:</p> <ul style="list-style-type: none"> • Control of species which cause agricultural damage as well as impacting on other species and habitats of conservation value. 	<p>General actions which may help to control IAS but for which control of IAS is not one of the main objectives (e.g. general border controls).</p>
Sustainable agriculture and agri-environment measures	<p>Agricultural management practices focusing on species and habitats and related ecosystem services, e.g.:</p> <ul style="list-style-type: none"> • Conservation schemes for farmland birds, mammals, pollinators or plants; • Species rich grassland maintenance or restoration measures; and • Management for ecosystem services such as soil and water quality with the maintenance or improvement of aquatic or soil biodiversity as a primary objective. 	<p>Agricultural management activities which target biodiversity and related ecosystem services as well as other objectives, e.g.:</p> <ul style="list-style-type: none"> • Management of agricultural land that benefits biodiversity and related ecosystem services alongside other objectives, such as tourism, reducing greenhouse gas emissions, climate adaptation etc; and • Integrated pest management designed to achieve both biodiversity and agronomic objectives, etc. 	<p>Agricultural management activities without a significant biodiversity objective, e.g.:</p> <ul style="list-style-type: none"> • Physical investments where the objective is to improve the economic performance of farms or to facilitate restructuring and modernisation; and • Measures solely to reduce greenhouse gas emissions from agriculture.
Sustainable forestry and forest environment measures	<p>Forest management practices focusing on species and habitats, e.g.:</p> <ul style="list-style-type: none"> • Conservation schemes for woodland species; and • Restoration of native woodland habitats. 	<p>Forest management activities which target biodiversity and related ecosystem services as well as other objectives, e.g.:</p> <ul style="list-style-type: none"> • Planting, restoration and management of woodlands for a combination of biodiversity, timber, recreational and water protection benefits, where biodiversity and related ecosystem services are not the sole or primary objective. 	<p>Forestry activities with no biodiversity objective, e.g.:</p> <ul style="list-style-type: none"> • Creation or management of non-native plantation woodlands.

Sustainable fisheries and marine management actions	<p>Fisheries and marine management actions primarily focusing on conservation, e.g.:</p> <ul style="list-style-type: none"> • Implementation and enforcement of no take zones, marine protected areas, conservation plans; and • Related research, surveys, monitoring, training and education. 	<p>Fisheries actions designed to meet biodiversity and related ecosystem services as well as other objectives, e.g.:</p> <ul style="list-style-type: none"> • Monitoring, training, research and consultation activities for which biodiversity is a significant objective but not the main focus; and • Marine planning, management and monitoring measures for which conservation and sustainable use of biodiversity is a significant objective. 	<p>Fisheries actions without a biodiversity objective, e.g.:</p> <ul style="list-style-type: none"> • Training and investments designed to enhance productivity; • Retraining; and • Expenditures designed to enhance socio-economic welfare of fishing communities. <p>Marine management actions without a significant biodiversity objective, e.g.:</p> <ul style="list-style-type: none"> • Actions focused on marine renewables, ports, shipping, etc.
Tourism and recreation	<p>Tourism and recreation initiatives that have biodiversity action as a primary objective, e.g.:</p> <ul style="list-style-type: none"> • Awareness raising; and • Visitor-payback schemes. 	<p>Sustainable, nature-based tourism activities that have both biodiversity and socio-economic objectives, e.g.:</p> <ul style="list-style-type: none"> • Visitor centres that seek to boost tourism sustainably as well as raise awareness. 	<p>Tourism schemes with purely commercial or economic objectives.</p>
Pollution control	<p>Pollution control expenditures which are specifically focused on restoring the condition of a particular site or habitat, e.g.:</p> <ul style="list-style-type: none"> • Measures targeted at a Natura 2000 site. 	<p>Pollution control measures which are designed to meet biodiversity and other objectives, e.g.:</p> <ul style="list-style-type: none"> • Water pollution control measures where restoration of habitats is a significant, but not the main objective. 	<p>Pollution control measures designed to enhance human health, sanitation and general environmental quality, without a specific biodiversity objective (including air and water pollution control, waste management and soil decontamination).</p>
Climate change mitigation and adaptation	<p>Actions specifically focused on the adaptation of species and habitats to climate change, e.g.:</p> <ul style="list-style-type: none"> • Ecosystem based adaptation to climate change where the primary objective is to restore, maintain and enhance biodiversity and related 	<p>Climate change mitigation and adaptation expenditures where biodiversity is a significant objective but not the main focus, e.g.:</p> <ul style="list-style-type: none"> • Adaptation to climate change which involves ecosystem based adaptation 	<p>General measures designed to contribute to climate change mitigation and adaptation, without a specific biodiversity objective, e.g.:</p> <ul style="list-style-type: none"> • Investment in renewables; • Cleaner technologies;

	<p>ecosystems;</p> <ul style="list-style-type: none"> • Research, action planning, adaptive management; and • Mitigation actions where conservation of ecosystems and biodiversity is the primary focus (e.g. REDD+). 	<p>as a significant, but not the primary objective;</p> <ul style="list-style-type: none"> • Research which addresses biodiversity alongside other effects of climate change; and • Mitigation actions which have biodiversity co-benefits as a secondary objective (e.g. including forest conservation/ creation alongside other measures). 	<ul style="list-style-type: none"> • Infrastructure-based adaptation to climate change with no relevance for biodiversity including defence walls, dykes, training for civil servants, civil protection services; and • General climate research.
Access and Benefits Sharing (ABS)	<p>Development, implementation and administration of policy and legislation on access to and sharing of the benefits of genetic resources (where this aims to deliver biodiversity benefits).</p>	<p>Policy and administrative measures, e.g.:</p> <ul style="list-style-type: none"> • Relating to intellectual property, borders and customs for which ABS is a significant objective but not the primary objective. 	<p>General expenditures which may help to administer ABS policies but for which this is not one of the main objectives, e.g.:</p> <ul style="list-style-type: none"> • Administration of customs and border controls, intellectual property rights.
Research, surveys, monitoring and data management	<p>Research, surveys, monitoring and data management specifically focused on ecosystems, species and/or genetic diversity.</p>	<p>Research into sustainable agriculture/ land management that includes biodiversity as well as impacts on pollution and resource use.</p>	<p>General agri-environment, forest management, fisheries, climate or environmental research without a significant and explicit biodiversity related objective.</p>
Education, training and capacity building	<p>Education, awareness raising, training and capacity building measures focusing specifically and primarily on conservation and sustainable use of biodiversity.</p>	<p>Education, awareness raising, training and capacity building measures with a significant biodiversity objective, e.g.:</p> <ul style="list-style-type: none"> • Environmental training for farmers and fishermen which includes biodiversity and other environmental issues; and • Environmental education and awareness raising programmes with a significant biodiversity component. 	<p>General environmental education, awareness raising, training and capacity building measures without a significant and specific biodiversity objective.</p>
Development and	<p>Development, implementation and</p>	<p>Development, implementation and</p>	<p>Planning and policy measures in related</p>

