



The future of EU financing for nature and biodiversity

A discussion paper of NABU (BirdLife Partner in Germany)

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To meet global, EU and national commitments on halting biodiversity loss and to comply with legal obligations of the EU Birds and Habitats Directives it is urgent to close the existing funding gaps for nature conservation action. This will be possible only if relevant EU funding strategies are revised. The current "integrated" approach, of committing sectoral EU funds and programmes to finance Natura 2000 and other important measures must be regarded as a failure. This paper is an English language version of a more detailed NABU discussion paper that presents two possible alternative models based on experience from Germany and other Member States over the last two financial periods of the EU (2000-2013), and the beginning of the current (2014-2020).

The first model explores the establishment of a dedicated EU Environment Fund, the second a formalised, legally binding approach of earmarking budgets within existing funds and the introduction of co-management of these funds by environment authorities.

The growing financial gap and the failure of the "integrated approach"

The **loss of biological diversity** is, next to climate change, the greatest ecological disaster of our times. Despite some spectacular successes of species recovery in Europe, new data show that the EU and its Member States are still far away from meeting their global commitments of halting and reversing biodiversity loss (EEA, 2015).

In **biodiversity strategies** adopted by governments at EU, national and regional levels common key elements are the full implementation of the EU Birds and Habitats Directives with the Natura 2000 network as well as the integration of biodiversity concerns into relevant sectoral policies. In both fields, however, progress is far from sufficient. Key reasons for this are the **lack of available and accessible funding** and continuing **subsidies harmful for biodiversity** and the wider environment.

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Designating, protecting, managing and monitoring the **Natura 2000 network**, by now the largest ecological site network globally, is at the core but not the only measure needed to halt biodiversity loss. However there is an explicit legal obligation of EU co-financing for Natura 2000 according to Art.8 of the EU Habitats Directive.

The only official comprehensive estimate of Natura 2000 **costs** amounts to approximately 5.8 billion EUR annually for 27 Member States (EC, 2011). These include, inter alia, staff in nature administration, management and monitoring of sites, specific conservation projects and incentives for land users to implement measures for nature conservation and to reduce pressure on ecosystems. There is a wide scientific consensus that the consequences of not investing the required resources now, and therefore accepting continued biodiversity loss, would be by far more costly for the EU and its Member States.

Before the start of the previous EU budget period (2007-2013) all EU Institutions had agreed to use various sectoral funds rather than a dedicated single one to mobilise the required Community co-funding, the so called "**integrated approach**". In particular this concerns the European Agriculture Fund for Rural Development (EAFRD, the so called "Second Pillar" of the Common Agricultural Policy), the European Fund for Regional Development (EFRD) and other Cohesion Funds, and the European Maritime and Fisheries Fund (EMFF). The EU's only dedicated environmental financial instrument, the small LIFE programme (0.3 % of the total EU budget) is intended to support mainly small scale innovative pilot projects, inter alia for biodiversity.

Although there are no detailed figures available on the amount of **current spending** for Natura 2000, the European Commission estimated that during the last budget period only 10 to 20% of Natura 2000 costs were met through EU-funding (EC, 2011). It can be safely assumed that funding from other sources (Member State domestic public and private resources) was not exceeding the level of EU funding, so the **financial gap** at the end of the last EU budget period 2007-2013 can be assumed to be significantly higher than 50% of costs.

Observing current German Länder programming of EAFRD for the new period 2014-2020 and based on information about the situation in other EU Member States received from BirdLife International, WWF and other organisations, NABU has come to the conclusion that, overall, the **financial gap for nature conservation will increase rather than decrease in the future**. While availability of funds at EU level might appear sufficient in theory, in practice allocation and accessibility of targeted, high quality financial instruments, as needed for effective nature conservation, is unlikely to become a reality in the coming years.

This is confirmed by the analysis of the first Rural Development Programmes (RDPs) adopted so far outside Germany. Several Member States have decreased their budgets for biodiversity management schemes compared to the previous period. In many countries the Programmes contain less targeted biodiversity funding schemes than before or they remain underfunded and thus ineffective.

