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Discussion paper

Exploring policy options for funding nature restoration in the next MFF

IEEP discussion paper

Institute for European Environmental Policy



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1. INTRODUCTION

This discussion report is the result of a workshop on policy options for funding nature restoration in the next MFF, ranging from a new stand-alone financing mechanism to stronger mainstreaming and earmarking nature restoration funding within the current EU funds. It is becoming increasingly clear that nature restoration needs to be scaled up, and that funding for nature needs to be doubled.

In this report we explore different viewpoints on the opportunities, barriers, and feasibility of the policy options available and identify some enablers for each option. The viewpoints represented at the workshop come from EU environmental Non-Governmental Organisations (NGOs) and representatives of sector organisations of farmers, forest owners and managers, and other land managers. The workshop was convened by IEEP on Tuesday 20 June with representatives of four sector organisations representing farmers and foresters and representatives of four environmental NGOs with focus on farming, land use and marine issues, plus some members of the European Commission as listeners.

The discussion which set the basis of this report, took place in the middle of tight negotiations in the European Parliament's Environment Committee and the EU Environment Council on the EU Nature Restoration Law (NRL) in which the options and feasibility of dedicated EU funding for nature restoration are a key factor. However the aim of this work is to discuss possible options independently of the current specifics of the nature restoration law proposal.

The workshop discussed three broad policy options: 1) a new stand-alone nature restoration fund in the next MFF; 2) strengthen mainstreaming targets in the next MFF and strengthen mainstreaming/earmarking in current fund architecture; and 3) leveraging funding outside the MFF, including private finance. Participants supported the first option most strongly but differed in their perspectives on the actual approach needed.

Given the magnitude of change involved and the time required for preparations and knowledge gathering at Member State level in particular, a period of transition would be required. If a new fund were created, it is unlikely to be fully operational until the mid-2030s. This underlines the importance of launching this debate ahead of the next MFF if any new fund is to have serious impact in the crucial decade of the 2030s.

Context: Multiannual Financial Framework (MFF) and biodiversity funding needs

The Multiannual Financial Framework (MFF) is the EU's long-term budget. The current MFF, which covers the period 2021 to 2027, was adopted in December 2020 and it amounts to €1,210.9 billion in current prices (€1,074 billion in 2018 prices)ⁱ. The current MFF includes an ambition (not a binding target) to dedicate 7.5% of the budget in 2024 and 10% in 2026 and 2027 to biodiversity.

Biodiversity funding needs: It is becoming increasingly clear that nature restoration needs to be scaled up. Only 15 % of habitats and 27% of species assessments at EU level have a good conservation status, while the majority continues to have poor or bad statusⁱⁱ. The condition of the remaining habitat areas of high nature value is poor or unknown on around half or more of the area, especially wetlands, where only 36% is assessed as in good conditionⁱⁱⁱ. For 36% of the remaining terrestrial habitat areas of high nature value, we do not know its condition because they have not been surveyed and assessed at the regional or national level. The biodiversity indicators for which EU data is available (birds, butterflies & other pollinators, threatened species) have been declining for decades.

Global and EU targets: The Global Biodiversity Framework adopted in Montreal in December 2022 commits to the restoration of at least 30% of degraded ecosystems (Target 2) and to mobilising at least \$200 billion annually in public and private financing (Target 19). The EU Biodiversity Strategy to 2030 includes a target to mobilise at least €20 billion of biodiversity financing per year by 2030 and to the restoration of at least 30% of habitats and species in unfavourable condition.

Cost estimates indicate that meeting all biodiversity funding needs to 2030 would require a doubling of current available funding (EU MFF, national public spending and private spending combined) (see Box 1). From the perspective of the land managers, the estimate of the likely cost of the proposed NRL in the impact assessment is likely to be an underestimate. It is noted that who will bear the costs of restoration and who will benefit from actions are not the same, as land owners and managers will need to make the investments whilst many of the benefits are public goods or go to people and the society as a whole. Restoration generally requires costly actions up front whilst the benefits may not manifest for years, depending on the habitats and restoration needed.

Box 1: Cost estimates of biodiversity and/or nature restoration funding needs to 2030

Cost estimates for:

EU Biodiversity Strategy 2030 - Cost of delivering the EU Biodiversity Strategy are estimated at €48 billion annually between 2021 and 2023, with an average €15 billion to come from the MFF annually during the 2021-2027 MFF^{iv}. Current EU MFF, national public spending and private spending combined is estimated at around €25 billion per year^v.

Nature Restoration Law (NRL) proposal - The Impact Assessment study estimated the investment that needs to be mobilised at around €6-8 billion annually until 2030, excluding costs for marine, urban ecosystems and pollinators^{vi}. This will require mobilising private and public funding at national and EU level, including through a range of different programmes in the long-term EU budget.

Is the current mainstreaming approach to EU funding working?