implementation of policies, plans and strategies	of enforcement of all plans and strategies for which biodiversity is a primary objective, e.g.: <ul style="list-style-type: none"> • National biodiversity strategies and action plans, species recovery plans; and • Specific measures designed to integrate biodiversity into other policies, plans and strategies (e.g. for water, agriculture, forestry, fisheries, tourism, development, spatial planning). 	and enforcement of plans and strategies for which biodiversity is a significant but not the primary objective, e.g.: <ul style="list-style-type: none"> • Plans for sustainable agriculture or water management. 	of fields which may influence biodiversity but for which biodiversity is not one of the main objectives, e.g.: <ul style="list-style-type: none"> • A wide range of climate, environment, agricultural, land use and spatial planning policies, strategies and plans.
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Source: ICF / IEEP analysis

3 Discussion of the challenges of the proposed approach

It should be recognised that the tracking of certain types of expenditure is not always straightforward. We have identified potential ‘grey areas’ which require further discussion and clarification especially in cases where expenditure delivers benefits for both biodiversity and ecosystem services. Many of these expenditure types could be financed under several EU funding instruments; therefore it is important to establish some principles in applying the 100, 40 and 0 per cent markers and ensure consistency across the entire EU budget.

These ‘grey areas’ in many cases are linked to the use of the 40 per cent marker. The challenges of classifying biodiversity related expenditure as 40 per cent were also acknowledged by the participants of the workshop accompanying this study (see Annex 2).

3.1 Tracking of land- and sea- based measures

In the area of sustainable fisheries there are a number of sensitivities to applying the tracking approach. The EU Biodiversity Strategy has a target to achieve sustainable fish stocks, i.e. sustainable yields and a population and age distribution indicative of a healthy stock. This target implies that support which states the objective of sustainable fisheries management should be considered explicitly and directly related to biodiversity. However, it is also the case that the achievement of sustainable fisheries also encompasses economic and social sustainability (as required in the Common Fisheries Policy). This implies that biodiversity is a significant objective among several, which suggests that a 40 per cent marker should be applied. This sensitivity is addressed by adopting a conservative approach, applying the 40 per cent marker, except in cases where fishing selectivity and ecosystem management and protection are explicitly referred to.

Similar dilemmas can be found in the area of sustainable agriculture and forestry management. The EU Biodiversity Strategy has a target to increase the contribution of agriculture and forestry to maintaining and enhancing biodiversity, and specifies actions to integrate biodiversity into agricultural and forest management. However, while the categorisation of dedicated agri-environment and forest-environment measures targeted at biodiversity – such as action for farmland birds or semi-natural habitats – is relatively straightforward, broader support for agriculture including action for sustainable agriculture or forestry may be more difficult to classify. The treatment of “ecosystem services” within agriculture and forestry systems is also problematic, since the categorisation of ecosystem services also includes the provisioning of food and timber, which may be delivered even by degraded systems with low biodiversity values and/or with management activities having negative impacts on biodiversity. To be classified as biodiversity related, expenditures should include biodiversity and the maintenance of natural ecosystem functions explicitly among their objectives, in this way clearly linking the provisioning of ecosystem services with the conservation of biodiversity and well-functioning ecosystems.

3.2 Tracking of water and pollution measures

Water management is another type of expenditure which is challenging in terms of tracking biodiversity related expenditure. Water investments can be made utilising many different EU funding instruments and therefore a consistent approach on the use of the 100, 40 and 0 per cent markers should be ensured. At the same time, however, a common approach is also difficult to apply because the relevance for biodiversity will very much depend on the specifics of the project and / or the context including the location, both specifically and generally (for example, within a EU Member State or developing country). In some cases, detailed information about the project in question might not even be available (e.g. if tracking is conducted at the level of broad intervention codes in Cohesion Policy). On this approach, waste water treatment, which is itself not a biodiversity objective, should be marked as 40 per cent in most cases where clear objectives for biodiversity are stated or clear benefits could be expected, alongside other benefits for human health and the living environment. Water management and drinking water conservation also may need to be marked differently depending on what types of projects are promoted. For example, river basin management which commonly involves aspects of ecosystem-based management could be marked as 40% while water efficiency measures such as consumer metering and reducing leaks in the distribution system should be marked as 0 per cent, except in cases where they are clearly designed to respond to pressures on ecosystems.

Similarly, expenditures on air pollution control should be marked at 0 per cent where they focus primarily on human health (e.g. control of particulates in the urban atmosphere), but could be marked as 40 per cent where reducing impacts on biodiversity and ecosystems is a significant objective alongside human health effects, or 100 per cent where the intervention is designed primarily to address biodiversity and ecosystem impacts (e.g. targeted actions to address localised impacts of nitrogen deposition on terrestrial habitats).

Solid waste management and remediation of contaminated land are examples of expenditures designed to meet broader environmental objectives which should be marked at 0 per cent except in cases where a particular objective related to biodiversity and ecosystem services can be identified.

3.3 Tracking for green (and grey) infrastructure

Most of the examples above involve the delivery of biodiversity benefits alongside other ecosystem services, and/or the management of green or blue infrastructure that meets biodiversity and other objectives. In these cases, biodiversity forms an important component of ecosystems which deliver multiple services and benefits, as recognised in the Commission Communication on green infrastructure⁸ (Box 1), and it is often difficult to separate expenditures on biodiversity from those that deliver other related benefits. These linkages are recognised in the EU Biodiversity Strategy which aims to halt the loss of

⁸ European Commission (2013) Green Infrastructure (GI) — Enhancing Europe’s Natural Capital, Communication from the Commission, COM(2013)249 final, 6.5.2013, Brussels

biodiversity and ecosystem services, and identifies the need to restore and promote green infrastructure to achieve this.

Box 1: Definition of green infrastructure (GI) by the European Commission

A strategically planned network of natural and semi-natural areas with other environmental features designed and managed to deliver a wide range of ecosystem services. It incorporates green spaces (or blue if aquatic ecosystems are concerned) and other physical features in terrestrial (including coastal) and marine areas. On land, GI is present in rural and urban settings.

