

STUDY

Requested by the BUDG committee



# Documenting climate mainstreaming in the EU budget

---

making the system more transparent, stringent and  
comprehensive



Policy Department for Budgetary Affairs  
Directorate-General for Internal Policies  
PE 654.166 - July 2020



# Documenting climate mainstreaming in the EU budget

---

making the system more transparent, stringent  
and comprehensive

## **Abstract**

This study examines the current methodologies used for tracking climate-related and biodiversity-related expenditure in the EU budget. It identifies strengths and weaknesses of the current methodologies, and examines proposed changes to the methodologies for the 2021-2027 financial perspective. On this basis, it identifies potential objectives for strengthening the tracking mechanisms, and puts forward suggested approaches to meeting those objectives.

This document was requested by the European Parliament's Committee on Budgets. It designated Ms Margarida Marques, Ms Valerie Hayer and Mr Rasmus Andresen to follow the study.

## **AUTHORS**

Mr Martin Nesbit  
Mr Thorfinn Stainforth  
Ms Kaley Hart  
Ms Evelyn Underwood  
Mr Gustavo Becerra  
(Institute for European Environmental Policy)

## **RESPONSIBLE ADMINISTRATOR**

Mr Kaare Barslev (seconded national expert)

## **LINGUISTIC VERSIONS**

Original: EN  
Translation: FR, DE

## **ABOUT THE EDITOR**

Policy departments provide in-house and external expertise to support EP committees and other parliamentary bodies in shaping legislation and exercising democratic scrutiny over EU internal policies.

To contact the Policy Department or to subscribe for updates, please write to:  
Policy Department for Budgetary Affairs  
European Parliament  
B-1047 Brussels  
Email: [Poldep-Budg@ep.europa.eu](mailto:Poldep-Budg@ep.europa.eu)

Manuscript completed in May 2020.  
Brussels, © European Union, 2020.

This document is available on the internet at:  
<http://www.europarl.europa.eu/supporting-analyses>

## **DISCLAIMER AND COPYRIGHT**

The opinions expressed in this document are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament.  
Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy.  
© Cover image used under licence from Adobe Stock

## CONTENTS

<b>LIST OF FIGURES</b>	<b>5</b>
<b>LIST OF TABLES</b>	<b>5</b>
<b>LIST OF ABBREVIATIONS</b>	<b>5</b>
<b>EXECUTIVE SUMMARY</b>	<b>7</b>
<b>SYNTHÈSE</b>	<b>9</b>
<b>ZUSAMMENFASSUNG</b>	<b>11</b>
<b>1 CLIMATE AND BIODIVERSITY TRACKING IN THE EU BUDGET</b>	<b>14</b>
1.1. CLIMATE TRACKING IN THE 2014-2020 PERIOD	14
1.1.1. European Structural and Investment Funds (ESIF) – overview	17
1.1.2. European Regional Development Fund (ERDF) and Cohesion Fund (CF)	18
1.1.3. European Social Fund (ESF)	20
1.1.4. European Agricultural Guarantee Fund (EAGF)	20
1.1.5. European Agricultural Fund for Rural Development (EAFRD)	21
1.1.6. European Maritime and Fisheries Fund (EMFF)	23
1.1.7. Connecting Europe Facility	24
1.1.8. European Earth Observation Programme (Copernicus)	24
1.1.9. Horizon 2020 – The Framework Programme for Research and Innovation	25
1.1.10. Programme for the Environment and Climate Action (LIFE)	25
1.1.11. Instrument for Pre-accession Assistance (IPA II)	26
1.1.12. European Neighbourhood Instrument (ENI)	26
1.1.13. Development Cooperation Instrument (DCI)	26
1.1.14. Partnership Instrument for Cooperation with Third Countries (PI)	27
1.2. Biodiversity tracking in the 2014-2020 period	28
1.2.1. Common Agricultural Policy funds (EAGF and EAFRD)	29
1.2.2. European Structural Funds (Regional Development Fund, Social Fund, Cohesion Fund, EMFF)	31
1.2.3. LIFE programme	32
1.3. Climate and biodiversity tracking in the 2021-2027 period	33
1.3.1. How the increase in climate spending from 20% to 25% is achieved: proposals for the Common Agricultural Policy	33
1.3.1. Cohesion policy (ERDF, CF, ESF, EMFF)	37
1.3.2. Horizon Europe - The next research and innovation framework programme	37
1.3.3. LIFE	38
1.3.4. Implications of the European Green Deal	38
<b>2. ASSESSMENT OF STRENGTHS AND WEAKNESSES OF THE CURRENT SYSTEM</b>	<b>40</b>

2.1.	A relatively advanced tracking system, with a low level of administrative burden...	40
2.2.	... But which provides approximations which may not always be accurate	40
2.3.	Capturing co-benefits	42
2.4.	A focus on ex ante prediction	42
2.5.	Lack of explicit targets for results	42
2.6.	A number of areas where climate/biodiversity scoring is questionable	43
2.7.	Lack of connection to the political process of agreeing the annual budget	43
2.8.	Risks of negative climate and biodiversity impacts of expenditure	43
2.9.	Links to SDG indicator methodologies	44
<b>3</b>	<b>TOWARDS AN IMPROVED SYSTEM</b>	<b>45</b>
3.1.	What should an improved system aim to achieve?	45
3.2.	Options for an improved system	46
3.2.1.	For climate mitigation expenditure, consider requiring a minimum level of emissions reduction impact per Euro.	48
3.2.2.	Mechanisms to avoid negative climate impacts of EU programmes	48
3.2.3.	Linking tracking of Union expenditure to national strategies and plans	49
	<b>CONCLUSIONS AND RECOMMENDATIONS</b>	<b>50</b>
	<b>REFERENCES</b>	<b>52</b>
	<b>ANNEX: OTHER APPROACHES TO CLIMATE TRACKING IN EUROPEAN PUBLIC ADMINISTRATIONS</b>	<b>53</b>
	France	53
	Norway	54

---

## LIST OF FIGURES

Figure 1: Overview of the method designed by the Commission to calculate climate funding from agricultural direct payments	21
--	----

## LIST OF TABLES

Table 1: Climate mainstreaming in key EU programmes in the 2014-2020 MFF	16
Table 2: Climate markers applied to EAFRD in 2014-2020	22
Table 3: Biodiversity markers applied to Structural Funds expenditure, 2014-2020	31
Table 4: Climate markers applied to EAFRD in 2014-2020	35
Table 5: Climate markers proposed for the EAGF for 2021-27	35
Table 6: Climate markers proposed for the EAFRD for 2021-27	36
Table 7: The change in EAGF's contribution to the climate target	36

## LIST OF ABBREVIATIONS

<b>AECM</b>	Agri-environment-climate measure under EAFRD
<b>CAP</b>	Common Agricultural Policy
<b>CEF</b>	Connecting Europe Facility
<b>CF</b>	Cohesion Fund
<b>CMEF</b>	Common Monitoring and Evaluation Framework (under the CAP)
<b>CPR</b>	Common Provisions Regulation (Regulation 1303/2013)
<b>DCI</b>	Development Cooperation Instrument
<b>EAFRD</b>	European Agricultural Fund for Rural Development
<b>EAGF</b>	European Agricultural Guarantee Fund
<b>EGD</b>	European Green Deal
<b>EMFF</b>	European Maritime and Fisheries Fund
<b>ENI</b>	European Neighbourhood Instrument
<b>ERDF</b>	European Regional Development Fund
<b>ESF</b>	European Social Fund
<b>ESI Funds/ ESIF</b>	European Structural and Investment Funds
<b>GAEC</b>	Good Agricultural and Environmental Condition requirements under the CAP
<b>GHG</b>	Greenhouse Gases
<b>IPA</b>	Instrument for Pre-accession Assistance
<b>LIFE</b>	"L'instrument financier pour l'environnement" – Programme for the Environment and Climate Action



## EXECUTIVE SUMMARY

### Background

The new Commission will, according to the political guidelines presented by President von der Leyen to the European Parliament on 16 July 2019, place climate action at the heart of their work. A key instrument available to the Commission and to legislators in delivering priorities on climate action is the European budget. The previous Commission, in its proposals for the next Multi-Annual Financial Framework, called for an increase in the EU budget contribution to climate action from 20% in the current perspective (2014- 2020), to 25% in the next period (2021-2027). The European Green Deal proposed by the Commission in 2019 foresees an enhanced focus of EU policies on climate and biodiversity objectives.

The Parliament has made clear that it sees the need for a more transparent and accurate methodology for recording climate expenditure. Its resolution of November 2018 on the 2021-2027 Multi-Annual Financial Framework<sup>1</sup>, in addition to call for the target to be increased to 30% as possible, and at the latest by 2027, also suggests that tracking should be on the basis of “reformed performance indicators that differentiate between mitigation and adaptation”. Its resolution of October 2019<sup>2</sup> on the draft Budget for 2020 adds further detail, calling for the 2020 budget to “prepare for an even more ambitious target” for the coming MFF, with “a more transparent, stringent and comprehensive methodology... including reformed performance indicators for defining and tracking climate- and biodiversity-relevant expenditure”.

The methodology currently used by the Commission focuses on the contribution of expenditure towards climate objectives, regardless of whether climate change is a stated objective of the expenditure or not; an approach which differs from the OECD recommendations for tracking development cooperation expenditure. In a number of areas, the recording of expenditure as climate-relevant has been criticised for being over-generous. Proposals for achieving a 25% level of climate expenditure in the next period (2021-2027) depend critically on some of these assumptions about what constitutes “climate expenditure”.

### Aim

This research paper was commissioned by the European Parliament to provide an overview of the current methodologies used by the European Commission for tracking expenditure on climate and for tracking expenditure on biodiversity; and to provide a critical assessment of its strengths and weaknesses. In addition, it examines the current Commission proposals for the next financial perspective (2021-2027), and the approach taken to delivering the proposed 25% target for climate expenditure. On the basis of that assessment, it puts forward suggested objectives for an improved, more sophisticated system; and offers recommendations for how those objectives can be delivered.