There are some positive exceptions, such as Austria which took its commitment to protect biodiversity seriously and devoted more RDP budget to support biodiversity friendly management than in the last period. Overall, however, the RDPs indicate inadequate funding for ecosystems and a lack of progress towards real targeted biodiversity conservation funding. At the same time, the general lack of effective biodiversity advisory services does not allow the biodiversity schemes which are in place to fulfil their potential. (BirdLife Europe 2015).

The funding situation is further aggravated by the fact that direct subsidies of the Common Agricultural Policy (CAP) are likely to do even more harm to biodiversity than in previous periods (PE'ER et al., 2014).

Finally, it must be noted that the EAFRD suffered financial cuts compared to the previous EU budget period and was fundamentally undermined by the decision to allow Member States to transfer EAFRD funds into the "First Pillar" of the CAP.

NABU therefore comes to the conclusion that **the "integration approach" for biodiversity and Natura 2000 financing has failed**. If Member States and the EU as a whole are still committed to meet global biodiversity objectives and to comply with their own legislation at EU level a significant change of this strategy is urgently required.

EU nature funding in Germany

In Germany, the EAFRD plays by far the most important role for biodiversity financing, implemented mainly through Rural Development Programmes (RDPs) of the regions (Länder), see Tab.1. The Länder are exploiting very little of the EFRD's potential, for various reasons (ECA 2014; WWF 2014).

EU fund/programme	Total fund allocation to Germany / estimated share for wider biodiversity related measures (Million EUR/year)	Estimated coverage of Natura 2000 costs in Germany in 2014-2020 (estimated 627 Million EUR/year)
European Social Fund (ESF)	1071 / 0	0 % <i>(previously used regionally for "site care taking", now no longer possible)</i>
European Maritime and Fisheries Fund (EMFF)	31 / > 4	0.6 %
European Fund for Regional Development (EFRD)	1540 / < 10	1 - 2 %
LIFE	? / < 15 <i>(centrally managed programme, no fixed national allocations)</i>	0.2 %
European Agricultural Fund for Rural Development (EAFRD)	1200 / < 270	<<< 50% <i>(unknown share of specific Natura 2000 measures)</i>

Tab. 1: Expected use of EU funds for biodiversity and Natura 2000 in Germany in the next years (own estimates based on figures from previous and current financial periods, NABU 2015b)

In *quantitative* terms, it can be assumed that the level of available budget for Natura 2000 in Germany is far from sufficient, and will, overall, not increase over the EU's financial period of 2014-2020. Any reduction of EAFRD for biodiversity in Germany might be compensated through the additional mobilisation of domestic funds of the Länder, which could result in funds being unavailable for other biodiversity related measures. In *qualitative* terms, furthermore, there is a very worrying trend in many German regions to use EU funding for less targeted and therefore less cost-effective measures.

It is striking to see that while Germany seems unable to cover the estimated annual Natura 2000 costs of 80 EUR per ha through EU and other funds, the German agriculture sector receives almost 300 EUR per ha of largely unconditional tax payers support.

Lessons learned from recent programming of EU funds in Germany

Despite existing good practice examples and a theoretically expanding potential at EU level, the use of EU funds for the implementation of Natura 2000 and wider biodiversity measures seems to decrease rather than increase in Germany. In the following some possible key reasons for this are identified, based on experience from a wide range of projects and activities in Germany and information from other Member States.