Source: European Commission (2013) Green Infrastructure (GI) — Enhancing Europe's Natural Capital, Communication from the Commission, COM(2013)249 final, 6.5.2013, Brussels

We propose the following approach to categorising expenditures based on their contributions to green infrastructure, biodiversity and ecosystem services:

- The 100 per cent marker should be applied to expenditures in which the conservation and restoration of biodiversity and related ecosystems through implementation of green infrastructure measures is the primary objective. This includes, for example, the restoration and management of habitats, and related research, education, advisory and monitoring activities. These expenditures are also likely to deliver a range of ecosystem services and to meet other objectives such as water purification, flood management and recreation;
- The 40 per cent marker should be applied to expenditures in which the development and management of green infrastructure is a significant objective alongside other benefits and services. This may include action for habitats and species as well as wider expenditures on the land and water environment which may not be directly related to the diversity of natural systems. Examples would include agri-environment measures designed to meet multiple objectives as well as biodiversity; water investments designed to enhance ecosystems as well as meeting other objectives such as enhancements in public health and the living environment; and infrastructure investments which include both green and grey infrastructure elements. These expenditures can be expected to deliver a range of ecosystem services, of which some – but not all – are dependent on the diversity and natural functioning of ecosystems;
- The 0 per cent marker should be applied to expenditures for which biodiversity is not a significant objective. This may include expenditures that target specific investments or functions which are not dependent on the diversity or natural functioning of ecosystems. Examples include built infrastructure for flood management, monocultures for food or timber production, and living features which lack biodiversity benefits (such as use of non-native hedges purely for screening or control of noise or erosion).

3.4 Tracking synergies between biodiversity and climate action

Some types of expenditure can be multi-objective and the desired effects/benefits are to maximise potential synergies, for example for biodiversity and climate change adaptation. In

general, such actions where the focus on biodiversity and related ecosystems is significant but not primary should be marked as 40 per cent; however, some variations could also be expected. For instance, ecosystem- and nature-based approaches to climate adaptation are said to be encouraged under the Cohesion Policy and LIFE instrument in the 2014-2020 EU MFF and if clear biodiversity objectives can be identified as primary, these projects should be classified as 100% biodiversity related. However, there could also be adaptation projects which are infrastructure-based with no relevance for biodiversity (for example, defence walls, dykes, training for civil servants, civil protection services), which should be marked as 0 per cent.

According to the OECD, aid activities for biodiversity often target multiple environmental objectives. For example, of total biodiversity related aid, 82 per cent consists of activities designed to simultaneously address climate change mitigation, and/or climate change adaptation, and/or desertification concerns. Under the 2014-2020 EU MFF, the mainstreaming of climate and environmental objectives across different EU funding instruments also aims to optimise synergies and deliver multiple benefits for biodiversity, climate action as well as other socio-economic objectives. The interlinkages and synergies between biodiversity- and climate related expenditure should therefore be explicitly recognised in both tracking methodologies for climate and biodiversity- related expenditure.

It is important to be aware of links and synergies between biodiversity- and climate-related expenditure because, as a consequence of these synergies, biodiversity and climate related financing figures in the annual EU budget documentation might take account of the same contributions twice. For the purposes of biodiversity tracking it is always important to recognise and account for the measures which have biodiversity as a primary or significant objective, even if they are already counted as 40 per cent or 100 per cent for climate, respectively. However, due to these links and synergies biodiversity- and climate-related financing figures should *not* be aggregated as in some cases this would mean double-counting, leading to overestimation of the total biodiversity and climate change related expenditure. Since the tracking of climate- and biodiversity-related expenditures are two separate reporting processes, the results of which are presented separately in the annual EU budget documentation⁹, there is a limited risk for such double-counting to occur in practice.

However, in order to help the tracking of both biodiversity- and climate related expenditure and improve the transparency of the potential synergies, we can identify some expenditure types that can contribute to both objectives:

- Ecosystem-based risk prevention and adaptation to climate change;
- Green infrastructure in urban/rural areas, coastal and mountainous zones, as well as islands;
- Reforestation designed to enhance biodiversity and ecosystem based adaptation; and
- Water management measures which benefit ecosystem health and contribute to climate adaptation.

⁹ European Commission (2014) Statement of estimates of the Commission for 2015: Preparation of the 2015 Draft Budget – Document I – Political Presentation: Annex V – Climate tracking and biodiversity. SEC(2014)357 final, 11.6.2014, Brussels.

4 Tracking expenditure at different levels and stages of the EU budget cycle

4.1 Management modes

The level at which to apply the tracking methodology will vary between EU funding instruments depending on the management mode applied. The management mode of each funding instrument clearly influences its *modus operandi*. Under the new Financial Regulation,¹⁰ the Commission can manage the EU budget in the following ways:

- **Centralised direct management** – the budget is managed directly by Commission departments, executive agencies, heads of Union delegations; and trust funds. Examples of such instruments examined in the study include: Horizon 2020, EU external instruments and LIFE.
- **Centralised indirect management** – the budget is implemented by third countries (non-EU Member States), international organisations and their agencies, European financial intermediaries such as the European Investment Bank (EIB) and the European Investment Fund (EIF) or others (see article 58(c) of the Financial Regulation). Many financial instruments fall into this category.
- **Shared management** – implementation of the budget is delegated to EU Member States. There are five instruments under shared management – ERDF, CF, ESF, EAFRD and the EMFF¹¹ – currently referred to as the European Structural and Investment (ESI) Funds. All five instruments are among those examined in the study and they represent a large share of overall expenditure. Approximately 76% of the EU budget is spent under shared management, with individual Member States distributing funds, managing expenditure and reporting on it.

Depending on the management mode, different policy actors are in charge of the collection, exchange, and reporting of financial data during the programming, implementation, monitoring and reporting phases. There are also major variations in the type of information available and level of detail between the different instruments due to the differences in management, and process for programming, monitoring, reporting and the related documentation. For example, under the centralised management model the Commission makes the decision on recording and analysing the data for tracking purposes, whereas for shared management instruments the information is provided primarily by Member States.

4.2 Levels of budgeting

The budgeting and management of EU expenditure is a multi-stage process, involving progressively more detailed decisions about the allocation of financial resources at different

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

¹¹ European Regional Development Fund (ERDF), Cohesion Fund (CF), European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD), and European Maritime and Fisheries Fund (EMFF)

levels. Biodiversity related expenditure can be tracked at different levels and applied with increasing levels of precision as more detailed and disaggregated budget planning information becomes available.