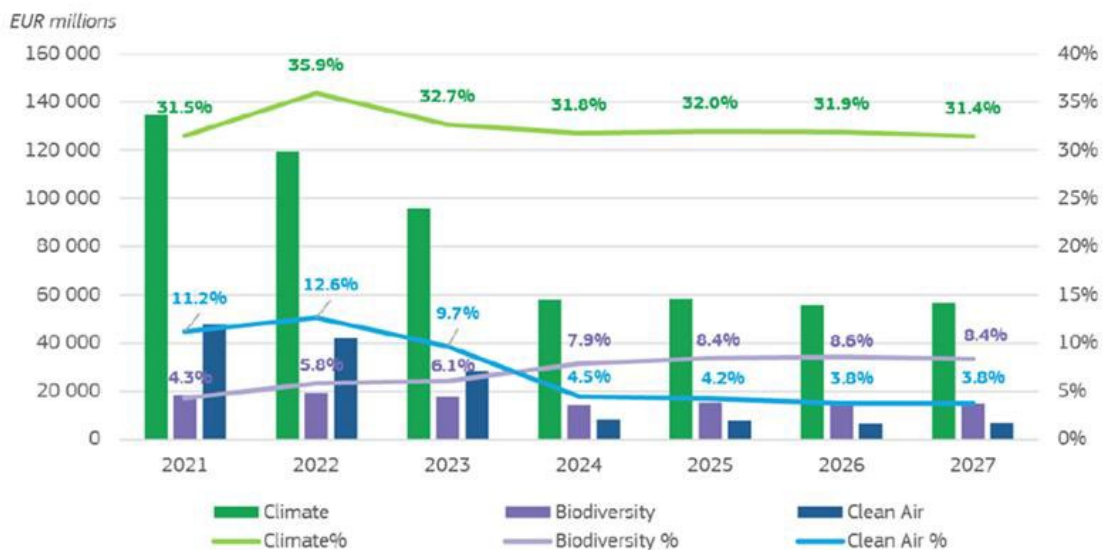
Studies of mainstreaming and access to funding: A study published in 2017^{vii} identified necessary improvements to the current mainstreaming approach to funding Natura 2000, which also apply to biodiversity funding more widely. These include earmarking expenditure for biodiversity priorities, addressing eligibility gaps, improving coordination and coherence between funds, reducing administrative burdens for project applicants and administrators, improving monitoring of results and continuing efforts in awareness raising and stakeholder cooperation to boost restoration projects.

A recent (2023) report based on a set of roundtable discussions^{viii} highlights the challenges for biodiversity projects to access EU funding in Central and Eastern Europe (CEE) countries. It identifies the following challenges: lack of awareness and expertise – the lack of decision makers across all sectors who understand why financing nature restoration is crucial for society and people, what restoration and conservation projects look like; and biodiversity experts who know how to programme, disburse and control public funds. There is also a lack of concrete investment opportunities in plans, despite general introductory statements of intent which mention biodiversity. Biodiversity experts and environmental ministries lack the power to influence sectoral administrations spending in transport, agriculture, energy, water etc. and from the lack of cooperation

between them. Moreover, changes made during the implementation of funded projects result in negative impacts due to a lack of oversight by environmental experts. There are difficulties in upscaling successful small-scale actions and their results, as biodiversity projects are frequently site-specific, non-replicable, small-scale and expensive. Finally, harmful funding and subsidies undermine nature restoration efforts – e.g. investments in drainage, river restructuring, infrastructure, soil sealing.

MFF spending target: The Commission assessed that the current MFF programming will achieve the ambition to dedicate 7.5% of the budget to biodiversity in 2024 but will not reach the 10% threshold in 2026 and 2027^{ix, x}

Figure 1: Green contribution in EU MFF in 2021 to 2027 according to Commission tracking



1 – Green contribution in 2021 to 2027 (million EUR)

Figure 1: EC (2023) EU budget 2024 Performance statements - Common Agricultural Policy. Online at https://commission.europa.eu/strategy-and-policy/eu-budget/performance-and-reporting/programme-performance-statements/common-agricultural-policy-performance_en

Calls for more dedicated funding: The Commission acknowledged the growing calls for dedicated and targeted funding for biodiversity at the European level in an SWD in April 2023^{xi}. Calls for a dedicated fund have come from the European Parliament^{xii}, the European Economic and Social Committee^{xiii} and the European Committee of the Regions^{xiv} particularly in the context of negotiations on the proposed NRL. One of the main points of tension surrounding the NRL proposal is how to finance the restoration measures that will be implemented under the law.

Next steps - MFF review and process to decide next MFF:

The new Commission will publish a Communication on the next MFF by mid 2025 followed by the publication of legislative proposals for the different sectoral programmes. These will be negotiated in trilogues between Council and Parliament. The revised MFF Regulation will then be adopted through a special legislative procedure (art. 312 TFEU), according to which the Council adopts the Regulation after having received approval from the Parliament. The sectoral programmes are most often adopted under the ordinary legislative procedure (art 294 TFEU), according to which the Council and Parliament act on an equal footing.

On 20 June 2023, the Commission published a mid-term review of the MFF with two legislative proposals for new dedicated funding^{xv} ^{xvi}. Biodiversity and nature restoration funding priorities are not mentioned.

This discussion paper looks at the available policy options to increase funding for nature restoration or biodiversity and land management more widely in the next MFF under three headings: firstly, a new stand-alone nature restoration fund in the next MFF (option 1); secondly, ways to strengthen the mainstreaming approach (option 2), and thirdly, ways to mobilise more private investment through blended public-private financing approaches (option 3).