The methodology adopted for this report focused on assessment of the legislation and official documentation for climate tracking. This was supplemented by analysis of the available expert literature on the subject. In addition, the research team conducted a limited number of interviews with experts in order to validate its findings and identify further sources of information; and investigated the extent of other climate tracking systems in developed economies which aim at providing a budget-wide assessment.

---

<sup>1</sup> European Parliament resolution of 14 November 2018 on the Multiannual Financial Framework 2021-2027 – Parliament’s position with a view to an agreement; see in particular proposed Modification 11.

<sup>2</sup> European Parliament resolution of 23 October 2019 on the Council position on the draft general budget of the European Union for the financial year 2020

## KEY FINDINGS

- The current approach to climate tracking focuses is based on the identification of funded activities with positive impacts on climate policy, regardless of whether or not climate is a stated objective of the expenditure. This differs from both the internationally recognised Rio Markers approach for development co-operation expenditure, and from the approach adopted for tracking biodiversity expenditure.
- While the tracking methodology avoids excessive bureaucracy, it has a number of weaknesses. In some areas of expenditure, it relies on approximations; and in a number of areas, particularly agriculture programmes, it has been criticised for being over-generous in its assessment of climate impacts.
- The proposals for climate tracking in the 2021-2027 financial perspective rely on the same broad approach, with some adjustments. The impact of the proposed adjustments to tracking of Common Agricultural Policy spending more than accounts for the increase in climate expenditure target from 20% to 25% of the EU budget; it currently seems unlikely that this will be justified by a commensurate increase in the climate relevance of CAP interventions to be adopted by Member States.
- Alternative approaches to climate and biodiversity tracking should continue to avoid administrative complexity, but also to provide positive incentives to maximise EU spending on delivery of climate and biodiversity policy objectives.
- A suggested approach to achieving this is to include programmes in climate and biodiversity tracking only where they have clear, verifiable, and ideally quantified targets for the achievement of climate and biodiversity policy objectives, which would be subject to agreement by the co-legislators. This target-setting should include a clear distinction between climate mitigation and climate adaptation objectives.
- Implementing such an approach in time for the beginning of the next financial perspective [2021-2027] would be challenging, and the time needed to design and agree a more detailed and accurate system would risk delay to the adoption of programme legislation. As an alternative, the Commission could be charged with investigating the feasibility and modalities of such an approach by the middle of the 2021-2027 financial perspective, in time to develop proposals for change to be introduced as soon as feasible on a programme by programme basis, and at the latest for all programmes by the beginning of the following financial perspective. In the meantime, legislators and policymakers should examine carefully the climate markers proposed to be applied to expenditure programmes, and, where justified, should propose changes, to ensure that expenditure counted towards the 25% climate target would be recognised as climate expenditure by well-informed members of the public. If markers are not found to be justified, they should be removed, or the legislation on the relevant expenditure programmes adjusted to ensure that a sufficiently direct, tangible, and sizeable impact on climate objectives is achieved.
- Mechanisms to reflect the net impact of expenditure, by deducting expenditure shown to have negative climate or biodiversity impacts, would be difficult to implement. There is a stronger case for further legislative and other measures to avoid such expenditure being made.

## SYNTHÈSE

### Contexte

Conformément aux orientations politiques présentées par Ursula von der Leyen, présidente de la Commission européenne, au Parlement européen le 16 juillet 2019, la nouvelle Commission placera l'action pour le climat au cœur de ses travaux. Le budget européen est un instrument clé dont disposent la Commission et les législateurs pour mettre en œuvre les priorités en matière d'action climatique. La précédente Commission, dans ses propositions pour le prochain cadre financier pluriannuel, avait appelé à porter à 25 % la part du budget de l'Union consacrée à l'action pour le climat pour la prochaine période (2021-2027), contre 20 % pour la période actuelle (2014-2020). Le pacte vert pour l'Europe proposé par la Commission en 2019 prévoit d'axer davantage les politiques de l'Union sur les objectifs en matière de climat et de biodiversité.

Le Parlement a clairement indiqué qu'il jugeait nécessaire la mise au point d'une méthode plus transparente et plus précise pour enregistrer les dépenses relatives à l'action pour le climat. Sa résolution de novembre 2018 sur le cadre financier pluriannuel 2021-2027<sup>3</sup> demande que l'objectif soit porté à 30 % au plus vite, et au plus tard en 2027, et suggère de surcroît que le suivi soit effectué sur la base d'«indicateurs de performance réformés qui distinguent atténuation et adaptation». La résolution du Parlement d'octobre 2019 sur le projet de budget pour 2020<sup>4</sup> apporte plus de précisions et appelle à «préparer l'Union à un objectif encore plus ambitieux» pour le prochain CFP dans le cadre du budget 2020, avec «une méthode plus transparente, plus stricte et plus globale, [...] ainsi que des indicateurs de performance réformés pour la définition et le suivi des dépenses liées au climat et à la biodiversité».

La méthode actuellement utilisée par la Commission se concentre sur la part des dépenses consacrées aux objectifs climatiques, que le changement climatique soit ou non un objectif déclaré des dépenses – une approche qui diffère des recommandations de l'OCDE pour le suivi des dépenses en matière de coopération au développement. Dans un certain nombre de domaines, les dépenses relatives à l'action pour le climat enregistrées font l'objet de critiques, étant considérées comme excessives. Les propositions pour parvenir à un niveau de dépenses de 25 % en faveur du climat au cours de la prochaine période (2021-2027) dépendent essentiellement de ce qui est considéré comme une «dépense en faveur du climat».

### Objectif

La présente étude a été demandée par le Parlement européen pour fournir un aperçu des méthodes actuellement utilisées par la Commission européenne pour suivre les dépenses en matière de climat et de biodiversité et pour fournir une évaluation critique de leurs points forts et de leurs points faibles. Elle examine également les propositions actuelles de la Commission pour le prochain cadre financier (2021-2027) et la stratégie adoptée pour atteindre l'objectif proposé de 25 % de dépenses en faveur du climat. À partir de cette évaluation, l'étude propose des objectifs pour un système amélioré et plus sophistiqué, et formule des recommandations sur la manière dont ces objectifs peuvent être atteints.

La méthode adoptée pour ce rapport est centrée sur l'évaluation de la législation et de la documentation officielle pour le suivi de l'action pour le climat. Elle est complétée par une analyse de la littérature spécialisée disponible sur le sujet. En outre, l'équipe de recherche a mené un petit nombre

<sup>3</sup> Résolution du Parlement européen du 14 novembre 2018 sur le cadre financier pluriannuel pour la période 2021-2027 – Position du Parlement en vue d'un accord; voir, notamment, la modification 11 proposée.

<sup>4</sup> Résolution du Parlement européen du 23 octobre 2019 relative à la position du Conseil sur le projet de budget général de l'Union européenne pour l'exercice 2020.

d'entretiens avec des spécialistes afin de valider ses conclusions et d'identifier d'autres sources d'information, et elle a étudié la portée d'autres systèmes de suivi de l'action pour le climat en vigueur dans des économies développées qui visent à fournir une évaluation budgétaire.

#### PRINCIPALES CONCLUSIONS

- En matière de suivi de l'action pour le climat, l'approche actuelle consiste à identifier les activités financées qui ont une incidence positive sur la politique climatique, que le climat soit ou non un objectif déclaré des dépenses. Cette méthode diffère de l'approche fondée sur les marqueurs de Rio pour les dépenses en matière de coopération au développement, mondialement reconnue, ainsi que de celle adoptée pour le suivi des dépenses en faveur de la biodiversité.
- Si la méthode de suivi évite une bureaucratie excessive, elle présente un certain nombre de points faibles. Dans certains secteurs de dépenses, elle s'appuie sur des approximations et dans un certain nombre de domaines, en particulier les programmes agricoles, elle est critiquée pour son évaluation excessive des incidences sur le climat.
- Les propositions relatives au suivi de l'action pour le climat dans les perspectives financières 2021-2027 reposent sur la même approche générale, avec quelques ajustements. L'incidence des modifications proposées pour le suivi des dépenses de la politique agricole commune explique l'augmentation de l'objectif en matière de dépenses liées au climat, qui passe de 20 % à 25 % du budget de l'Union. Il semble peu probable, à l'heure actuelle, qu'une amélioration proportionnelle de la pertinence des interventions de la PAC en matière de climat, qui doivent être adoptées par les États membres, justifie cette augmentation.
- Les autres approches en matière de suivi du climat et de la biodiversité devraient continuer à éviter la complexité administrative, tout en apportant des incitations positives afin d'optimiser les dépenses de l'Union en faveur de la réalisation des objectifs des mesures prises en faveur du climat et de la biodiversité.
- Une approche suggérée pour atteindre cet objectif consiste à ne prendre en compte que les programmes de suivi du climat et de la biodiversité qui présentent des objectifs clairs, vérifiables et idéalement quantifiés en vue de la réalisation des objectifs des mesures prises en faveur du climat et de la biodiversité. Ces programmes seraient soumis à l'accord des colégislateurs. La définition de ces objectifs devrait comporter une distinction claire entre les objectifs d'atténuation du changement climatique et les objectifs d'adaptation au changement climatique.
- Il serait difficile de mettre en œuvre une telle approche suffisamment tôt avant le début des prochaines perspectives financières (2021-2027), et le délai nécessaire à la conception et à l'adoption d'un système plus détaillé et plus précis risquerait de retarder l'adoption de la législation relative au programme. Une autre solution consisterait à charger la Commission d'étudier la faisabilité et les modalités d'une telle approche avant le milieu de la période d'application des perspectives financières 2021-2027, assez tôt pour que soient élaborées des propositions de modifications pouvant être introduites dès que possible, programme par programme, et au plus tard pour tous les programmes avant le début des perspectives financières suivantes. Entretemps, les législateurs et les responsables politiques devraient examiner avec soin les marqueurs climatiques proposés pour les programmes de dépenses et, lorsque cela se justifie, proposer des modifications visant à garantir que les dépenses prises en compte pour la réalisation de l'objectif de 25 % de dépenses liées au climat seraient reconnues comme telles par les citoyens bien informés. Si les marqueurs ne s'avéraient pas justifiés, il conviendrait de les supprimer ou d'ajuster la législation sur les programmes de dépenses concernés de manière à garantir une incidence sur les objectifs climatiques qui soit suffisamment directe, tangible et importante.
- Il serait difficile de mettre en place des mécanismes permettant de rendre compte de l'incidence nette des dépenses par la déduction des dépenses dont il a été démontré qu'elles ont des conséquences négatives sur le climat ou la biodiversité. Ces arguments plaident en faveur de l'adoption de dispositions législatives et autres mesures destinées à éviter de telles dépenses.