The different levels at which expenditure can be tracked include:

- **Programme Statements**¹² - prepared annually by the Commission to substantiate the 'Draft Budget' with all relevant information supporting the requests for the annual budget allocations for all spending programmes by operational expenditure chapter. DG BUDG consolidates these estimates and all working documents supporting the establishment of the annual 'Draft Budget' which is submitted by the Commission to the Council and Parliament¹³. Estimates of expected biodiversity related expenditures are included in these programme statements, based on the application of the Rio markers. This allows a comprehensive and consistent approach to making first order estimates of biodiversity expenditure across the EU budget. However, the accuracy of many estimates may be limited, because of the breadth of the types of expenditure and the variations in the activities receiving support. Estimates of biodiversity expenditures may therefore be based either on the application of the markers to rather broad categories of expenditure, or by alternative more precise estimates, determined by the DGs on case-by-case basis, notably apportioning expenditures based on historic data.
- **More detailed programming documents.** Analysis of more specific and detailed programming documents allows a more accurate assessment of expenditures, particularly as more detailed data become available over time as expenditure occurs. The process for programming varies by funds. Centrally managed instruments are typically programmed through annual or multi-annual work programmes, which allocate resources to particular themes or topics. Instruments under shared management typically have multi-annual programmes allocating expenditures to particular areas of activity in the Member States. Nevertheless, any budgetary or performance information included in the programming documents and Programme Statements (PS) should be equally reflected in the Management Plans (MPs) and the Annual Activity Reports (AARs). It is important that the same objectives and targets foreseen in the PS are used in the MPs and are consistently reported on in the AARs and subsequently in the Programme Statements. This strong link contributes to the perceived objectivity of the performance reporting on programmes' achievements related to biodiversity and climate action.
- **Individual projects or decisions.** A much more precise assessment of relevant expenditures can be made by applying the markers at the level of individual projects. DG DEVCO has applied such an approach to track relevant expenditures since 2009, and DG R&I has committed itself to a similar approach in the current programme period. Generally, project level information is available to the Commission only for centrally managed instruments.

¹² Previously called Annual Activity Statement

¹³ See for example annex V of the communication on the 2015 Draft Budget: http://ec.europa.eu/budget/library/biblio/documents/2015/DB/DB2015_WD0_en.pdf

An important distinction can be made between tracking expenditure *ex ante* (i.e. before the expenditure takes place) or *ex post* (i.e. after it has taken place). *Ex ante* tracking can apply at each of the different levels identified above, with corresponding increases in the level of detail and effort involved. *Ex post* methods involve tracking of actual expenditures, rather than of prior budgetary decisions, so will yield more accurate results than *ex ante* tracking. However, it can take place only after the expenditure has been made, so is subject to significant time delays.

In principle, tracking should be applied at the most detailed level possible without incurring excessive administrative costs. In principle the decision should take full account of the biodiversity relevance of the instrument in question, as well as the feasibility of compiling and analysing information in a robust and consistent way. For example, for shared management instruments, tracking the planned and final expenditure at the level of detailed programming documents, such as Operational and Rural Development Programmes, is often the standard. However, project level information can be used to verify the actual expenditure allocated for biodiversity under different measures, and to refine and improve the accuracy of the tracking. For centrally managed instruments, such as Horizon 2020 and the external instruments managed by DG DEVCO – both of which involve significant levels of relevant expenditure not all of which are identifiable under broad programme themes - tracking of project level decisions can significantly enhance the accuracy of expenditure estimates. Therefore it can justify the additional administrative efforts involved. However, for other instruments which are of limited relevance for biodiversity, such an approach may not justify the administrative effort involved.

Ex ante tracking at the project or detailed programming document level leads to estimates being made available much earlier in the budget cycle and often with acceptable levels of accuracy, so is normally considered to be a reasonable and cost effective methodology, at least at the first stages of the tracking process,. It could be argued that *ex post* tracking is only necessary in instances where there are substantive reasons to doubt its precision, for example where the range of potential expenditure is very broad or not predictable or where a significant proportion of committed project expenditures are, for one reason or another, not fulfilled. Comparisons of committed and actual expenditure could be made later in the budgetary cycle and would help to inform whether *ex post* tracking offers significant added value in enhancing the accuracy of assessments.

5 Principles for tracking financial instruments other than grants

One of the objectives of the 2014-2020 EU MFF is to increase the leverage of EU expenditure by mobilising additional private financing for the objectives being pursued. The use of more “novel” financial instruments – supporting debt and equity finance - alongside the traditional EU grant schemes is therefore encouraged under nearly all EU funding programmes and instruments. These financial instruments will be increasingly important in financing biodiversity related expenditure, but present new challenges for tracking compared to traditional grant funding.

For example, under LIFE, which is a dedicated financial instrument, the **Natural Capital Financing Facility (NCFF)**, will provide innovative financing approaches for projects promoting the conservation, restoration and sustainable exploitation of natural capital. NCFF will support debt and equity finance for natural capital projects in the fields of green infrastructure, biodiversity offsetting, payments for ecosystem services and business aiming to support biodiversity or climate adaptation. In addition, financial instruments introduced by other EU funds (e.g. Horizon 2020, COSME¹⁴ and the EU Structural and Investment Funds) may also support biodiversity related activities and businesses, alongside other investments, though these will be difficult to identify *ex ante*.

Financial instruments present a significant challenge for expenditure tracking. Funds are made available for the programme of investment the exact composition of which will be demand driven, so not easily predicted in advance. Furthermore except for dedicated instruments such as the NCFF, biodiversity related investments are likely to represent a small proportion of those made. Most EU instruments, with the exception of the NCFF, do not have a stated objective to support biodiversity, so biodiversity related funding will not be identifiable *ex ante*. Moreover, much of the investment will be made through financial intermediaries such as banks and venture capital funds. The European Investment Bank (EIB) and the European Investment Fund (EIF) will play an important role, as entrusted entities, in implementing each financial instrument facility on behalf of and in partnership with the European Commission.

For most financial instruments, the tracking of biodiversity related expenditure will therefore be possible only *ex post*. This will require financial partners, fund managers and financial intermediaries to report on the share of EU finance that is used to support biodiversity related investments (such as on green infrastructure, biodiversity offsetting and businesses delivering positive biodiversity outcomes). The NCFF, however, is focused entirely on biodiversity related investments, and EU financial support for this facility should be treated as 100 per cent biodiversity relevant.