2. OPTION 1: STAND-ALONE NATURE RESTORATION FUND IN THE NEXT MFF

This option is to establish a new fund in the next MFF Regulation dedicated to nature restoration.

Setting up a new fund would require numerous decisions to be made about its structure and governance, its size and scope, and where the money would come from. The following factors will need to be decided:

- **Governance:** the fund could be directly managed by the Commission (like LIFE) or co-funded and in shared management with the Member States. At the national level, it could fall under the responsibility of the environmental part of government (the environment ministry or the environmental part of any shared ministry) or the agricultural and land management part of government (the agriculture ministry or the agriculture part of any shared ministry). With regard to structure, it could include a component that offers transboundary funding along the lines of Interreg or it could be restricted to national programming only with incentives for collaboration.
- **Scope:** it could be narrowly targeted at planned nature restoration measures (possibly attached to the national restoration plan under the proposed nature restoration regulation) or it could have a wider scope to include nature conservation, climate mitigation and/or adaptation projects that include nature restoration, and/or circular economy projects that include biodiversity.
- **Focus or objectives:** fund could be focused on making one-off investment payments for voluntary projects or it could include also ongoing management payments along the model of current CAP agri-environment or forest-environment commitments or ecoschemes.
- **Where the money comes from:** The money for the fund could be carved out of existing MFF envelopes for established funds, or it could be created by expanding new sources of resources for the MFF.

2.1 Opportunities

A new shared management fund would imply an important commitment by Member States to cofund and deliver on the objectives of the fund. There could be indicative national envelopes based on an assessment of funding needs for nature restoration, so that Member States are not competing for a share of the fund.

A new fund could create new opportunities to fund both nature conservation and nature restoration. There is a big difference between Member States in the balance between the funding needs for restoration of damaged or lost nature and the funding needs for conservation of still existing high value nature^{xvii}. According to a participant, this can be seen as broadly a Western and Eastern Europe divide.

A new fund that adopts a similar approach to LIFE to try to ensure high quality projects (i.e. through competitive application that has to meet high quality thresholds, expert review, rigorous objective setting, monitoring and reporting) would have the advantages of having a high chance of success at delivering highly effective funding.

From the viewpoint of some, redirecting money from the CAP, which is not delivering on environmental objectives (European Court of Auditors, 2020^{xviii}), and putting it into a separate fund under the control of environment ministries, would increase the effectiveness of funding for biodiversity and nature restoration and give more competence in the matter to environmental ministries. This could strengthen the role of environment ministries in land management and restoration.

From the point of view of others including the farming, forest-owning, and producing communities, the only opportunity for financing lies in creating new resources outside the CAP envelope to complement the already stretched budget of the CAP. According to the EU Treaty, the CAP has three pillars for environmental, social, and economic purposes and Member States programme CAP funding to meet the balance between these objectives that they have identified as needed in their SWOT and needs assessment. The disturbance of this principle would be inhibitive and disruptive to the foundation of the Common Agricultural Policy.

2.2 Barriers

A new fund will face the same challenges as are currently stopping the channelling of existing EU funding opportunities to biodiversity and nature restoration, including a lack of demand for funding that meets the conditions and limitations, or in other words, a shortage of projects that are suitable to be funded through the existing funds. Small land holders face significant barriers to accessing EU funds, because they do not have the capacity to apply for funding, and/or the available funding is not attractive enough to cover the costs and effort required. It is administratively difficult to fund many small separate projects for example to large numbers of private forest owners requiring many relatively small separate funding streams, or nature restoration projects that are small scale or low budget. Nature restoration investments often require complex and time consuming planning and partnership building, and rarely have large budgets that can be immediately allocated and spent, unlike for example urban waste water treatment plants, that are expensive and simple projects in comparison. So nature restoration loses out if money must be allocated and spent quickly.

Would a new fund create demand by showing that targeted money is available?

A new fund with multiple objectives would face the same challenge as existing EU funds to find ways to avoid biodiversity funding losing out in the competition with other priorities.

A new fund that provides only one-off payments would not meet many needs and risk failing to achieve objectives. One-off payments are problematic for land managers in many ways, as ongoing management in less intensive production systems on restored land requires ongoing support to balance lack of markets and market uncertainties.

Short term funding with no stable perspectives in the longer term or inadequate funding in comparison to the opportunity costs are significant barriers for land owners and managers. Nature restoration in most cases is an activity that creates immediate costs and opportunity losses for land owners and managers, and that only generates benefits in the longer term and to a significant extent only as public goods (such as reduced health costs or greater climate resilience) that do not compensate the costs of the land owners and managers. It therefore requires public funding or support in the long term to compensate these market failures.

There is a need for support over the long term or very long term (20 or 50 years or beyond) as nature restoration can take decades, particularly in forests and peatlands. There are currently few established ways in which EU funding can do

this, notably because the EU multi-annual framework is tied to the seven year cycle. A new fund within the MFF would face the same limitation.

A new fund with restrictive application criteria or too narrow a scope could result in competition between sectors, for example that farmers get funded whilst foresters do not. Ear-marked funding made available per sector could allow for a wide range of beneficiaries.