## ZUSAMMENFASSUNG

### Hintergrund

Die neue Kommission wird gemäß den politischen Leitlinien, die Präsidentin von der Leyen dem Europäischen Parlament am 16. Juli 2019 vorgelegt hat, den Klimaschutz in den Mittelpunkt ihrer Arbeit stellen. Ein wichtiges Instrument, das der Kommission und den Gesetzgebern bei der Umsetzung der Prioritäten für den Klimaschutz zur Verfügung steht, ist der EU-Haushalt. Die vorherige Kommission hat in ihren Vorschlägen für den nächsten mehrjährigen Finanzrahmen eine Erhöhung des Beitrags aus dem EU-Haushalt zum Klimaschutz von derzeit 20 % (2014–2020) auf 25 % im nächsten Zeitraum (2021–2027) gefordert. Der von der Kommission 2019 vorgeschlagene Europäische Grüne Deal sieht eine stärkere Ausrichtung der EU-Politik auf die Klima- und Biodiversitätsziele vor.

Das Parlament hat deutlich gemacht, dass es eine transparentere und genauere Methodik für die Erfassung von Klimaschutzausgaben als notwendig erachtet. In seiner Entschlieung vom November 2018 zum mehrjährigen Finanzrahmen 2021–2027 wird neben der Forderung ‚das Ziel möglichst rasch auf 30 % bis spätestens 2027 zu erhöhen, auch vorgeschlagen, dass die Verfolgung der Ausgaben ‚auf der Grundlage reformierter Leistungsindikatoren [...], die zwischen Eindämmung und Anpassung differenzieren‘ erfolgen sollte. In seiner Entschlieung vom Oktober 2019<sup>6</sup> zu dem Entwurf des Haushaltsplans 2020 werden weitere Einzelheiten hinzugefügt und gefordert, sich im Rahmen des Haushaltsplans 2020 auf ein noch ehrgeizigeres Ziel für den kommenden MFR vorzubereiten, mit ‚eine[r] transparentere[n], strengere[n] und umfassendere[n] Methodik, einschließlich überarbeiteter Leistungsindikatoren für die Festlegung und Nachverfolgung klima- und biodiversitätsrelevanter Ausgaben‘.

Bei der derzeit von der Kommission angewandten Methode liegt der Schwerpunkt auf dem Beitrag der Ausgaben zu den Klimazielen, unabhängig davon, ob der Klimawandel ein erklärtes Ziel der jeweiligen Ausgaben ist oder nicht. Dieser Ansatz weicht von den OECD-Empfehlungen für die Nachverfolgung der Ausgaben im Rahmen der Entwicklungszusammenarbeit ab. In einer Reihe von Bereichen wurde die zu großzügige Einstufung von Ausgaben als klimarelevant kritisiert. Vorschläge für die Erreichung eines Klimaschutzausgabenniveaus von 25 % im nächsten Zeitraum (2021–2027) hängen entscheidend von einigen der Annahmen darüber, was unter ‚Klimaschutzausgaben‘ zu verstehen ist, ab.

### Ziel

Dieses Forschungspapier wurde vom Europäischen Parlament in Auftrag gegeben, um einen Überblick über die derzeitigen Methoden zu geben, die die Kommission zur Nachverfolgung der Ausgaben für den Klimaschutz und die biologische Vielfalt anwendet, und um eine kritische Bewertung der Stärken und Schwächen dieser Methoden vorzunehmen. Darüber hinaus werden die aktuellen Vorschläge der Kommission für die nächste Finanzielle Vorausschau (2021–2027) und der Ansatz zur Verwirklichung des vorgeschlagenen Ziels von 25 % für Klimaschutzausgaben geprüft. Auf der Grundlage dieser Bewertung schlägt es vor, ein verbessertes und technisch ausgefeilteres System anzustreben, und gibt Empfehlungen dazu ab, wie sich dieses Ziel erreichen lässt.

Bei der für diesen Bericht gewählten Methodik lag der Schwerpunkt auf der Bewertung der Rechtsvorschriften und der offiziellen Dokumentation der Nachverfolgung klimabezogener Ausgaben.

<sup>5</sup> Entschlieung des Europäischen Parlaments vom 14. November 2018 zu dem Mehrjährigen Finanzrahmen 2021–2027: Standpunkt des Parlaments im Hinblick auf eine Einigung. Siehe insbesondere die vorgeschlagene Änderung 11.

<sup>6</sup> Entschlieung des Europäischen Parlaments vom 23. Oktober 2019 betreffend den Standpunkt des Rates zum Entwurf des Gesamthaushaltsplans der Europäischen Union für das Haushaltsjahr 2020.

Ergänzt wurde dies durch eine Analyse der verfügbaren Fachliteratur zu diesem Thema. Darüber hinaus führte das Forschungsteam eine begrenzte Zahl von Interviews mit Sachverständigen durch, um seine Ergebnisse zu validieren und weitere Informationsquellen zu ermitteln, und untersuchte, in welchem Ausmaß in Industriestaaten andere Systeme zur Nachverfolgung klimabezogener Ausgaben, die auf eine Bewertung des gesamten Haushalts ausgerichtet sind, zum Einsatz kommen.

#### WICHTIGSTE ERKENNTNISSE

- Der derzeitige Ansatz für die Nachverfolgung klimabezogener Ausgaben beruht darauf, dass finanzierte Maßnahmen ermittelt werden, die sich positiv auf die Klimapolitik auswirken, unabhängig davon, ob der Klimaschutz ein erklärtes Ziel der Ausgaben ist oder nicht. Dies unterscheidet sich sowohl vom international anerkannten Ansatz der sogenannten „Rio-Marker“ für die Ausgaben für die Entwicklungszusammenarbeit als auch vom Ansatz für die Nachverfolgung der Ausgaben für biologische Vielfalt.
- Mit der Nachverfolgungsmethode kann zwar übermäßige Bürokratie vermieden werden, sie weist jedoch eine Reihe von Schwächen auf. In einigen Ausgabenbereichen stützt sie sich auf Näherungswerte. Außerdem wurde kritisiert, dass sie in einer Reihe von Bereichen, insbesondere bei Landwirtschaftsprogrammen, bei der Bewertung der Klimaauswirkungen zu großzügig sei.
- Die Vorschläge für die Nachverfolgung klimabezogener Ausgaben in der Finanziellen Vorausschau 2021–2027 stützen sich auf denselben umfassenden Ansatz, wobei es einige Anpassungen gibt. Die Auswirkungen der vorgeschlagenen Anpassungen bei der Nachverfolgung der Ausgaben im Rahmen der Gemeinsamen Agrarpolitik entsprechen mehr als der Erhöhung des Ziels von 20 % des EU-Haushalts für Klimaschutzausgaben auf 25 %; derzeit erscheint es unwahrscheinlich, dass dies durch entsprechende Erhöhungen der Klimarelevanz der GAP-Interventionen gerechtfertigt sein wird, die von den Mitgliedstaaten zu verabschieden sind.
- Mit alternativen Ansätzen für die Nachverfolgung von Ausgaben für Klimaschutz und biologische Vielfalt sollte weiterhin verwaltungstechnische Komplexität vermieden werden, es sollten jedoch auch positive Anreize geboten werden, um die EU-Ausgaben für die Verwirklichung der Ziele in den Bereichen Klimaschutz und biologische Vielfalt zu maximieren.
- Ein zur Verwirklichung dieses Ziels vorgeschlagener Ansatz besteht darin, Programme zur Nachverfolgung von Ausgaben für Klimaschutz und biologische Vielfalt nur dann aufzunehmen, wenn sie klare, überprüfbare und idealerweise quantifizierbare Ziele für die Verwirklichung der Ziele in den Bereichen Klimaschutz und biologische Vielfalt umfassen, was von den Mitgesetzgebern vereinbart werden müsste. Bei der Festlegung dieser Ziele sollte klar zwischen Klimaschutz und Anpassung an den Klimawandel unterschieden werden.
- Die rechtzeitige Umsetzung eines solchen Ansatzes bis zum Beginn der nächsten Finanziellen Vorausschau [2021–2027] wäre eine Herausforderung, und aufgrund der Zeit, die benötigt wird, um ein detaillierteres und genaueres System zu konzipieren und zu vereinbaren, könnte sich die Annahme von Programmvorschriften verzögern. Alternativ dazu könnte die Kommission beauftragt werden, die Durchführbarkeit und die Modalitäten eines solchen Ansatzes bis zur Mitte der Finanziellen Vorausschau 2021–2027 zu prüfen, und zwar rechtzeitig, um Vorschläge für Änderungen vorzubereiten, die so bald wie möglich für jedes einzelne Programm, spätestens jedoch zu Beginn der folgenden Finanziellen Vorausschau für alle Programme, eingeführt werden sollen. In der Zwischenzeit sollten Gesetzgeber und politische Entscheidungsträger die Klimamarker, die zur Anwendung bei den Ausgabenprogrammen vorgeschlagen wurden, sorgfältig prüfen und gegebenenfalls Änderungen vorschlagen, um sicherzustellen, dass Ausgaben, die auf das Ziel von 25 % für Klimaschutzausgaben angerechnet werden, von gut informierten Bürgern als klimabezogene Ausgaben anerkannt werden. Wenn die Marker für nicht gerechtfertigt befunden werden, sollten sie gestrichen oder die Rechtsvorschriften über die einschlägigen Ausgabenprogramme angepasst werden, um sicherzustellen, dass ausreichend direkte, greifbare und umfassende Auswirkungen auf die Klimaziele erzielt werden.