In the case of shared management funds, managing authorities are also required to send to the Commission a specific report covering the operations delivered through financial

¹⁴ EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs)

instruments as an annex to the annual implementation report. The tracking process will need to draw on the information provided in the reports regarding:

- Priorities or measures from which support from the funds is provided;
- The total amount of programme contribution by priority or measure to the financial instrument;
- The total amount of support paid to the final recipients or committed in guarantee contracts by the financial instrument for investment by the final recipients; and
- The contribution to the achievement of the indicators of the priority or measure concerned.

While information about the leverage effect is important for assessing the effectiveness and targeting of financial instruments, it does not need to be taken into account in the tracking methodology. The leverage effect arises from a combination of factors, including not only the EU contribution to the financial instrument but also the additional public and private financing mobilised for the project. The internal European Commission tracking methodology should therefore focus on the EU budget contribution to the overall initiative, although the additional financing mobilised should also be documented for further reporting purposes. This also means that if any gains, returns or revenues from the implementation of the project are reinvested in the same financial instrument for the same or similar biodiversity related projects, these should also be captured by the tracking exercise.

6 Overall conclusions and recommendations

Tracking biodiversity related expenditure in the EU budget is designed to provide important monitoring information about the EU's own expenditure. At the same time tracking is needed to fulfil the EU's commitment, along with other CBD Parties, to report on both domestic and international biodiversity related financing flows. Under the CBD the EU has committed to contribute to doubling of total biodiversity related financial flows to developing countries by 2015, to maintain this level until 2020 and to make appropriate domestic financial provisions.

The Commission's emerging approach to tracking biodiversity (and climate) related expenditure is based on the established OECD 'Rio markers' methodology. This system has already been used by some DGs within the Commission (DG DEVCO and DG ELARG) for reporting international biodiversity (and climate) related expenditure. The approach to tracking biodiversity related expenditure in the whole EU budget, which is outlined in this study, builds on this experience, as well as on the approach that has been taken up by the OECD and CBD. In this Part I of the Guidance Document, prepared for the Commission, a definition and typology for biodiversity related expenditure is proposed as a source of analysis and support for the classification of biodiversity expenditure, following the 100, 40 and 0 per cent markers approach to the different EU funding instruments.¹⁵

The tracking methodology should not create extensive administrative burdens but, at the same time, should provide meaningful information for the responsible DGs within the Commission and for the European Parliament and wider stakeholders. In principle, tracking should be applied at the most detailed level practical so as to be accurate but keeping the balance between simplicity and accuracy is crucial when applying the tracking methodology to the different EU funding instruments. The tracking process needs to be calibrated according to the characteristics of the different EU funding instruments. These include the different levels at which EU expenditure is budgeted, and the different management modes and budget levels of the EU funding instruments as well as the point within the cycle of budgeting and expenditure. The existence of potential 'grey areas', in relation to biodiversity objectives as outlined in this study, should be also recognised. The tracking of certain types of expenditure, such as in the areas of sustainable fisheries, agriculture, forestry, water and pollution mitigation measures, is not always straightforward.

This study focused on an *ex ante* approach to tracking biodiversity related expenditure, i.e. tracking before the expenditure takes place. However as the programming period progresses and more specific and detailed information will be available, this tracking system could be complemented with an *ex post* system. *Ex post* tracking would involve tracking of actual expenditure and therefore would yield more accurate results than *ex ante* tracking, although some costs would be involved. The tracking of biodiversity-related expenditure could be further refined at the *ex post* level via the verification of expenditure against outputs and results. Expenditure could be linked to actual results which could be facilitated by using indicators linked to biodiversity-related objectives. Information on the biodiversity-

¹⁵ The detailed analytical work on the different funding instruments is presented in Part II of this Guidance Document.

related expenditure of the different EU funding instruments and its contribution to relevant objectives and indicators could be requested from the relevant DGs in the annual Management Plans or Programme Statements.

Finally, biodiversity tracking can also be seen as an important tool in further advancing the mainstreaming of biodiversity into the EU budget. In this context, if the outcomes of the tracking exercise are communicated in a transparent way they can provide useful information to a wide set of stakeholders. Furthermore, maintaining a clear link between information on estimated EU spending on biodiversity and separate analysis of the effectiveness of this spending would be a potentially useful step in the evolution of the tracking system and of EU biodiversity policy more broadly.

OECD definition and criteria

The OECD has developed guidance for the identification and reporting of biodiversity related expenditure and uses this to report bilateral biodiversity related aid commitments by members of the OECD's Development Assistance Committee (DAC). Since 1998 the DAC has monitored aid targeting the objectives of the Rio Conventions through its Creditor Reporting System (CRS) using the Rio markers.¹⁶

The OECD defines biodiversity related expenditures as those that contribute to at least one of the three objectives of the Convention on Biological Diversity (Box A1.1). The OECD definition is broad in its scope and therefore - while in general applicable at the EU level - the definition itself has limited practical value in the identification of specifically biodiversity related expenditures.¹⁷

The OECD eligibility criteria are more specific, but are designed to apply especially to international development assistance. Consequently, it has been considered to be appropriate to tailor the OECD definition and criteria to the EU context, taking into consideration the characteristics of EU support for biodiversity action both within the EU and globally, as well as the specificity of the EU budget, including its size and administrative procedures.

Box A1.1: OECD definition of biodiversity related expenditure

Definition. The OECD (2009, 2013, 2014) defines biodiversity related expenditure as follows:

An activity should be classified as biodiversity related (score Principal or Significant) if it promotes at least one of the three objectives of the Convention:

- The conservation of biodiversity;
- Sustainable use of its components (ecosystems, species or genetic resources); or
- Fair and equitable sharing of the benefits of the utilisation of genetic resources.

Eligibility criteria. The OECD further defines eligibility criteria that can be used to identify biodiversity related activities. These are that the activity in question contributes to:

- protecting or enhancing ecosystems, species or genetic resources through in-situ or ex-situ conservation, or remedying existing environmental damage; or
- integration of biodiversity and ecosystem services concerns within recipient countries' development objectives and economic decision making, through institution building, capacity development, strengthening the regulatory and policy framework, or research; or
- developing countries' efforts to meet their obligations under the Convention

¹⁶ OECD (2009) Measuring aid targeting the objectives of the Rio Conventions. <http://www.oecd.org/redirect/dataoecd/45/7/42812122.pdf>

¹⁷ OECD (2010) Biodiversity - Aid Targeting the Objectives of the Convention on Biological Diversity <http://www.oecd.org/dac/stats/46782010.pdf>

The activity will score 'principal objective' if it directly and explicitly aims to achieve one or more of the above three criteria.