2.3 Enablers

National restoration plans under the proposed NRL could be key enablers for a new fund. The plans would comprehensively list restoration needs and measures, and cost out financing needs. The funding programme could then be fully aligned with the national plan.

The national Prioritized Action Frameworks for Natura 2000 and green infrastructure (PAFs) are a planning tool for identifying and directing funding needs for nature restoration and management tied to the Natura network. The PAFs could play a central role in the programming of a new fund.

2.4 Feasibility

A new fund would require an agreement on how the burden and budgets are divided up between Member States – i.e. which Member States will be net contributors and which will be net beneficiaries. The creation of a new fund will probably require the redirection of money from other EU funds. This will therefore have an impact on the current distribution of funds and therefore on the position of Member States with regard to their contribution, and it can be expected that net beneficiaries will wish to maintain their position (for example France is a net contributor, but on balance receives back the money via the CAP). Changing these balances risks resistance.

The fund allocation could be based on the relative size of obligations for nature restoration under agreed targets, or it could be based on relative distribution of existing habitats, or both, and/or on relative costs in relation to GDP. This will raise many questions about the relative distribution of the burden. For example, Finland and Sweden, and to a lesser extent the Baltic states, are countries rich in forests, peatlands and wetlands, lakes and rivers, which can have high per land unit restoration costs to repair their current degraded states. Mediterranean countries have a significant challenge to face from climate change accelerating degradation and pressures on natural resources. Some countries face significant knowledge gaps they would have to fill first, such as mapping the status of marine habitats. This negotiation would take time.

How long would it take to agree on a new fund? Given the magnitude of change involved and the need for preparations and knowledge gathering at Member State level in particular, a period of transition would be required. If a new fund were created, it is unlikely to be fully operational until the mid 2030s. This underlines the importance of launching this debate ahead of the next MFF if any new fund is to have serious impact in the crucial decade of the 2030s.

Not touching the CAP is a red line for the sectors and there would be significant political resistance to carving out any money from the CAP budget. A similar situation may apply to European Maritime, Fisheries and Aquaculture Fund (EMFAF), which is already a much smaller fund. Other questions arise when looking at the regional and cohesion funds, as these are allocated to many competing objectives and co-managed and defined by the regional authorities.

3. OPTION 2: STRENGTHEN MAINSTREAMING TARGETS IN THE NEXT MFF AND STRENGTHEN MAINSTREAMING/EARMARKING IN CURRENT FUND ARCHITECTURE

This option includes several different components:

- a) set a higher minimum spending target for whole MFF in the MFF regulation for the period from 2028 (i.e. more than the current 10%) (and adapt monitoring and verification and tracking approaches),
- b) set targets for each EU fund in fund regulations, and/or strengthen objectives for biodiversity or nature restoration,
- c) use funding, guidance or EU wide recommendations to build capacity, strengthen monitoring and verification of projects, increase demand by overcoming the barriers to getting large-scale restoration projects off the ground and suitable for funding under existing EU funds.

3.1 Opportunities

There is a significant opportunity to use available EU funds more efficiently as there is more than €100 billion available in the whole MFF over the next 7 years. There are significant unused funds that could be available for biodiversity and nature restoration. However, in some cases funds that have been allocated to biodiversity priorities have been repurposed and spent on other investments such as urban wastewater treatment due to the challenges and barriers to distributing enough of the funding to biodiversity and nature restoration^{xix}.

Box 2 highlights the main three EU funds which Member States currently use for biodiversity financing and/or nature restoration.

Box 2: Use of EU funds for biodiversity and/or nature restoration

EU funds: opportunities and needs for biodiversity and/or nature restoration funding

Common Agricultural Policy: The CAP is the biggest sectoral policy with 31% of the EU budget and it is currently the key EU financing tool for

maintaining biodiversity on farmland and in forests^{xx}. CAP Strategic Plans must be programmed to meet nine specific economic, environmental, and social objectives. Member States, based on their SWOT and needs analysis, design interventions targeted to these objectives, including a specific objective to contribute to the protection of biodiversity, enhancing ecosystem services and preserving habitats and landscapes.

Cohesion fund (CF) and regional development funds: CF and ERDF include an objective to support green investment and the green transition by enhancing protection and preservation of nature, biodiversity and green infrastructure (amongst other priorities). The national Prioritized Action Frameworks for Natura 2000 and green infrastructure in the 2021-2027 period (PAFs) propose use of CF and ERDF funds for restoration of degraded freshwater habitats (rivers and lakes) and woodland and forests to a large extent, to a lesser extent also for other habitat types. Many PAFs also propose to fund species protection measures with these funds including prevention, mitigation or compensation of damage caused by protected species (e.g. large carnivores)^{xxi}.

EMFAF: Provides opportunities to finance conservation and restoration measures of marine and coastal biodiversity, including inland water^{xxii}. PAFs for 2021-2027 period propose use of EMFAF for restoration, management planning, research, monitoring, regulating fishing in protected areas, adoption of techniques and gears, Invasive Alien Species .