- Mechanismen zur Berücksichtigung der Nettoauswirkungen der Ausgaben, bei denen Ausgaben, die nachweislich negative Auswirkungen auf das Klima oder die biologische Vielfalt haben, entsprechend abgezogen werden, wären schwer umzusetzen. Diese Argumente sprechen für die Verabschiedung weiterer Rechtsvorschriften und anderer Maßnahmen zur Vermeidung solcher Ausgaben.

# 1 CLIMATE AND BIODIVERSITY TRACKING IN THE EU BUDGET

## KEY FINDINGS

- The current approach to climate tracking focuses is based on the identification of funded activities with presumed positive impacts on climate policy, regardless of whether or not climate is an objective of the expenditure. This differs from both the internationally recognised Rio Markers approach for development co-operation expenditure, and from the approach adopted for tracking biodiversity expenditure.
- While the tracking methodology avoids excessive bureaucracy, it has a number of weaknesses. In some areas of expenditure, it relies on approximations; and in a number of areas, particularly agriculture programmes, it has been criticised for being over-generous in its assessment of climate relevance.
- The proposals for climate tracking in the 2021-2027 financial perspective rely on the same broad approach, with some adjustments. The impact of the proposed adjustments to tracking of Common Agricultural Policy spending more than accounts for the increase in climate expenditure target from 20% to 25% of the EU budget.

## 1.1. CLIMATE TRACKING IN THE 2014-2020 PERIOD

The main focus of this report is on the process for identifying expenditure on climate and biodiversity. We should note, however, that climate mainstreaming is a broader process, aimed at integrating climate objectives in the policy underlying expenditure programmes, and also at avoiding negative impacts.

Tracking EU budget expenditure on climate (or on biodiversity – see section 1.2 below) is not a straightforward task; but the way in which it is approached needs to be properly understood by policymakers if they are to reach a judgement on whether 20%, or 25%, or any other proportion is an appropriate target. The current methodology does not track expenditure “on” climate, in the sense of expenditure whose primary purpose is to meet climate mitigation or adaptation targets; rather, it aims to provide a reasonably accurate description of the expenditure which contributes towards the delivery of those targets – although the expenditure may in addition have a range of other policy objectives. Some of the expenditure included in the climate tracking may therefore have a range of other primary justifications – including regional economic development, social cohesion, or economic restructuring.

It is similarly not accurate to think of 20% (or, for the next MFF, 25%) being spent “on” climate, and the remaining EU budget being spent “on” other things adding up to the remaining 80% (or 75%) of the total. Delivery of climate objectives overlaps with the delivery of other objectives. Thus, 100% of expenditure under a specific budget line could be considered as contributing to delivery of climate targets; while 100% of it is *also* considered to deliver territorial cohesion benefits, and 40% to deliver biodiversity benefits.

The Commission’s current methodology for identifying and measuring climate-related expenditure in the 2014-2020 period is based on the so-called Rio Markers system developed by the OECD<sup>7</sup>, which aimed to give developed countries a mechanism for assessing how their development co-operation expenditure contributed towards their obligations under the Rio Conventions on Climate Change and Biodiversity. Under the OECD Rio Markers, a weighting (or “marker”) of 100%, 40%, or 0% is applied to funding. The OECD system specifies the following guidelines for the application of the markers:

<sup>7</sup> See “OECD DAC Rio Markers for Climate: Handbook”, OECD



Rio Marker 2 (100%): An activity can be marked as “principal” when the objective (climate change mitigation, climate change adaptation) is explicitly stated as fundamental in the design of, or the motivation for, the activity.

Rio Marker 1 (40%): An activity can be marked as “significant” when the objective (climate change mitigation, climate change adaptation) is explicitly stated but is not the fundamental driver or motivation for undertaking and designing the activity.

Rio Marker 0 (0%): Not targeted means that the activity was examined but found not to target the objective in any significant way.

This approach has been adapted for use in the EU budget - as explained in the Commission’s Statement of Estimates for the 2020 financial year:

“The climate tracking is done using EU climate markers, which adapted the OECD’s development assistance tracking ‘Rio markers’ to provide for quantified financial data. EU climate markers reflect the specificities of each policy area, and assign three categories of weighting to activities on the basis of whether the support makes a significant (100 %), a moderate (40 %) or insignificant (0 %) contribution towards climate change objectives. At the same time, the tracking methodology has also reflected the specificities of policy areas.”<sup>8</sup>

A key difference between the OECD system and the Commission’s adaptation of it is the absence of an objective assessment of the **stated motivation** of the expenditure, and a focus instead on the **contribution made in practice**. However, as will become clear from our assessment of individual programmes in section 1.1 below, this climate marker system is not applied in all programmes.

Different levels of rigour appear to be applied to different programmes; reflecting a process for decisions on how expenditure is tracked which relies on agreement between the different Commission DGs, although the Commission itself is confident that the methodology used is consistent across programmes. There is no overarching mechanism within the Commission for allocating a single budget of expenditure towards the current 20% target, or the new 25% target; rather, a process of bilateral discussions takes place in order to reach agreement on how, and whether, each individual programme is recorded as making a climate contribution, before the coefficients are fixed at the start of the MFF.

Reporting of climate expenditure data is provided by the Commission’s annual budget documentation, in particular the working document on Programme Statements of operational expenditure accompanying the Draft general Budget, and the Statement of Estimates for the financial year ahead. (Biodiversity-related expenditure is also reported in these documents, although this is a Commission initiative not mandated by European Council or European Parliament requests; and the tracking does not aim to demonstrate that a specific percentage target for expenditure has been reached.)

The statement of estimates provides an indication of expected climate (and biodiversity) expenditure in the relevant year in the form of commitment appropriations, while the Programme Statements of operational expenditure provide a more detailed explanation of the approach adopted to tracking relevant expenditure under each line, and an account of the expenditure allocated to climate across the Multi-annual Financial Framework. The approach focuses on tracking commitment appropriations and not on the contribution towards meeting climate objectives achieved by the expenditure in practice.

The programme by programme nature of climate mainstreaming thus requires an assessment of the approach adopted in each programme to ensure a full understanding. A key issue is the need to reflect

<sup>8</sup> COM (2019) 400, working document part I: Programme Statements of Operational Expenditure

the different approaches to management of expenditure under the EU budget, some of which are centrally managed by the Commission itself, and some of which are under shared management, with implementation of expenditure programmes carried out at Member State or regional level – particularly the European Structural and Investment Funds (ESIF). Table 1 below summarises the main characteristics of climate tracking for each programme in the 2014 – 2020 period reporting significant climate expenditure; and we provide a short description of the approach for each fund in the remainder of this section. (The approach to biodiversity tracking is described separately at the end of this section).

Table 1: Climate mainstreaming in key EU programmes in the 2014-2020 MFF

Fund	Climate %	Average annual climate spend (€m)	Comments on tracking methodology
European Agricultural Guarantee Fund (EAGF)	15.05%	€6,499.71	ECA has expressed <sup>9</sup> doubts about methodology for assessing the proportion of direct payments recorded as climate expenditure. Commission proposal for an increase to 40% in 2021-27 needs to be backed up by real improvements in climate delivery.
European Agricultural Fund for Rural Development (EAFRD)	57.54%	€8,246.00	Generally robust methodology, although the scoring of some measures considered questionable by observers, including the ECA; and dependent on seriousness of MS implementation.
European Maritime and Fisheries Fund (EMFF)	15.77%	€143.80	Climate percentage is primarily driven by measures where climate mitigation is not a part of their rationale.
European Regional Development Fund (ERDF)	18.36%	€5,247.19	Generally robust methodology – although it assumes that expenditure in practice matches the pattern of committed expenditure.
Cohesion Fund (CF)	27.64%	€2,945.17	Same methodology as for ERDF (higher % spend reflects specific nature of Cohesion Fund spending).
European Social Fund (ESF)	3.84%	€534.86	Voluntary nature of Member State designation of climate as a secondary thematic objective may mean that some relevant expenditure is not included.
Copernicus	33.12%	€201.19	Simple and generally robust methodology.

<sup>9</sup> ECA 2016

Horizon 2020	26.48%	€2,845.96	A generally appropriate system, although some concerns have been reported on the consistency of assessment of climate relevance at project level.
Connecting Europe Facility (CEF)	(<40%) <sup>10</sup>	€1,639.01	Very simple stated methodology, with the result that expenditure on e.g. gas infrastructure and non-climate-relevant port infrastructures is included, while investments in Electric Vehicle infrastructure only receives a 40% marker.
LIFE	46.46%	€229.33	Relatively straightforward mechanisms for tracking, given climate and environment focus of the programme; but note that expenditure is counted twice, once towards climate objectives, and once towards biodiversity
Instrument for Pre-accession Assistance (IPA II)	12.42%	€230.19	Limited information available on how tracking operates
European Neighbourhood Instrument (ENI)	16.36%	€404.63	Limited information available on how tracking operates
Development Cooperation Instrument (DCI)	22.88%	€653.91	Detailed and credible mechanisms for tracking of climate expenditure (note: using Rio Markers definition based on purpose of expenditure, rather than Commission adapted methodology based on expected impacts)

Source: own calculations, based on data from the statement of estimates for 2020, and the 2020 programme statements of operational expenditure

### 1.1.1. European Structural and Investment Funds (ESIF) – overview

The five European Structural and Investment Funds (ESI Funds) use a broadly similar tracking system for climate related expenditure. The funds are the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD), and the European Maritime and Fisheries Fund (EMFF).