Sources:

OECD (2010) Biodiversity - Aid Targeting the Objectives of the Convention on Biological Diversity <http://www.oecd.org/dac/stats/46782010.pdf>

OECD (2009) [Measuring aid targeting the objectives of the Rio Conventions](#)

OECD (2013) [Aid in Support of Environment](#)

OECD (2014) [OECD DAC Statistics – Aid to Biodiversity](#)

Table A1.1: Examples of biodiversity related expenditures given by OECD

Integration of biological diversity concerns into sectoral policy, planning and programmes; e.g.:	
1. Typical activities take place in the sectors of:	
Water and sanitation	<ul style="list-style-type: none"> • Water resources protection and rehabilitation; integrated watershed, catchment and river basin protection and management;
Agriculture	<ul style="list-style-type: none"> • Sustainable agricultural and farming practices including substitution of damaging uses and extractions by out-of-area plantations, alternative cultivation or equivalent substances; integrated pest management strategies; soil conservation; in-situ conservation of genetic resources; alternative livelihoods;
Forestry	<ul style="list-style-type: none"> • Combating deforestation and land degradation while maintaining or enhancing biodiversity in the affected areas;
Fishing	<ul style="list-style-type: none"> • Promotion of sustainable marine, coastal and inland fishing;
Tourism	<ul style="list-style-type: none"> • Sustainable use of sensitive environmental areas for tourism.
2. Typical non-sector specific activities are:	
Environmental policy and administrative management	<ul style="list-style-type: none"> • Preparation of national biodiversity plans, strategies and programmes; biodiversity inventories and assessments; development of legislation and regulations to protect threatened species; development of incentives, impact assessments, and policy and legislation on equitable access to the benefits of genetic resources.
Biosphere and biodiversity protection	<ul style="list-style-type: none"> • Establishment of protected areas, environmentally oriented zoning, land use and regional development planning. • Protecting endangered or vulnerable species and their habitats, e.g. by promoting traditional animal husbandry or formerly cultivated/collected plants or ex-situ conservation (e.g. seed banks, zoological gardens).
Environmental education/training	<ul style="list-style-type: none"> • Capacity building in taxonomy, biodiversity assessment and information management of biodiversity data; education, training and awareness-raising on biodiversity.
Environmental research	<ul style="list-style-type: none"> • Research on ecological, socio-economic and policy issues related to biodiversity, including research on and application of knowledge of indigenous people. • Supporting development and use of approaches, methods and tools for assessment, valuation and sustaining of ecosystem services.

Source: OECD (2009, 2013)

CBD guidelines and indicators for expenditure

Resource mobilisation is a key priority in addressing the objectives of the Convention on Biological Diversity (CBD) and has been a major focus at recent meetings of the Convention. Articles 20 and 21 of the Convention address the issue of financial resources, and seek to ensure that financial support and incentives are provided in order to achieve the objectives of the Convention. To implement these Articles, the Conference of the Parties (COP) adopted a Strategy for Resource Mobilisation in support of the achievement of the Convention's objectives in May 2008. The strategy set in motion the process of developing funding targets, indicators and concrete activities and initiatives, as well as implementation and monitoring arrangements.

At the twelfth COP meeting the CBD issued a decision on Resource Mobilisation which also adopts the revised Financial Reporting Framework.¹⁸ The decision adopts targets for resource mobilisation, including the doubling of total biodiversity related financial resource flows to developing countries by 2015, and at least to maintain this level until 2020, and to mobilise domestic financial resources from all sources to reduce the gap between identified needs and available resources at domestic level.

The decision asks Parties provide baseline information and to report annually on biodiversity expenditure in Official Development Assistance (ODA), Other Official Flows (OOF) and other flows (including private sector and NGO flows). In addition, Parties are asked to estimate domestic expenditure on biodiversity. The reporting framework also asks Parties to estimate funding needs for biodiversity and estimated funding gaps. There is a requirement only to estimate the total level of domestic expenditure and the degree of confidence in this estimate. However, respondents are also asked to indicate (by ticking boxes):

- the sources of these expenditures (Government budgets – central, Government budgets – state/provincial, Government budgets – local/municipal, Extra-budgetary, Private/market, Other (NGO, foundations, academia), Collective action of indigenous and local communities);
- whether these estimates include (a) expenditures directly related to biodiversity and (b) expenditures indirectly related to biodiversity (see Box A1.2).

Furthermore, Parties are asked to provide information on the methodologies applied to estimate the amount of domestic expenditure on biodiversity. As regards avoiding double-counting, it is specifically indicated in the reporting framework that, when information relating to different government levels of domestic biodiversity expenditure is provided, Parties should ensure that funds transferred between the different levels of government are only accounted for once.

¹⁸ Decision adopted by the Conference of the Parties to the Convention on Biological Diversity XII/3. Resource Mobilisation, COP XII, Agenda item 14, Pyeongchang, Republic of Korea, 6-17 October 2014; <http://www.cbd.int/doc/decisions/cop-12/cop-12-dec-03-en.pdf>

The decision also lists a number of indicators and a proposal for actions for achieving Aichi Biodiversity Target 20 and the associated financial targets.

The CBD framework does not explicitly define biodiversity related expenditure but refers to support for activities that contribute to the three objectives of the Convention (Box A1.2). It is therefore consistent with the OECD definition above. The CBD framework goes further to distinguish between actions that relate directly to biodiversity and those that have a positive impact on biodiversity but for which biodiversity conservation and sustainable use is not the main focus (Table A1.2). These relate closely to the OECD's distinction between actions that have biodiversity as a principal objective or a significant objective. They are therefore useful in marking biodiversity relevant expenditure, though they would benefit from further definition in the EU context.