- (1) **Too little funding available at EU level.** Relevant EU funds are too small (EAFRD, LIFE) and/or lack legally binding earmarking for nature conservation purposes (EAFRD, EFRD).
- (2) **Too low political priority for nature conservation.** The European Commission's insistence on focusing EU funding, especially in the area of the Cohesion Policy, on a limited range of objectives, means that biodiversity measures lose out. Overall, governments in Germany and elsewhere seem to prefer directing EU support to measures for short-term jobs and growth, instead of investing in securing ecosystems and thus long term prosperity. The number of German Länder who choose biodiversity as an objective for EFRD is decreasing (WWF 2014).
- (3) **Financial gap undermining voluntary approaches.** Financial incentives and contracts with land users to increase their commitment and specific action for biodiversity has a long tradition in Germany, with many positive examples. Voluntary approaches however are limited, inter alia, by the lack of funds. Thus the economic attractiveness of agri- or forest-environment measures decreases with rising prices of land and agricultural commodities and public support for energy crops. On top of this, the direct "First Pillar" subsidies directly reduce the attractiveness of the "Second Pillar's" instruments (Hoettker & Leuschner, 2014; NABU 2014).
- (4) **Effective use of funds undermined by (perceived) controllability demands.** Massively increasing demands for controllability of measures expressed by the European Commission (and often exaggerated and misinterpreted by the sectoral administration in charge at regional level) have led to a significant reduction of the most effective targeted EU funded measures in

Germany and elsewhere, in particular so called "dark green" ambitious agri-environment schemes (NABU, 2013). Instead, more "light green" measures are introduced that reach a wider range of potential recipients and are easier to monitor but have a much lower cost effectiveness for biodiversity. The European Court of Auditors has specifically criticised this development (ECA, 2011).

- (5) **Administrative burden reduces attractiveness of EU funds for nature conservation.** To reduce administrative costs and to avoid risks of controls and sanctions German Länder are increasingly reducing the use of EAFRD for nature conservation (e.g. Hamburg, Hesse and Bavaria, NABU 2015a).
- (6) **Environment administration and civil society disadvantaged:** Despite formal improvements regarding "inter service" consultations and stakeholder participation, the practical influence of the environmental sector on the use of relevant funds remains far too limited. In many cases informal agreements of the lead administrations combined with a massive imbalance in terms of staff from EU to regional levels have prevented a true integration of nature conservation in the sectoral EU funds.
The effectiveness of Member States' Priority Action Frameworks for Natura 2000 (PAFs) as benchmark for funding programmes seems to have been very limited, partly due to low quality of the PAFs, partly due to their non-binding nature and to the fact that the European Commission's DG Environment was only able to use these at a late stage and under enormous time pressure.
- (7) **German Länder have not published sufficient information about costs, spending and priorities for nature financing.** As a consequence the German PAF was of very low quality and of little use to assess effectiveness of the funding programmes of the Länder.

Two possible models

In the light of the problems described above NABU suggests to fundamentally reconsider approaches for EU financing of nature conservation. Given the desperate situation of many species and habitats in the EU the upcoming mid-term evaluations of the EU budget and the Common Agricultural Policy have to be used for significant improvements. To contribute to this discussion NABU has developed two possible models.

MODEL I: An Environment Fund for the EU

In the light of the integration failures mentioned above and using positive experience from the LIFE programme and certain elements of Rural Development funding, a dedicated environment fund with sufficient budget could bring significant advantages.

- a. **Objectives of the fund.** To financially support Member States with restoration and stabilisation of ecosystems and their services, in particular with regard to the implementation of legislation and policies in the following areas:
 - i. Birds and Habitats Directives, Natura 2000
 - ii. other measures for biodiversity of Community importance