The ESI Funds are implemented through programmes in accordance with the elements set out in Partnership Agreements with Member States. In the case of the ERDF, the CF, and the ESF, programme authorities in the Member States are required to structure their programmes around specified strategic priorities as 'priority axes' in their programmes. The programme authorities then record expenditure

<sup>10</sup> Total recorded by the Commission in the Programme Statements for 2020 includes contributions from the Cohesion Fund, which makes it difficult to calculate an overall percentage of climate expenditure.

commitments against selected “intervention fields” for investment priorities, which are specified types of expenditure. These are listed in Annex I of the Implementing Regulation (EU) No 215/2014<sup>11</sup>, with climate markers assigned in terms of coefficients (100%, 40% or 0%) to the different intervention fields. These are then used to calculate the level of climate spending by multiplying the indicative expenditure committed by the corresponding coefficients for each intervention field. The first 101 intervention fields are relevant to the ERDF and CF. The remaining intervention fields (except for those dealing with technical assistance) are relevant to the ESF. Further detail on the approach for each fund is provided in sections 0 and 0 below.

The approach adopted by the implementing regulation for the EAFRD and the EMFF is slightly different, reflecting the different aims and mode of operation of the two funds, as described in sections 0 and 0 below respectively.

For biodiversity, tracking is also conducted using intervention fields that have been assigned Rio markers. However, these are not assigned in the implementing legislation. Under the suggested methodology, two intervention fields have been assigned Rio marker 2 (100%), and three have been assigned Rio marker 1 (40%).<sup>12</sup>

### 1.1.2. European Regional Development Fund (ERDF) and Cohesion Fund (CF)

The approach set out in the Common Provisions Regulation<sup>13</sup> and further refined in the relevant implementing legislation<sup>14</sup> is based on a detailed list of intervention fields which is intended to cover the sorts of project that might be funded under the ERDF and CF. Where the intervention fields describe types of investment expected to have a significant impact on climate objectives, they have a 100% marker; where there is expected to be some, but only moderate, contribution to climate objectives, a 40% marker is given. Programme authorities at Member State level classify commitments to expenditure on projects according to the intervention fields, with data reported annually to the Commission. This approach reflects the overall approach to climate expenditure markers adopted by the Commission, in that it focuses on the nature of the expenditure, rather than on the stated motivation of the expenditure. The Commission notes in its annual reporting on climate expenditure that this mechanism is expected to provide broadly accurate, rather than precise, results.

The intervention fields with a 100% marker include:

009 Renewable energy: wind
010 Renewable energy: solar
011 Renewable energy: biomass
012 Other renewable energy and renewable energy integration
013 Energy efficiency renovation of public infrastructure, demonstration projects and supporting measures
014 Energy efficiency renovation of existing housing stock, demonstration projects and supporting measures
015 Intelligent Energy Distribution Systems at medium and low voltage levels
016 High efficiency co-generation and district heating
023 Environmental measures aimed at reducing/avoiding greenhouse gas emissions

<sup>11</sup> [Commission Implementing Regulation \(EU\) No 215/2014](#)

<sup>12</sup> Study on biodiversity financing and tracking biodiversity-related expenditures in the EU budget: [Final Report](#). (2017), p. 34.34.34.

<sup>13</sup> Regulation (EU) No 1303/2013

<sup>14</sup> Commission Implementing Regulation (EU) No 215/2014 of 7 March 2014

065 Research and innovation infrastructure, processes, technology transfer and cooperation in enterprises focusing on the low carbon economy and on resilience to climate change
068 Energy efficiency and demonstration projects in SMEs and supporting measures
070 Promotion of energy efficiency in large enterprises
071 Development and promotion of enterprises specialised in providing services contributing to the low carbon economy and to resilience to climate change
087 Adaptation to climate change measures and prevention and management of climate related risks
090 Cycle tracks and footpaths

This list appears to be reasonably coherent – even though the rationale behind some projects aimed at, for example, energy efficiency may be more focused on cost reduction and local economic development than on climate mitigation, it is clear that there should be significant mitigation co-benefits. Provided project intervention fields are accurately assigned, the methodology therefore appears robust. A Commission guidance note<sup>15</sup> emphasises the option of assigning more than one intervention field to a project, and allocating expenditure pro rata; although it seems unlikely that programme authorities will be eager to choose this more complex mechanism for recording expenditure. It should also be noted that some projects under the energy efficiency categories could be linked to the consumption of fossil fuels, particularly gas; while the short-term energy efficiency impact is clearly beneficial from a climate perspective, there may be longer term risks associated with increasing the lifespan of fossil fuel infrastructure.

The intervention fields with a 40% marker include:

003 Productive investment in large enterprises linked to the low-carbon economy
025 Railways (TEN-T comprehensive)
026 Other Railways
027 Mobile rail assets
035 Multimodal transport (TEN-T)
036 Multimodal transport
039 Seaports (TEN-T)
040 Other seaports
041 Inland waterways and ports (TEN-T)
042 Inland waterways and ports (regional and local)
043 Clean urban transport infrastructure and promotion
044 Intelligent transport systems
069 Support to environmentally-friendly production processes and resource efficiency in SMEs
083 Air quality measures
084 Integrated pollution prevention and control (IPPC)
085 Protection and enhancement of biodiversity, nature protection and green infrastructure
086 Protection, restoration and sustainable use of Natura 2000 sites

In some cases, projects in this list may not have an obvious climate benefit – for example, seaport projects could include those without a significant positive climate impact, and the potential for harmful impacts on coastal biodiversity. Broadly, however, the methodology appears to be robust.

<sup>15</sup> European Commission, 2016, "[Guidance Note](#) on Nomenclature of Categories of Intervention and the Methodology for Tracking of Climate Change Related Expenditure under Cohesion Policy"

It should also be noted that there is scope for expenditure on projects whose intervention fields are not given a 40% or 100% marker (and therefore record zero climate expenditure) to have a climate impact, or even a climate primary purpose. For example, projects falling under intervention field 002, “Research and Innovation processes in large companies”, could have a significant focus on green energy; projects under fields 049 and 050, “Educational infrastructure” for tertiary or vocational infrastructure, could focus on investments whose purpose is linked to skills for the low-carbon economy (see section 1.1.3 below on the European Social Fund); similarly, field 059, “Research and Innovation infrastructure”, could include investments in green technology science parks; and so on.

### 1.1.3. European Social Fund (ESF)

Member States may choose the ‘secondary theme’ that captures expenditure supporting the shift to a low-carbon and resource-efficient economy. This option could include investments in education and training that would help to develop skills and qualifications in the area of low-carbon economy or adaptation to climate change. In this case a climate marker of 100% would apply<sup>16</sup>.

### 1.1.4. European Agricultural Guarantee Fund (EAGF)

The EAGF is managed in partnership between the Commission and Member States. The majority of the EAGF is used to finance direct payments to farmers, while the remainder supports market measures which are used to provide a safety net in times of market disturbances or crisis, maintain market stability and meet consumer expectations. The main goal of direct payments is to support and stabilise farmers’ incomes, however in 2014, three ‘green’ direct payments were introduced which aim to deliver environmental public goods (mainly biodiversity, soil quality, and carbon storage and sequestration). All direct payments are underpinned by a series of cross-compliance requirements, which form a set of baseline standards in the fields of the environment, food safety, animal and plant health, and animal welfare with which land managers must comply in order to receive direct payments. These requirements comprise both Statutory Management Requirements (SMRs) – requirements deriving from EU legislation as applied in Member States (and therefore legally binding) - and standards of Good Agricultural and Environmental Condition (GAEC) which are additional standards, the details of which are determined by Member States and which may or may not be covered by national legislation.

For the EAGF in the 2014-2020 period, the climate markers have been applied by the European Commission in a way that leads to 19.46 % of the EAGF being identified as climate relevant. The climate markers are applied to two elements of the EAGF – the green direct payments (accounting for 30% of the budget) and the other direct payments (accounting for the remaining 70% of the budget). **Figure 1** sets out how this is estimated<sup>17</sup> and the method is described below.

**Application of climate markers to the green direct payments:** The climate markers are applied separately to each of the three greening measures because they each have different objectives. In doing so it is assumed that each of the greening measures is assigned an equal proportion of the relevant budget (e.g. 10% of the EAGF budget each). From the figure below, it can be seen that:

<sup>16</sup> DG Climate Action, Tracking climate expenditure The common methodology for tracking and monitoring climate expenditure under the European Structural and Investment Funds (2014-2020), [https://ec.europa.eu/clima/sites/clima/files/docs/tracking\\_climate\\_expenditure\\_en.pdf](https://ec.europa.eu/clima/sites/clima/files/docs/tracking_climate_expenditure_en.pdf)

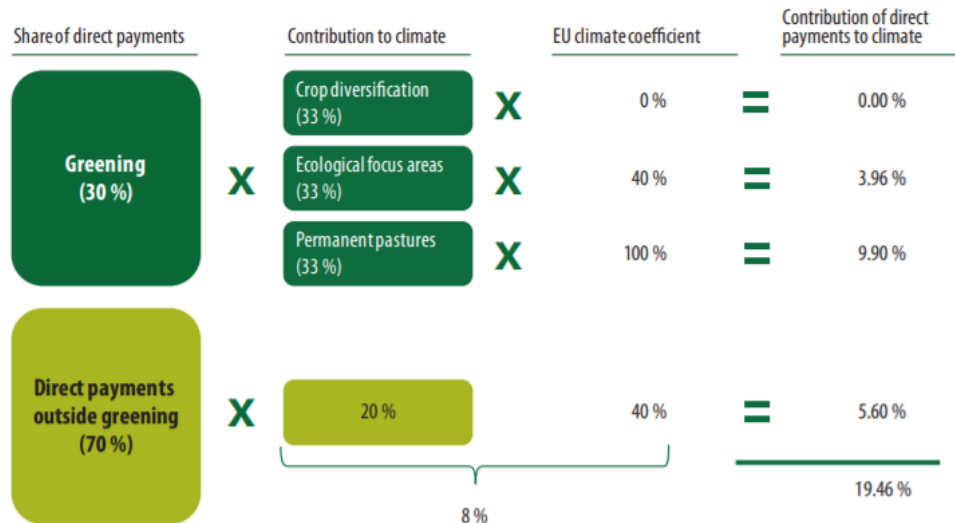
<sup>17</sup> ECA (2016) Special report no. 1, 2016 “Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short”. European Court of Auditors. [http://www.eca.europa.eu/Lists/ECADocuments/SR16\\_31/SR\\_CLIMATE\\_EN.pdf](http://www.eca.europa.eu/Lists/ECADocuments/SR16_31/SR_CLIMATE_EN.pdf)

- The permanent pasture greening measure is assumed to make a significant contribution to climate objectives and therefore the 100% co-efficient is applied to one third of the greening budget, i.e. 10% of the overall EAGF budget;
- The Ecological Focus Areas measure is assumed to make a moderate contribution to climate objectives and therefore the 40% co-efficient is applied to one third of the greening budget, i.e. 4% of the overall EAGF budget;
- The crop diversification greening measure is assumed to make no real contribution to climate objectives and therefore the 0% co-efficient is applied to one third of the greening budget, i.e. 0% of the overall EAGF budget;

**Application of the climate markers to the remainder of the direct payments:** For the other direct payments (70% of the total EAGF budget), the only anticipated climate effects relate to the cross-compliance requirements with which farmers must comply to receive the payments. Only a proportion of these cross-compliance requirements potentially deliver climate benefits<sup>18</sup>. The Commission therefore applies the 40% co-efficient to 20% of the direct payments budget, to reflect the fact that in their judgement only about a fifth of the direct payment budget is likely to make a moderate contribution to climate change. This equates to 5.6% of the total budget for 'other direct payments'.