3.2 Barriers

Several barriers were identified as standing in the way of more targeted and effective use of EU funds for biodiversity. To start with, mainstreaming for biodiversity is currently simply not working. Well-designed tracking tools but also those that avoid harming projects from counting as biodiversity financing are currently lacking and the biodiversity objectives are not being reached. At the same time, *do no significant harm* principle is not consistently followed. The continued funding for activities that damage or cause loss of biodiversity and nature in EU funds (for example, funding for more irrigation and water extraction, funding for grey infrastructure) is a barrier to the effectiveness of current EU funding. In order to achieve effective nature restoration funding, there is a need to think about the complementarity with what is supported already.

If there are no specific and ambitious targets in either the EU funds or even in the separate fund, nothing will be achieved regardless of whether there are one or more funds. Ambition on the national level is also very important - creating synergies and accepting certain trade-offs. According to a participant, this is an especially important barrier to address if restoration is to be scaled up to a higher ambition than currently.

The list below provides the most commonly highlighted barriers :

- o EU funds lack absorption capacity
- o Insufficient demand for biodiversity
- o Need EC staff to carry out training and capacity building
- o Lack of specific biodiversity expertise and knowledge (MS)
- o Lack of political will (MS)
- o Hard to get regional and cohesion money
- o Little % allocated through the PAFs in the end
- o Monitoring and tracking are very expensive (especially with complex funding schemes)
- o Multiplication of fund gets really complex

3.3 Enablers

There is a need for more training and capacity building on how to better target and allocate EU funding to biodiversity and nature restoration, building on the guidance on how to access EU funds that is already available (for example the EU Vademecum of environmental finance and the Natura 2000 funding handbook published by the European Commission). Training and guidance given to managing authorities is also essential and this requires more EC staff.

There are already opportunities for national and regional authorities to request assistance or peer to peer learning, and to access funding to organise workshops and training to build capacity in managing authorities (see DG REGIO Capacity building for cohesion policy platform^{xxiv} and REGIO Peer2Peer+ scheme). Interreg offers the Interreg Europe policy learning platform with funding for peer to peer exchanges^{xxv}.

Facilitators or local hubs or collaborative organisations or platforms or partnerships can bring together and enable land managers or fishers to jointly agree on and commit to long term projects and access funding. Small projects could be grouped together to reach a minimum threshold for them to get funding together – or acting as a structure that brings together small scale and larger projects. An obstacle is that this role is currently often handed out to contractors who do not have sufficient expertise or who do not build trust or long-term commitment. It would therefore require public or independent funding for this facilitation role. Well - run and stable facilitators can build trusted relationship with landowners and managers. A model to follow could be the one stop shops which already exist for energy projects and public procurement.

Better methods, capacity building, and support for monitoring and assessments of impact provides evidence of what works and builds confidence, increasing the acceptance and priority given to nature restoration projects.

It is likewise imperative to highlight good governance and management examples and replicate them. Box 3 gives an example of an initiative run by NGOs.

Box 3: Pilot dialogues to build collaborations on biodiversity funding

Piloting dialogue and coordinated approach to fund programming

In the context of a pilot project run by EuroNatur and CEE Bankwatch, stakeholders were guided to develop own positions on biodiversity funding and then came together in roundtable discussions. This dialogue lead to consensus on the need for intersectoral cooperation and the need for a coordinated approach between land and forest owners, national parks, authorities, NGOs, etc. These events could be the first steps of collaboration and are a requirement for shaping a common understanding for problems and solutions. As a result of the project, the coordination of this work has continued independently in three out of the four countries.

New models for long-term land stewardship covenants or agreements that go beyond the seven-year cycles of EU funding would enable those land owners with non-financial motives to commit their land to nature restoration, particularly those who do not fully depend on the land for income but who require some financial guarantees and incentives over the long term.

3.4 Feasibility

There is a clear need for dialogues to build collaborations for biodiversity funding - a next step for this kind of work would be support from national authorities in order to move this kind of initiative in something sustainable over time and delivering on projects together.

In addition, simplification of funds in the future was suggested as complex schemes currently pose a significant absorption barrier.

There is a need to re-think governance models and develop a new type that is working better for nature - how could funds be managed differently? There are already excellent Interreg projects that could serve as examples.

With regards to the lack of demand, i.e. a shortage of biodiversity projects that are suitable to be funded, there is hope that this will change. Farmers and foresters are well aware that business as usual cannot continue in the rapidly changing climate. Farmers are adapting to this new situation, and they see that landscape features and restoration can be a solution to many of their problems. Foresters are also making difficult management decisions and changing practices, as illustrated by best practices in state forest management described by EUSTAFOR in 2020^{xxvi}.

National governments can drive the demand by integrating nature restoration objectives and targets into different spatial and sectoral plans, thereby creating and defining spaces where restoration is the priority, with a link to available resources. It is also the role of the European Commission to help create this demand by creating the right incentives, including for transboundary cooperation.

4. OPTION 3: LEVERAGING FUNDING OUTSIDE THE MFF, INCLUDING PRIVATE FINANCE

This is about EU policy options to use EU funding to leverage funding outside the MFF, including private finance.

This includes a number of instruments for leveraging private funding for nature restoration.