Box A1.2: CBD guidance on reporting biodiversity related expenditures

Funding for biodiversity includes funding for direct actions to protect biodiversity and also funding related to actions across different sectors (e.g. agriculture, forestry, tourism) to promote biodiversity-friendly initiatives that have other primary purposes (e.g. ecosystem-based approaches to climate-change mitigation and adaptation). (Decision XII/3)

Actions directly related to biodiversity consist of actions which are, by design, intended to protect biodiversity and to support biodiversity planning. Activities under this category would include such things as *in situ/ex situ* conservation, protected areas, maintaining genetic diversity, addressing threats from invasive alien species (in situations where the primary purpose is to protect biodiversity), and addressing threats to specific ecosystems and/or species. Also included within this category would be funding related to human resources, policy development and administration related to these activities including the development of National Biodiversity Strategies and Action Plans (NBSAPs), other types of frameworks, and clearing-house mechanisms. As the budgets for these types of actions are often managed by environmental organisations of one type or another it should be possible to gather funding information with a relatively high level of confidence in them. (CBD 2012)

Actions indirectly related to biodiversity have a positive impact on biodiversity but for which biodiversity conservation and sustainable use is not the main focus include initiatives across a range of sectors that benefit biodiversity but which have other primary purposes (e.g. ecosystem-based approaches to climate-change mitigation and adaptation). Activities under this category would include sectoral measures which benefit biodiversity conservation and sustainable use within productive sectors (agriculture, forestry, aquaculture, fisheries, etc.), sectoral measures to conserve water and prevent pollution, managing land use to mitigate climate change and increase resilience, planning, fiscal and regulatory measures to promote sustainable consumption and production and broad scale public awareness and education measures. Also included in this category would be economy-wide and society-wide measures that address the underlying causes of biodiversity-loss. Activities under this category would generally be led by agencies outside the environment sector or where responsibility lies with multiple sectors and as such funding for these activities would not traditionally be regarded as biodiversity finance. Given that a wide range of funding sources would be typical for the activities under this category, funding estimates would generally have a lower level of confidence compared to actions directly related to biodiversity. (CBD 2012)

Source:

Decision adopted by the Conference of the Parties to the Convention on Biological Diversity XII/3. Resource Mobilisation, COP XII, Agenda item 14, Pyeongchang, Republic of Korea, 6-17 October 2014; <http://www.cbd.int/doc/decisions/cop-12/cop-12-dec-03-en.pdf>

CBD (2012) Review of Implementation of the Strategy for Resource Mobilization. Note by the Executive Secretary. Addendum: Methodological and implementation guidance for the 'indicators for monitoring the implementation of the convention's strategy for resource mobilization'.

<http://www.cbd.int/doc/meetings/cop/cop-11/official/cop-11-14-add1-en.pdf>

Table A1.2: Examples of biodiversity related expenditure given by CBD¹⁹

Directly related to biodiversity	Indirectly related to biodiversity
<p>Funding for activities directly related to biodiversity such as:</p> <ul style="list-style-type: none"> • <i>In situ/ex situ</i> conservation • Protected areas • Maintaining genetic diversity • Addressing threats from invasive alien species (in situations where the primary purpose is to protected biodiversity) • Addressing threats to specific ecosystems and/or species <p>Also included within this category would be funding related to human resources, policy development and administration for these activities including the development of NBSAPs, frameworks, and the Clearing House Mechanism.</p> <p>Generally funding considered under this category would be provided by environmental agencies that directly and purposively consider biodiversity within their mandates.</p>	<p>Funding for activities which have benefits for biodiversity but for which biodiversity conservation and sustainable use is not the main focus.</p> <p>Activities under this category would generally be led by agencies outside the environmental sector or where responsibility lies with multiple sectors.</p> <p>Activities under this category would include:</p> <ul style="list-style-type: none"> • Sectoral measures which benefit biodiversity conservation and sustainable use within productive sectors (agriculture, forestry, aquaculture, fisheries, etc.) but which have other primary purposes • Sectoral measures to conserve water and prevent pollution • Managing land use to mitigate climate change and increase resilience • Planning, fiscal and regularity measures to promote sustainable consumption and production • Broad scale public awareness and education measures

¹⁹ Decision adopted by the Conference of the Parties to the Convention on Biological Diversity XII/3. Resource Mobilisation, COP XII, Agenda item 14, Pyeongchang, Republic of Korea, 6-17 October 2014; <http://www.cbd.int/doc/decisions/cop-12/cop-12-dec-03-en.pdf>
 CBD (2012) Review of Implementation of the Strategy for Resource Mobilization. Note by the Executive Secretary. Addendum: Methodological and implementation guidance for the ‘indicators for monitoring the implementation of the convention’s strategy for resource mobilization’.
<http://www.cbd.int/doc/meetings/cop/cop-11/official/cop-11-14-add1-en.pdf>
 CBD (2014) Resource Mobilization. Note by the Executive Secretary. Addendum: Financial Reporting Framework. <http://www.cbd.int/doc/meetings/cop/cop-12/official/cop-12-13-add3-en.pdf>

Annex 2 Workshop on tracking biodiversity expenditure in the EU budget - summary of the key outcomes

An EU level workshop for EU stakeholders and experts with an interest in this topic was held in Brussels on 30 September 2014 to discuss issues related to the tracking of biodiversity related expenditure in the EU budget. The purpose of the workshop was to present the proposed approach to biodiversity tracking to a range of relevant stakeholders while also learning about the ongoing efforts in Member States and at the international level (e.g. OECD and UNDP BIOFIN²⁰).

The starting point for the workshop was a presentation outlining the proposed approach to biodiversity tracking of EU expenditure, including the background and objectives of the process, general approach to tracking biodiversity expenditure, the proposed definition and typology of expenditure, and the approach to tracking expenditure at different levels and stages of the budgeting process. Furthermore, key challenges as regards the use of the approach were identified.

Some of the key aspects raised and discussed in the workshop are outlined below. These informed the final stages of the project and some issues have been addressed or developed more fully in this report.

The Rio markers framework

The Rio markers are generally considered to be a widely accepted and commonly used framework for tracking biodiversity related expenditure and the workshop confirmed this. These markers are also used in the context of monitoring spending for biodiversity both under the OECD and the UN Convention on Biological Diversity (CBD). The tracking of EU biodiversity expenditure is foreseen as helping to address the EU's own monitoring requirements and purposes, as well as the external commitments to report to the CBD. Therefore, it was emphasised that - from the EU, Member State and global perspective - the EU approach to biodiversity tracking should be compatible with and in line with the framework and approach(es) adopted by the OECD and CBD.

However, while acknowledging the usefulness of the existing Rio markers framework it was also recognised that several challenges still remain in terms of using these markers in a way that ensures the most informative and accurate outcome. The use of the 40 per cent marker was a particular focus of this discussion.

Defining and assessing biodiversity relevant expenditure

The proposed definition, typology and approach to tracking biodiversity related expenditure – as outlined in Chapter 2 of this report - were generally supported by the participants. Similarly, the proposed use of markers by different categories of expenditure under

²⁰ United Nations Development Programme, The Biodiversity Finance Initiative

different EU funds was generally supported, both by the representatives of different Commission DGs and other stakeholders (See Part II of the Guidance).