Climate mitigation and adaptation are not assessed separately. An assumption is made that the proportion of the EAGF deemed to be climate relevant, contributes both to mitigation and adaptation; and that distinguishing between the two impacts would not be relevant to assessing the total of climate expenditure.

Figure 1: Overview of the method designed by the Commission to calculate climate funding from agricultural direct payments



Source: Explanation of the methodology for applying climate tracking to direct payments (European Commission).

Source: ECA, 2016

### 1.1.5. European Agricultural Fund for Rural Development (EAFRD)

The EAFRD is one of the five European Structural and Investment (ESI) funds, governed by the Common Strategic Framework. It operates under shared management. The overarching aim of the EAFRD is to

<sup>18</sup> Four of the standards of Good Agricultural and Environmental Condition (GAECs 4, 5, 6, 7) out of a total of eight GAEC standards and 13 Statutory Management Requirements (SMRs)

pursue 'sustainable rural development throughout the Union in a complementary manner to the other instruments of the common agricultural policy, to cohesion policy and to the common fisheries policy. It shall contribute to the development of a more territorially and environmentally balanced, climate-friendly and resilient, competitive and innovative Union agricultural sector and rural territories.'<sup>19</sup>

The EAFRD sets out six Union priorities for rural development, with 18 'focus areas' or sub-priorities, which relate to the 11 thematic objectives set out in the Common Provisions Regulation (CPR), governing all shared management funds. Priority 5 is the only objective that specifies climate explicitly, although actions pursued under other priorities also have the potential to deliver positive benefits for climate mitigation and/or adaptation (either directly or indirectly), particularly actions under Priority 4, covering objectives for biodiversity, water and soils.

Member States develop Rural Development Programmes, setting out how they intend to use the EAFRD measures to address these priorities which are then agreed with the Commission. In their Rural Development Programmes, Member States are required to set out how the funding allocated to each of the rural development measures is apportioned to each of the six EAFRD priorities and individual focus areas under these (sub-priorities).

EU climate markers are applied at the level of the focus areas. Expenditure under a given measure is given the climate marker of the focus area to which that measure contributes (see table below). The rules for applying the climate coefficients are set out in Commission Implementing Regulation (EU) No 215/2014<sup>20</sup>.

Table 2: Climate markers applied to EAFRD in 2014-2020

CAP 2014-2020		EAFRD article (Regulation (EU) 1305/2013)
100% marker	<ul style="list-style-type: none"> <li>- Rural development measures allocated to Priority 4 - Restoring, preserving and enhancing ecosystems related to agriculture and forestry (all focus areas)</li> <li>- Rural development measures allocated to Priority 5 - Promoting resource efficiency and supporting the shift towards a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors (all focus areas)</li> </ul>	<ul style="list-style-type: none"> <li>- Article 5(4)</li> <li>- Article 5(5)</li> </ul>
40% marker	<ul style="list-style-type: none"> <li>- Rural development measures allocated to 'Supporting farm risk prevention and management' under Priority 3</li> <li>- Rural development measures allocated to 'Fostering local development in rural areas' under Priority 6</li> </ul>	<ul style="list-style-type: none"> <li>- Article 5(3)(b)</li> <li>- Article 5(6)(b)</li> </ul>
0 % marker	<ul style="list-style-type: none"> <li>- Rural Development measures allocated to Priorities 1, 2 and focus areas under priorities 3 and 6 not identified above.</li> </ul>	

<sup>19</sup> Article 3 of Regulation (EU) No 1305/2013

<sup>20</sup> 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



### 1.1.6. European Maritime and Fisheries Fund (EMFF)

The EMFF operates under shared management; as with other Structural and Cohesion Funds, Member States develop operational programmes which are then agreed with the Commission; expenditure is then committed under the programmes. In the case of the EMFF, the types of expenditure which can be included under operational programmes is defined in the legislation establishing the fund<sup>21</sup>. The Structural Funds Common Provisions Regulation<sup>22</sup> provides for an Implementing Regulation to lay down the tracking methodology for climate expenditure. In the case of the EMFF, the Implementing Regulation<sup>23</sup> sets out a list of permitted expenditure under the EMFF regulation which is either (i) counted 100% towards the climate target; (ii) counted 40% towards the climate target; or (iii) is generally counted as making no contribution, but may be counted 40% towards the climate target if the Member State proposes to do so and “can demonstrate the relevance of that measure to climate change mitigation or adaptation”. The reporting on tracking of climate expenditure provided in the 2020 Programme Statements provides no detail on which measures account for what share of the overall total reporting as being climate relevant.

The measures for which a 100% coefficient is prescribed by the implementing legislation are Permanent cessation of fishing activities; and Replacement or modernisation of main or auxiliary engines. Those for which a 40% coefficient is prescribed include: Temporary cessation of fishing activities; Mutual funds for adverse climatic events and environmental incidents; Support to systems of allocation of fishing opportunities; Limiting the impact of fishing on the marine environment and adapting fishing to the protection of species; Productive investments in aquaculture — increasing energy efficiency, renewable energy; Increasing the potential of aquaculture sites; Aquaculture stock insurance; and Implementation of local development strategies (including running costs and animation) for fisheries areas. For several of these, the climate rationale seems tenuous or partial – for example, while aquaculture stock insurance is presumably included because of its potential to address climate risks, and thereby assist in adaptation, in practice many of the risks insured against have no direct link to climate.

A range of measures where Member States can elect to apply a 40% coefficient include production and marketing plans; support to aquaculture providing environmental services, and so on – however, it is difficult to identify information on the extent to which this option has been used in practice by Member States, and the credibility of the climate contribution delivered.

The European Court of Auditors noted in its 2016 report<sup>24</sup> that “direct and clear references to climate change objectives, both mitigation and adaptation, are still rare” in the EMFF legislation. The 2017 evaluation report<sup>25</sup> for the European Commission commented that:

“Some measures appear to have significantly higher markers applied than appears justified. For example, the regulation underpinning permanent cessation of fishing activities (100 %) makes no mention of climate change; and the measure has existed since 1999 without reference to climate objectives (although this does not preclude it having positive climate impacts).”

As noted above, the main difference in the Commission’s approach to climate tracking as compared to the OECD markers is the absence of an assessment of the stated motivation of the expenditure; the EMFF is an area where this appears to have a significant impact on the expenditure reported, with

<sup>21</sup> [Regulation \(EU\) No 508/2014](#) of the European Parliament and of the Council of 15 May 2014 on the European Maritime and Fisheries Fund

<sup>22</sup> [Regulation \(EU\) No 1303/2013](#) of the European Parliament and of the Council of 17 December 2013 laying down common provisions (etc.) (the “Common Provisions Regulation”)

<sup>23</sup> Commission Implementing Regulation (EU) No 215/2014 as amended by [Regulation No 1232/2014](#), see Annex III

<sup>24</sup> ECA 2016

<sup>25</sup> Ricardo, Trinomics, IEEP, 2017

measures which seem never to have included climate objectives in their rationale being included in the tracking.

### 1.1.7. Connecting Europe Facility

The Connecting Europe Facility supports projects of common interest which develop new infrastructure and services, or upgrading existing infrastructures and services, in the transport, telecommunications and energy sectors; it does so by providing financial support (for example, in the form of guarantees or project bonds), or by facilitating early stage development of projects. Climate tracking of expenditure has a simple basis, as described by the 2020 Programme Statements: a 40% marker is applied to the transport and energy sectors, while a 0% marker is applied to the telecoms sector – an approach which would clearly risk treating some transport and energy projects with little or no climate relevance as contributing to the overall climate expenditure target. However, this conflicts with the description of the methodology for transport project in the Programme Statements for earlier years, where a more detailed methodology is presented for the transport sector, categorising them and applying a 100% marker to innovation projects (including electric vehicles), and a 40% or 0% marker to other categories. A clearer and more consistent description of the methodology would assist policymakers in evaluating the approach taken by the Commission in this area of expenditure.

### 1.1.8. European Earth Observation Programme (Copernicus)

Copernicus is a directly managed programme, with a clear focus on climate issues, particularly climate adaptation. Its objectives, as set out in the regulation establishing the programme<sup>26</sup>, begin with “monitoring the Earth to support the protection of the environment and the efforts of civil protection and civil security”, and much of its activity has a clear climate relevance. The services provided by the programme include an atmosphere monitoring service, a marine environment service, a land monitoring service, an emergency management service, a security service and a climate change service. While the climate change service, which aims to “provide information to increase the knowledge base to support adaptation and mitigation policies”, is clearly directly relevant, several of the other services also provide a level of contribution towards climate policy objectives. This is reflected in the Commission’s approach to the scoring of climate expenditure - 100% of the climate service is considered climate expenditure. In addition, 34% of the expenditure on sentinel satellite missions by Copernicus is considered to be directly relevant to climate, and forms the bulk of the climate expenditure recorded. A smaller contribution is made by an assumption that 30% of the Land monitoring, Atmosphere Monitoring and Marine Environment Monitoring services is considered to contribute to climate objectives<sup>27</sup>.