The idea expressed here is nature restoration as part of a transition to a new business model for land owners and managers, in which they are supported through the transition costs and compensated for loss of income opportunities, but after a transition period are able to maintain a sustainable business that is not dependent on public money in the long term.

4.1 Opportunities

There are significant opportunities for leveraging private funding outside of the MFF, complementing the policy options outlined in Sections 1 and 2.

Public funding remains necessary to cover the costs of restoration (i.e. restoration actions, maintenance, and income losses) where the benefits are mainly public goods – such as clean air and water, less intense and frequent extreme climate event – or benefits gained by other sectors (e.g. tourism). Public money is currently the dominant finance for nature restoration measures. It is difficult to have reliable estimates of national public spending for nature restoration specifically but estimates of domestic expenditure for biodiversity in general provide an indication. Based on data reported by Member States to EUROSTAT, the total domestic biodiversity expenditure of Member States in 2019 amounted to €10.4 billion (an average of approximately €360 million per Member State) for measures on the protection of biodiversity and landscape^{xxvii}. It is therefore also difficult to compare public and private spending for biodiversity as there is a lack of data on the amount of private spending on restoration and biodiversity more generally. Some studies can provide an indication, such as the UNEP-WCMC study based on 412 projects in Europe between 2010 and 2020 which found that companies contributed €34.1 million^{xxviii}. While this data is based on a non-exhaustive list of projects, this is still much lower compared to the amounts spent yearly for biodiversity by both EU and national public entities.

There is high potential for private funding for nature restoration measures when these provide direct benefits to businesses and economies, such as investing in flood protection, water quality and increased resilience of food production. An

example of bankable restoration project is in the series of dam removal projects in Finland, where returns from restored salmon fishing opportunities and tourism have created pay back on the investments. Questions remain about the possibilities and feasibility of upscaling local examples.

A number of instruments provide interesting and concrete opportunities for leveraging private funding for nature restoration, such as:

- **Payment for Ecosystem Services (PES) schemes** are market-based instruments that remunerate landowners or land managers for the provision of ecosystem services and are therefore applicable where private land management generates external benefits. They are usually based on opportunity costs^{xxix}. They can be publicly or privately funded. In the case of public funding, they are mostly funded by governments, such as in Portugal where the government's Environmental Fund remunerates landowners and managers to restore and protect biodiversity and ecosystem services in protected areas^{xxx}.
- **Loans:** financial institutions mainly fund projects that can be expected to generate revenues are of interest, although some offer low-interest loans for projects delivering environmental benefits. The Natural Capital Financing Facility (NCFF) was an important financial instrument in that regard to support biodiversity projects through loans and investments, backed by EU guarantee. It has now been replaced by several support mechanisms in InvestEU including the GreenAssist facility.
- **Green bonds** are instruments where the debtor commits to use the bond proceeds for projects with an environmental benefit. For example, in Germany, the Land of Nordrhein-Westfalen has been issuing sustainability bonds that are used to fund environmental and social projects, biodiversity protection, river restoration and responsible agriculture.
- **Fees** can be charged to users for the use of an ecosystem and its services, such as entry fees, tourist levies, car parking charges, etc. They could be applicable to restoration actions (both for recovering capital costs and for funding maintenance activities) in areas where restoration enhances its attractiveness and accessibility to visitors and where it is possible to limit entry or provide on-site services. As an example, the Linnunsuo project (Finland) – which involved the purchase and restoration of an artificial wetland and was financed through a mix of private and EU funds, including a loan from the NCFF – is now generating tourism revenues to repay the loan and contribute to further rewilding.

- **Trust fund and endowments:** this may include endowment funds, sinking funds, revolving funds. Would be suitable to cover both capital costs and long-term maintenance. Such funds are already financing restoration and there is scope to widen their use. Ex: European Nature Trust (TENT) fund supports projects in a few MS^{xxxii}.
- **Private equity:** funds or investors that invest directly in private companies. It could fund commercial enterprises involved in restoration activities. For example, Axa Investment Managers launched in May 2022 a biodiversity fund that will invest in companies providing solutions to address land and water pollution, land degradation, species protection, and overconsumption.
- **Insurance premiums and schemes:** Insurance companies can incentivise investments in restoration by offering reduced premiums to customers who engage in risk-reducing ecosystem restoration actions (in a similar fashion to progressive life insurance, where reduced premiums are offered if measures are taken to reduce mortality risks). For example, customers investing in floodplain restoration could benefit from reduced flood insurance premiums.^{xxxiii} While some nascent examples exist (see Box 4), insurance solutions linked to nature restoration are not yet common.
- **Private sector grants and sponsorships:** charitable contributions from foundations, citizens and private sector donors. In 2018, philanthropic foundations contributed €87 million to biodiversity in Europe^{xxxiii}.
- **Blended finance/public-private partnerships** could address biodiversity funding gap: grants and equity could be used to support these types of partnerships.

Industry-level partnerships, such as with the insurance sector, among banks with high nature and climate exposures and key NGOs and other players to provide visibility. Investments in biodiversity that are undertaken to offset biodiversity damage, either through mandatory requirements in legislation or voluntarily, are often included as an option for leveraging private funding for nature restoration. They are only considered here, however, if they explicitly create net gain for biodiversity or nature compared to the damage that is being offset.