- iii. Water Framework Directive, Marine Strategic Framework Directive
 - iv. ecosystem based reduction of greenhouse gases (e.g. protection and restoration of peatlands)
 - v. ecosystem based adaptation to climate change with positive effects for biodiversity and ecosystems (e.g. flood defence through ecological river restoration)
 - vi. relevant measures in the areas of communication and education
 - vii. measures to support participation of civil society in all relevant political processes and in the implementation of the fund itself
- b. Budget.** The size of the fund should be based on current cost estimates for the implementation of the mentioned policies and legislation and an agreed co-financing rate. E.g. it should cover 50% of estimated Natura 2000 costs (at least 3 billion EUR annually).
The Multiannual Financial Framework of the EU should include a 20% ringfencing obligation for biodiversity (approx. 30 billion EUR per year) of which a large part should be spent through the new Environment Fund.
The Fund should be financed in particular from current First Pillar CAP funding.
- c. CAP, LIFE and other funds.** The remaining budget of the current "First Pillar" of the CAP should be merged with the EAFRD to form a new Financial Instrument for Rural Development. This instrument would provide public money for public goods, similar to the current EAFRD, supporting a wide range of rural development measures, in the form of investments but also income support (e.g. in the areas of organic farming, village development, direct marketing, measures for wider environmental quality etc.)
The LIFE-programme should stay a centrally managed programme of the European Commission to support innovative environmental projects through EU wide competition.
All other EU funds would need to respect the priority of ecologically sustainable development and must not be environmentally harmful.
- d. Management of the Environment Fund.** The Environment Fund would be implemented through Operational Programmes at national and regional level, similar to the current EAFRD and EFRD. The Commission's Directorate General for the Environment and the national or regional Environment Ministries would lead on this process. Programmes would only be adopted by the Commission if they follow a clear logic based on funding needs, strategies and objectives for the respective financial period.
- e. Instruments.** The instruments of the Environment funds would be based on best practice experience from the LIFE programme and other EU funds. It would include support for nature conservation measures such as management planning, land purchase, long term contractual agreements with land users, targeted agri-environment measures, site care taking, monitoring, co-operation, environmental education and communication.
- f. Beneficiaries and participation.** The Environment Fund would be available for all land users, civil society organisations, authorities and others who can implement measures that serve the objectives of the Fund. This would include farmers and forest owners, who could use it in a complementary way to the above mentioned Financial Instrument for Rural Development.

The involvement of relevant stakeholders from civil society, private sector and public administration would be key in all steps of implementation of the Environment Fund, from design of the EU level Regulation and programming at national and regional levels to monitoring of supported measures and results. The Fund would also provide direct technical and capacity support to stakeholders who otherwise could not participate in these processes.

MODELL II: Shared Management of the existing EU funds for biodiversity

An alternative to a dedicated Environment Fund could be developed based on existing funds provided a number of key conditions would be met. From the following it becomes clear that this model is very different from the status quo and would require significant changes to the system:

- a. **Legally binding minimum budgets for biodiversity ("earmarking").** Firstly the overall EU budget would need to include a fixed minimum percentage of funding benefitting biodiversity measures, e.g. 20% (see Model I, b above). Secondly, each relevant EU fund would include a minimum budget for Natura 2000 implementation and other biodiversity measures, enshrined in the respective legally binding Regulation of the fund. Thirdly, Operational Programmes of Member States would only be adopted by the European Commission if their combined allocated budgets add up to the needs of Natura 2000 as outlined in national PAFs, in quantitative and qualitative terms.
- b. **Size of relevant funds.** To ensure adequate financial resources it appears necessary to transfer at least 50 % of current CAP First Pillar budget to the Second Pillar. In addition the budget of the LIFE programme would have to be significantly increased, to cover any gaps left by the other funds. LIFE should be able to contribute at least 10% of Natura 2000 costs, and for this purpose receive annually one billion EUR from the EU budget.
- c. **Programming.** The legal Regulations of the respective EU funds would need to include specific articles for biodiversity financing with specific objectives and indicators. These could be separated into 1) area based/recurring biodiversity measures, 2) one-off investments and land purchase, 3) other measures and 4) cooperation.

Operational Programmes at national or regional levels would have to be developed jointly by the respective nature conservation authority and the respective traditionally leading authority of the fund. Programme parts under the biodiversity relevant articles would be developed and negotiated under the leadership of the environment administration, both at Member State and EU level. DG Environment would be involved in negotiations from the very start.

Measures of the Operational Programmes would focus much more than today on result based success indicators. (Perceived) challenges of controllability must no longer undermine the implementation of targeted measures for nature financing. The eligibility of land purchase, long-term support

measures in forests and other aspects specific for effective nature conservation financing must be guaranteed.

- d. **Participation.** The involved authorities, administration and civil society stakeholders from the environmental sector have to be equipped sufficiently in terms of staff and financial resources so they are able to make full use of their formally guaranteed right to engage in all stages of the process from local to EU level. If this is not guaranteed this model could hardly be effective.

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