The approach adopted to climate tracking for the Copernicus programme thus differs from the standard methodology: where a partial contribution is identified, then instead of giving a 40% marker to the whole of that expenditure, an attempt is made to provide a more accurate estimate of climate expenditure by identifying the proportion of the expenditure which makes a direct climate contribution. While this relies on a degree of subjective judgement by Commission services, it could be argued to provide a more accurate estimate.

The significant proportion of Copernicus’s climate expenditure which is accounted for by sentinels means that, as expenditure on new sentinel missions has increased over time, so has the recorded climate expenditure, rising from €113.5m in 2014 to a peak of €275.1m in 2019, before falling back in

<sup>26</sup> Regulation 377/2014 establishing the Copernicus Programme and repealing Regulation (EU) No 911/2010

<sup>27</sup> Information from COM (2019) 400, working document part I: Programme Statements of Operational Expenditure

the programme for 2020. The total recorded climate expenditure over the 7 years of the current MFF is €1408.3, an average of just over €200m a year.

### 1.1.9. Horizon 2020 – The Framework Programme for Research and Innovation

Climate expenditure under Horizon 2020 – the Framework Programme for Research and Innovation (2014-2020) – is relatively transparent as the specific programme implementing Horizon 2020 defines eighteen specific objectives, of which several directly or indirectly focus on climate change issues<sup>28</sup>. Also at project level, there is good scope for distinct identification of climate-related expenditure, given the specified research questions addressed under Horizon 2020 projects. However, project by project assessment in bottom-up areas has been found to create problems of inconsistency<sup>29</sup>, according to the Commission's 2017 study, as a result of different judgements being applied by different desk officers to similar projects. The efforts being made to introduce a more consistent approach in the 2021-2027 financial perspective should help to address this.

The climate-tracking methodology under Horizon 2020 is based on the OECD Rio markers. These are allocated at topic level as well as at project level for bottom-up actions. It distinguishes actions that state climate mitigation or adaptation as a principal objective (marker = 100 %), as a secondary objective (marker = 40 %) or that do not focus on climate change at all (marker = 0 %)<sup>30</sup>.

Some of the specific objectives directly focus on climate policy issues (e.g. Specific objective 12: Climate action, environment, resource efficiency and raw materials), or have high potential to address climate objectives (for example specific objective 2: Future and emerging technologies, which identifies climate change in its work programme as being of particular relevance).<sup>31</sup> The Commission's Programme Statements of 2020 report that 100 percent of the budget under Specific Objective 10 (Energy) is climate-related expenditure (776,6 million EUR out of 776,6 million EUR). Other Specific Objectives with high climate-relative expenditure are Specific Objective 9 – Food (343,2 out of 673,7 million EUR), Specific Objective 11 – Transport (459,6 out of 896,1 mil EUR), and Specific Objective 12 - Resource efficient and climate change resilient economy (276,8 out of 429,6 mil EUR)<sup>32</sup>.

### 1.1.10. Programme for the Environment and Climate Action (LIFE)

Expenditure under LIFE is relatively straightforward to track, since it is explicitly aimed at the delivery of environmental targets, and has a clear allocation of funds to climate objectives. However, as we indicate below in the assessment of the biodiversity tracking methodology, it also provides a clear demonstration of the need to understand exactly what climate and biodiversity tracking are intended by the Commission to demonstrate. As the Commission notes in the Statement of Estimates:

“Some expenditure under the LIFE sub-programme for environment and the LIFE sub-programme for climate action, such as the expenditures for the NCFE, can contribute to both biodiversity and climate objectives, especially given the desired synergies between them. Thus, each of the tracking exercises has to be seen separately and the total funds tracked as being related to one of the objectives has to be seen independently and cannot be added to the funds related to the other objective.”<sup>33</sup>

<sup>28</sup> [https://erc.europa.eu/sites/default/files/document/file/Specific%20Programme%20Horizon%202020\\_council\\_decision\\_establishing\\_the\\_specific\\_programme\\_implementing\\_horizon\\_2020.pdf](https://erc.europa.eu/sites/default/files/document/file/Specific%20Programme%20Horizon%202020_council_decision_establishing_the_specific_programme_implementing_horizon_2020.pdf)

<sup>29</sup> Ricardo, Trinomics, IEEP, 2017

<sup>30</sup> Ricardo, Trinomics, IEEP, 2017

<sup>31</sup> COM (2019) 400, working document part I: Programme Statements of Operational Expenditure

<sup>32</sup> COM (2019) 400, working document part I: Programme Statements of Operational Expenditure

<sup>33</sup> Programme Statements 2020, page 315

In addition, the approach adopted by the Commission is to include as climate expenditure not only 100% of the expenditure under the “Contributing to a greener and more resource-efficient economy” section of LIFE (budget line 07 02 01), but also 100% of expenditure under the “Halting and reversing biodiversity loss” section (budget line 07 03 02) and of expenditure under “Supporting better environmental governance and information at all levels” (budget line 07 03 03). The latter two lines would appear to have a less direct contribution to make to climate objectives, with not all projects necessarily delivering significant – or in some cases any – clear climate policy benefits. It is notable that while 100% of the biodiversity expenditure is seen as contributing to climate tracking, only 40% of the resource-efficiency etc. measure is seen as contributing to biodiversity tracking.

#### 1.1.11. Instrument for Pre-accession Assistance (IPA II)

The information on the 2014 – 2020 climate and biodiversity expenditure under IPA indicates an increasing trend in both climate and biodiversity expenditure within the funding instrument<sup>34</sup>. For climate action, IPA expenditure has increased from around EUR 88.6 million in 2014 to around EUR 268 million in 2020, with a peak annual investment of EUR 379 million in 2018. This total overall expenditure on climate under IPA has reported to have yielded to EUR 1611 million during the 7-year funding period (EUR 230 million / year on average). The overall expenditure on biodiversity remains about tenth of the climate expenditure, with a total overall expenditure of EUR 160.4 million during the 7-year funding period (EUR 22.9 million / year on average). However, there is limited information available on the climate tracking methodology used by the Commission to reach these reported totals, and we are therefore not able to comment on its robustness.

#### 1.1.12. European Neighbourhood Instrument (ENI)

The information on the 2014 – 2020 climate and biodiversity expenditure under ENI indicates an increasing trend in both climate and biodiversity expenditure within the funding instrument<sup>35</sup>. For climate action, ENI expenditure has increased over threefold during the 2014 – 2020 funding period – from around EUR 185 million in 2014 to around EUR 626 million in 2020 – with a total overall expenditure of EUR 2832 million during the 7-year period (EUR 404 million / year on average). While the overall expenditure on biodiversity remains considerably lower, there has been a reported increase from around EUR 38.5 million in 2014 to EUR 173 million in 2020, with a total overall expenditure of EUR 647.4 million during the funding period (EUR 92.5 million / year on average). However, there is limited information available on the climate tracking methodology used by the Commission to reach these reported totals, and we are therefore not able to comment on its robustness. It is possible that in practice a similar approach is adopted under both IPA II (see section 0 above) and ENI to the system described in more detail by the Commission under the Development Cooperation Instrument (DCI – see section 0 below), in which case it would be helpful for the Commission to make this clearer in the annual Programme Statements.

#### 1.1.13. Development Cooperation Instrument (DCI)

Tracking of climate and biodiversity expenditure in the context of the EU development cooperation has a relatively long track record. This is because the EU is responsible for reporting annually to the OECD Development Assistance Committee (DAC), including using the Rio markers to quantify the EU donor contributions towards the global climate and biodiversity objectives.

<sup>34</sup> EC (2019) Statement of Estimates 2020

<sup>35</sup> EC (2019) Statement of Estimates 2020

The use of Rio markers in the context of the EU Development Cooperation Instrument is predominantly done *ex ante* at the project level through individual project decisions, following the OECD system (i.e. not the Commission modification of the climate markers system, see above)<sup>36</sup>. The project decisions are then encoded in the common Commission reporting database<sup>37</sup> at their identification stage and the information in the database is updated during the project formulation phase, with the encoding done by the relevant units and EU in-country delegations and checked by the statistical unit. Dedicated efforts are also applied to the development of guidance and training materials for project officers responsible for applying the markers.

The above process means that tracking of the planned climate and biodiversity expenditure under DCI can be considered relatively robust and it is generally considered as one of the best practice approaches to tracking EU expenditure, with a high level of consistency, limited issues of under- or over-reporting of expenditure, and the attempt to use tracking as a tool for wider mainstreaming within the policy area.

However, sometimes project decisions can include several components or sub-projects in which case the accuracy *vis-à-vis* climate or biodiversity contribution can be reduced (e.g. if only some components under a single project decision are climate or biodiversity relevant). While the number of cases in which this issue might arise is limited, given the size of project decisions the individual sums involved can be quite significant. Furthermore, as with all EU funds, the tracking of financial flows is based on project decisions (i.e. commitments) rather than actual project expenditures (i.e. actual final expenditure). Therefore, a challenge remains to verify that financial commitments are consistent with the final payments<sup>38</sup>.

The information on the 2014 – 2020 climate and biodiversity expenditure under the DCI indicates an increasing trend in both climate and biodiversity expenditure within the funding instrument<sup>39</sup>. For climate action, the DCI expenditure has increased from around EUR 380 million in 2014 to around EUR 837 million in 2020, with a total overall expenditure of EUR 45577 million during the 7 year funding period. While the overall expenditure on biodiversity remains considerably lower, there has been a reported increase from around EUR 90 million in 2014 to EUR 222 million in 2020, with a total overall expenditure of EUR 1226 million during the funding period.

#### 1.1.14. Partnership Instrument for Cooperation with Third Countries (PI)<sup>40</sup>

The Partnership Instrument (PI) for cooperation with third countries is a centrally managed EU instrument that seeks to promote the implementation of EU's external policy and diplomacy priorities and. By focusing on the priorities identified by the EU, it complements the other EU external financing instruments that are primarily steered by priorities identified by / together with the partner countries.