The wide array of different tools, their increased use, and the dissemination of good practices across the EU should help bridge the gap between interest and commitment from companies and investors.

4.2 Barriers

There are currently a number of **barriers** preventing private and blended funding from living up to its potential as a major player in financing restoration. There are barriers to private entities committing to large-scale investment in nature restoration. As highlighted by the European Investment Bank, nature restoration projects are associated with high risks and have very long-time scales, and there is uncertainty about when and to what extent the benefits will be achieved so that there is some financial return. Some ecosystem services will never have a market value, or do not have a market value due to legislation or other policy, for example the “right of access” of members of the public to land in Nordic countries, which means that the collection of wild fruits or flowers is free.

There is also a lack of technical expertise to implement these – sometimes complex – projects. In addition, there can be regulatory hurdles to creating the necessary forms of cooperation and co-financing. A lack of demand for nature projects has also been reported as another barrier for private investment. There are therefore currently not enough incentives to bring private financing and investment to a sufficient scale to bridge the biodiversity funding gap.

Another barrier is the potential for schemes that lack sufficient public scrutiny or oversight to greenwash funding that is not actually benefiting biodiversity or nature restoration, or even results in more harm.

4.3 Enablers

There is a clear need to gather information and present positive examples of business investment in nature restoration, as well as to develop criteria and guidelines so that successful projects can be developed and replicated across the EU. These projects must be able to show investors the return on investment that can be achieved through nature restoration in different sectors, namely agriculture, fisheries, extractive resources, renewable energy, etc. Box 4:

Regulations at the EU level also have a key role to play, as the EIB’s latest report on nature-based solutions has shown that there is a need to change market structures, including regulatory interventions to provide direct incentives for private entities to invest in and implement nature-based solutions, including restoration.

One important enabler for deploying large-scale private investment in restoration is to build on the growing need for climate resilience and the many ways in which nature restoration can contribute to climate change mitigation and adaptation.

Box 4: Green Assist**Green Assist**

The new GreenAssist platform support funded by LIFE is a new technical assistance opportunity to support nature and biodiversity investments. It aims at building up a pipeline for green investment projects that have a high environmental impact.

To enable GreenAssist to operate, steps must be taken to raise awareness and provide assistance to lay the ground for green investments in Member States, through for example convening conferences on environmental funding opportunities. Then, initiatives such as GreenAssist which provide technical assistance and targeted support, can operate. €30 million are dedicated to GreenAssist, which is implemented by CINEA and aims to strengthen green investments and to green other sectors. It is also supporting projects from European structural and investments funds and blended finance as much as possible to scale up LIFE projects. It is an on demand, free of charge service that is available to both public and private beneficiaries among a lot of sectors and is tailored to individual needs. Interestingly, it addresses both bankable and non-bankable projects, and it provides both project advisory and enabling advisory services.

For example, a company wishing to invest in its impact on nature will be able through GreenAssist to do a technical review of its plans, its projections of environmental impact, a review of financial implications and of funding sources.

4.4 Feasibility

To conclude, it seems that increasing large-scale private funding for nature restoration is feasible and that there is interest from private entities to invest in restoration. Although the market mechanisms needed for scaling nature restoration are not currently available^{xxxiv}, there are already existing instruments which can be deployed on a larger scale, if accompanied by appropriate regulation and subsidy reforms to incentivise nature restoration. However, in the opinion of some, to rely on variable private funding to meet legally binding political commitments seems risky.

The timing is also key. Land owners and managers cannot rely on a PES schemes for income until the scheme is up and running, which takes time and resources and a long term commitment on the part of the buyer in the transaction.

ENDNOTES AND REFERENCES

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ⁱⁱ EEA (2020) State of Nature in the EU: Results from reporting under the nature directives 2013-2018. EEA Report No 10/2020, European Environment Agency, Copenhagen. At: <https://www.eea.europa.eu/publications/state-of-nature-in-the-eu-2020>

ⁱⁱⁱ See Commission Staff Working Document, Impact Assessment Accompanying the proposal for a Regulation of the European Parliament and of the Council on nature restoration, Annex I. SWD(2022) 167 final. And EEA dashboard available at: <https://www.eea.europa.eu/en/topics/at-a-glance/nature/state-of-nature-in-europe-a-health-check/explore-nature-reporting-data>

^{iv} European Commission Directorate-General for Environment, Nesbit, M, Whiteoak, K, Underwood, E, Rayment, M, Hart, K, Aubert, G, Kollenda, E, Lóránt, A, Kopsieker, L, Cziesielski, M, Petsinaris, F, Gerritsen, E, Beznea, A, Cihlarova, P, Frapaise, L, Finesso, A, Forestier, O and Nicholls, G (2022) Biodiversity financing and tracking : final report Available at: <https://op.europa.eu/en/publication-detail/-/publication/793eb6ecd6bd6-11ec-a534-01aa75ed71a1/language-en/format-PDF/source-259505877>

^v EU spending from MFF reporting, national spending from COFOG data, private spending estimated from various sources. See DG-ENV, IEEP, Trinomics (2022) as above.