One of the key challenges for applying the approach in practice was identified as the difficulty of prediction, or foreseeing the concrete final investment in biodiversity at a project level, not to mention the final biodiversity relevant outcomes of the investment which can be different from that intended. This poses challenges for the degree of confidence that can be invested in the system and the level of accuracy that reasonably can be attained, especially at the early stages of the budget cycle and when attempting to apply 40 the per cent marker (see below).

The proposed approach tries to address this by suggesting a staged approach for biodiversity tracking, moving over time from a general level of prior information (such as spending categories under different funds) to, a more detailed level (actual projects) when information becomes available. While a dedicated assessment of the achievable and/or comparable level of accuracy attainable at different levels of precision and detail is yet to be carried out, experience suggests that tracking at more specific and detailed levels of expenditure can be expected to enhance the accuracy of estimates significantly. However, it was also acknowledged that with the increased level of detail comes an increase in the resources required to carry out the tracking. The added value of tracking at more detailed levels depends on the type of EU funding in question, and is expected to be greater where the biodiversity relevance of expenditure is diverse or variable and difficult to assess at the headline level (e.g. in the context of EU Cohesion Policy).

The liveliest discussions involved the scoring of biodiversity related spending under the Common Agricultural Policy (CAP), with a number of participants being very adamant that the proposed biodiversity tracking process should not be extended to include CAP Pillar I expenditure because of its particular characteristics. It was rather suggested by some that Pillar I of the CAP requires a different approach as it is the only element of the EU budget that is based more on entitlements, rather than more specific objectives or the completion of project. Furthermore, the direct and indirect benefits of the future CAP Pillar I spending on biodiversity were considered by several participants to be uncertain and hard to predict and then subsequently to measure. Given the volume of Pillar I spending in comparison with most of the other relevant EU funds, several participants argued that integrating this expenditure into a single estimate of biodiversity related expenditure could significantly distort the picture of funding actually benefitting biodiversity conservation with the EU.

Defining the 40 per cent marker

The application of the 40 per cent marker was generally identified as one of the most challenging steps in the biodiversity tracking process. A recent review by OECD suggests that the OECD member countries apply a wide range of discount factors to estimate the value of expenditures with 'significant' biodiversity objectives. Furthermore, the different relatively 'grey' areas linked with the use of the 40 per cent marker – as outlined in Chapter 3 of this report - were emphasised by several participants.

Given the difficulties in using the 40 per cent marker, some participants suggested that only expenditure with a primary (i.e. 100 per cent) objective should be tracked in the EU. However, others cautioned that this would underestimate biodiversity related expenditure, given the overlaps with other objectives and the multi-objective nature of several expenditure categories. Focusing on the primary objective only could also be counterproductive in terms of the greater biodiversity mainstreaming agenda that seeks a pro-active contribution towards biodiversity conservation under all relevant sectoral policies. For example, enhancing the sustainability of agriculture, forestry and fisheries is an important element of both the EU Biodiversity Strategy and CBD Aichi Targets, and requires mainstreaming biodiversity in sectoral actions.

Different approaches to applying and/or overcoming the difficulty of using the 40 per cent marker were identified and discussed. In the case of biodiversity tracking of development assistance expenditure in Germany it had been decided not to opt for a scoring of less than 100 per cent, preferring to focus solely on projects that had a primary biodiversity objective. While another option would be to replace a single 40 per cent marker with a set of more nuanced categories for example allowing the use of a 20 and 60 per cent markers as well. It was pointed out that a recent study by DG DEVCO comparing the use of the 40 per cent marker with the application of an approach using co-efficient indicates that the ability to properly score the specific actions - rather than the choice of a type of marker - is the most important factor for improving overall accuracy.

No final consensus on how to address the difficulties with using the 40 per cent marker in the context of the EU budget – or more broadly - was reached. However, the Commission representatives set out the view that limiting the use of markers to the 100 per cent marker only would not provide the best way forward, as indirect contributions need to be recognised, in line with CBD guidance and the overall objective of biodiversity mainstreaming. At the moment the use of the 40 per cent marker was considered to provide an acceptable compromise in striking a balance between the level of accuracy desirable and (the limited) resources available for tracking (e.g. detailed tracking at project level). In general, establishing good practice and gaining evidence from applying the 40 per cent marker systematically and accurately was considered to be the key priority. It was recommended that the Commission would continue coordinating with the OECD to ensure joint exploration and further development of these two methods in a comprehensive way.

It was agreed that, whatever approach is taken, it needs to be transparent and avoid the loss of crucial information in any analysis or presentation including the inappropriate amalgamation of estimates (see also below). For example, it is important to retain information about the levels of expenditure regarded as having a primary and significant biodiversity objective, and not to amalgamate these into a single misleading figure, i.e. in a formula where $a + 0.4 b = c$ one should record information on a and b independently and not just present estimates of c.

Presenting and communicating outcomes of tracking

Biodiversity tracking was considered to be a useful tool for both monitoring and further advancing the mainstreaming of biodiversity into the EU budget. In this context, the

participants of the workshop highlighted the need for transparency in communicating the outcome of tracking. In particular, it was considered that presenting a single overall number for the proportion of EU spending for biodiversity objectives – with no detail provided on the level of different funding streams – would be unhelpful and also possibly misleading. Presenting the results by displaying the different markers separately (i.e. funding making a 100 per cent, 40 per cent and 0 per cent contribution to biodiversity conservation) would be preferable. Furthermore, the estimate(s) for EU spending on biodiversity should be accompanied with information and reflections on the effectiveness of this spending, i.e. the concrete delivered outcomes for conservation.

Finally, it was considered to be important to portray the outcomes of the biodiversity tracking process in the broader context of biodiversity mainstreaming, in particular linking the information on estimated EU spending on biodiversity with information on the financing scale needs for biodiversity expenditure (e.g. the estimated costs of maintaining the Natura 2000 network). Appropriate links should also be made with the current efforts both to remove environmentally harmful subsidies (EHS) and biodiversity proof the EU budget from any spending harmful to biodiversity. In this context a quantitative approach to addressing EHS, similar to tracking biodiversity related expenditure, was suggested.

Conclusions

As the next step in the process, the Commission together with the project team are committed to finalising the guidance to be made available to Commission services as an output of the study. A follow up study has already been planned and it will apply the tracking approach to different EU funding streams while also examining the financing of biodiversity more widely.