^{vi} Commission Staff Working Document, Impact Assessment Accompanying the proposal for a Regulation of the European Parliament and of the Council on nature restoration, SWD(2022) 167 final.

^{vii} Kettunen, M, Illes, A, Rayment, M, Primmer, E, Verstraeten, Y, Rekola, A, Ring, I, Tucker, G, Baldock, D, Droste, N, Santos, R S, Rantala, S, Ebrahim, N and ten Brink, P (2017) Integration approach to financing of biodiversity: evaluation of results and analysis of options for the future. Final report for the European Commission (DG ENV) (Project ENV.B.3/ETU/2015/0014), Institute for European Environmental Policy, Brussels / London. <https://ieep.eu/publications/2017/04/integration-approach-to-eu-biodiversity-financing>

^{viii} CEE Bankwatch Network and EuroNatur (2023) *Biodiversity on the Brink: What's holding back progress for biodiversity?* CEE Bankwatch and EuroNatur. <https://bankwatch.org/publication/biodiversity-on-the-brink-what-s-holding-back-financing-for-nature-in-the-eu>

^{ix} EC (2023) Draft budget 2024: Statement of Estimates. https://commission.europa.eu/publications/statement-estimates-2024_en

^x EC (2023) Draft budget 2024: Statement of Estimates. https://commission.europa.eu/publications/statement-estimates-2024_en

^{xi} European Commission (2023) *Investment needs and priorities for Natura 2000 and green infrastructure – EU-wide assessment based on Member States' prioritised action frameworks*. COMMISSION STAFF WORKING DOCUMENT, European Commission, Brussels. SWD referred to the ministerial declaration signed at the conference held in Strasbourg by the French Presidency on the occasion of the 30th anniversary of the establishment of the Natura 2000 network, specifically calling for 'simplifying and facilitating access to funding as well as earmarking funds for biodiversity' and supporting the initiative to 'launch discussions on the advisability and possibilities for a fund dedicated to biodiversity.'

^{xii} Draft report on the proposal for a regulation of the European Parliament and of the Council on nature restoration; PR_COD_1amCom (europa.eu)

^{xiii} Opinion of the European Economic and Social Committee 'Nature restoration targets under EU biodiversity strategy'.

^{xiv} Opinion of the European Committee of the Regions 'EU Nature Restoration Law'

^{xv} In September 2019, the European Commission confirmed that it will propose an ambitious review of the MFF in 2023, following a European Parliament resolution. https://www.europarl.europa.eu/doceo/document/TA-9-2022-0450_EN.html

^{xvi} The resolution stressed that the current MFF was not fit to face the challenges that have appeared since its adoption, such as the invasion of Ukraine. <https://www.europarl.europa.eu/news/en/press-room/20221209IPR64426/eu-long-term-budget-needs-urgent-revision-to-cope-with-current-crises>. https://commission.europa.eu/system/files/2023-06/COM_2023_337_1_EN_ACT_part1_v3.pdf

^{xvii} Commission Staff Working Document, Impact Assessment Accompanying the proposal for a Regulation of the European Parliament and of the Council on nature restoration, SWD(2022) 167 final. Annex I, Table II.

^{xviii} European Court of Auditors (2020) Biodiversity on farmland: CAP contribution has not halted the decline. Special Report 13/2020, European Court of Auditors, Luxembourg.

^{xix} In Romania's ERDF and Cohesion Large Infrastructure Programme in 2014 to 2020, the PA 4 axis (environment) was revised downward between 2015 and 2017 (-23.5%), then between 2018 and 2019 (-7%), and once more the following year (-16.5%). In absolute terms, these revisions remain small (in the range of €22-100 million) because of the PA's relative size in comparison to other PAs. Nonetheless, this exemplifies the lower prioritisation of biodiversity in relation to other policy areas.. See p 37 and annex 1 in EC DG ENV et al (2022) as above.

^{xx} According to a participant, while it represents 0.4% of the EU's GDP, it contributes with 1.3% to it.

^{xxi} SWD(2022) 167 final as above

^{xxii} Article 25 of the EMFAF regulation. Regulation (EU) 2021/1139 of the European Parliament and of the Council of 7 July 2021 establishing the European Maritime, Fisheries and Aquaculture Fund and amending Regulation (EU) 2017/1004. At: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2021.247.01.0001.01.ENG.

^{xxiii} SWD(2022) 167 final as above

^{xxiv} European Commission: Capacity building for cohesion policy. https://ec.europa.eu/regional_policy/policy/how/improving-investment_en

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^{xxvi} EUSTAFOR (2020) *European Forests: Tackling Climate Change. Best practices from state forest management organizations*. European State Forest Association AISBL, Brussels. At: <https://eustafor.eu/uploads/EUSTAFOR-booklet-European-forests-Tackling-climate-change-DEF-high.pdf>

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^{xxxi} <https://theeuropeannaturetrust.com/>

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^{xxxiv} EIB (2023) *European Investment Bank: Investing in Nature-based solutions*. European Investment Bank, Frankfurt. <https://www.eib.org/en/press/all/2023-217-nature-based-solutions-eib-report-finds-scope-for-regulatory-and-subsidy-reforms-as-well-as-a-more-flexible-spectrum-of-financial-instruments>