The financing under PI is project based, rendering the tracking of expenditure and application of Rio Markers to take place at the project level (i.e. similar to DCI). The accuracy of tracking PI expenditure is also facilitated by the relatively small size of overall budget and, consequently, the limited number of projects. Given the above, tracking of climate and biodiversity expenditure under PI is generally considered relatively reliable.

<sup>36</sup> IEEP et al. 2014 and Ricardo, Trinomics, IEEP, 2017

<sup>37</sup> Common External Relations Information System (CRIS)

<sup>38</sup> EC (2018)

<sup>39</sup> EC (2019) Statement of Estimates 2020

<sup>40</sup> IEEP et al. (2014) [and External evaluation of PI \(2017\)](#)

The information on the 2014 – 2020 climate expenditure under IP shows a relatively stable trend in climate expenditure during the funding period, ranging between EUR 23.5 – 35 million / year and yielding to a total of EUR 202 million during the whole period (EUR 28.8 million / year on average)<sup>41</sup>. The annual expenditure on biodiversity has fluctuated over years, ranging from a meagre EUR 0.4 million in the first year and peaking at EUR 18.5 million in 2017. In total, the reported biodiversity expenditure under PI yields to EUR 58.2 million (EUR 8.3 million / year on average).

## 1.2. Biodiversity tracking in the 2014-2020 period

There is no explicit target for biodiversity expenditure; however, a similar approach to its tracking has been adopted as for the tracking of climate expenditure, with markers of 100%, 40% and 0% applied to programmes on the basis of the significance of their contribution to meeting biodiversity objectives. However, rather than the adapted use of the Rio markers used by the Commission for climate tracking (see section 1.1 above), biodiversity tracking is based on the original Rio markers assessment of whether the expenditure targets biodiversity as a “principal” (100% marker) or “significant” (40% marker) objective<sup>42</sup>. While there is no high-level commitment to deliver a specific level or percentage of expenditure on biodiversity, the EU (and Member States) report on biodiversity-related expenditure as part of their reporting obligations under the UN Convention on Biological Diversity. The Commission reports on biodiversity expenditure alongside its reporting on climate expenditure in the annual budget documentation – with overall information on biodiversity expenditure provided in the statement of estimates, and detailed programme-by-programme information provided in the programme statements.

The programmes covered by the biodiversity reporting are broadly the same as those listed in **Table 1** above, with some exceptions (the Connecting Europe Facility; COSME; the ESF). The range of small programmes under Heading 4 (Global Europe) which record a contribution is also significantly less. It seems likely that, while the political objective creates pressure on programmes to identify a climate contribution, a similar pressure is not present for biodiversity tracking.

Generally, the approaches described above under section 1.1 above are replicated for biodiversity tracking. Thus, the intervention fields used to identify climate contributions under the ERDF and CF are also given biodiversity markers; although, as would be expected, significantly fewer types of investment are identified as making a significant contribution. The tracking mechanism is not, however, mandated under the Common Provisions Regulation, as is the case with climate tracking. Copernicus expenditure is assessed in a similar way to the assessment of its climate contribution, although with arguably a conservative bias to the results (for example, neither the Marine Monitoring Service, nor the Climate Change Service are recorded as making a biodiversity contribution).

The main driver of the recorded biodiversity contribution of the EU budget is expenditure under the CAP. For example, the Commission reported 8.3% (EUR 13 420,4 million) of the total budget contributions in 2019 as contributing to biodiversity objectives, made up of 6.36% from the CAP (EUR 5 868,0 from EAGF and EUR 4 411,0 from EAFRD), and 1.94% from the other sources (principally ERDF and Cohesion Fund).

<sup>41</sup> EC (2019) Statement of Estimates 2020

<sup>42</sup> Ernst and Young, 2017

### 1.2.1. Common Agricultural Policy funds (EAGF and EAFRD)

#### *Current method*

The methodology for tracking biodiversity-relevant expenditure under the CAP has been in place since the 2015 financial year.

For the EAGF in the 2014-2020 period, 14.8% of the expenditure is recorded as contributing to biodiversity. This figure is based on the following calculation:

- i. an assumption that the three agricultural practices which make up the green direct payments<sup>43</sup> (30% of the total) merit a 40% marker (thus, 40% of 30% = 12%); and
- ii. For the other direct payments (70% of the total EAGF budget), as noted above (see section 0), anticipated climate effects relate to the cross-compliance requirements with which farmers must comply to receive the payments. However, only a proportion of these cross-compliance requirements potentially deliver biodiversity benefits. The Commission therefore applies the 40% co-efficient to 10% of the direct payments budget, to reflect the fact that, in their judgement, only about one tenth of the direct payment budget is likely to make a moderate contribution to biodiversity by preventing soil erosion, maintaining soil organic matter and soil structure, ensuring a minimum level of maintenance of agricultural land to avoid the deterioration of habitats, and protecting and managing water through the standards of Good Agricultural and Environmental Condition<sup>44</sup>. This equates to 2.8% of the total budget for 'other direct payments'.

Taken together, this 12% + 2.8% gives a 14.8% proportion of the direct payments budget which is assumed to contribute to biodiversity, a total of €36 028m across the 7 years of the MFF.

For the EAFRD, expenditure is set out under a series of objectives set out in the regulation, known as Priorities. There are six Priorities in total. Each of these is broken down into a series of sub-objectives, referred to as Focus Areas. The following two focus areas are considered to contribute to biodiversity: all Focus Areas under Priority 4 (Restoring, preserving and enhancing ecosystems dependent on agriculture and forestry), which has a 100% marker; and Focus Area 5E (Fostering carbon conservation and sequestration in agriculture and forestry), which has a 40% marker. The Rio markers are applied to all measures programmed under these priority areas, with no differentiation according to type of measure or area and type of farmland to which the measures apply. The current EAFRD tracking method applies the 100% marker to expenditure under all CAP measures programmed to Priority 4, with the exception of the Areas of Natural Constraints measure, which is assigned a marker of 0%. Overall, Member States' and regions' agri-environment-climate programmes make up two-thirds of total biodiversity expenditure under the current method, with the organic farming measure the second highest contributor to biodiversity expenditure, followed by agricultural investments and investments in forest area development and improvement of the viability of forests. Expenditure assigned to Focus Area 5E makes up around 3% of biodiversity relevant expenditure through EAFRD. It is noticeable, however, that the biodiversity expenditure under each of the measures differs markedly between Member States.

#### *Limitations of current method and alternatives*

The current EAGF tracking method is the most controversial component of the CAP tracking approach for biodiversity. In discussions during the development of the CAP biodiversity tracking system, a

<sup>43</sup> In 2014, three 'green' direct payments were introduced which aim to deliver environmental public goods (mainly biodiversity, soil quality, and carbon storage and sequestration - these consist of three types of practices for the environment and climate relating to arable land and permanent grassland to which farmers must adhere

<sup>44</sup> COM (2019) 400, working document part I: Programme Statements of Operational Expenditure

number of stakeholders argued forcefully that the markers should not be applied to Pillar 1 (EAGF) expenditure because its objective is to provide agricultural market and income support, and the direct and indirect effects of Pillar 1 spending on biodiversity are hard to predict and measure (Medarova-Bergstrom et al, 2015). As with climate markers, applying biodiversity markers to cross-compliance has been controversial given that these are baseline standards which are a condition for receipt of payments; and the main purpose of those payments is to support and stabilise farmers' incomes, rather than to achieve environmental outcomes. Given the volume of Pillar 1 spending in comparison with most of the other EU funds, many stakeholders argued that integrating this expenditure into a single estimate of biodiversity-related expenditure could significantly distort the picture of funding benefiting biodiversity. As with climate expenditure, the application of the relatively crude estimates required for the Rio markers (0%, 40%, or 100%) to major blocks of programme expenditure such as CAP direct payments makes it difficult for the Commission to present a nuanced picture of the real impact of the EU budget.

The introduction of the green direct payments in 2015 led to a significant increase of the weight of the EAGF biodiversity budget in the total EU biodiversity budget (from 29.5% to 44.4% of the total EU biodiversity budget) (Ernst & Young, 2017). However, the biodiversity benefits of greening are disputed (Alliance Environnement and Thünen-Institut, 2017; Nitsch et al, 2018). Within greening, only the Ecological Focus Area and the Environmentally Sensitive Permanent Grassland measures have biodiversity as a primary objective, whilst the biodiversity benefits of the wider permanent grassland maintenance and crop diversification measures are a subject of debate. The current tracking method does not distinguish between the different measures within greening and does not take account of the proportion of farms exempt from one or more of the measures.

The current EAFRD tracking method is applied at the measure level and without considering the specific programming of Member States and regions, therefore it overestimates some measures by including sub-measures and options that are not targeted to biodiversity, whilst neglecting to take account of the biodiversity benefits of spending under LEADER, the projects funded via the European Innovation Partnership for Sustainable Agriculture (EIP-AGRI), advice and training, and the rural heritage type of investments. Alternative EAFRD tracking methods were tested on a sample of Member States' Rural Development Programmes (RDPs) (Ernst & Young, 2017). The most precise method tested, which allocated a Rio marker to each combination of Focus Area and measure within each RDP, according to how they were programmed, resulted in a significantly (40%) lower biodiversity-related expenditure compared to the current approach: 18% of EAFRD commitments of the sampled RDPs compared to 31%. Most of the observed gap is generated by the more differentiated application of markers to the agri-environment-climate programmes. As this makes up most of the spending under Priority Area 4, applying a marker of less than 100% also significantly lowers the overall result for biodiversity expenditure. Member States and regions programme their agri-environment options for a wide range of different objectives, including climate, soil and water protection and pesticide use reduction, therefore the biodiversity relevance of each programme also differs widely (Alliance Environnement, 2019). This alternative method also identified a small amount of spending assigned to Focus Area 5D and Focus Area 2A as biodiversity relevant.

#### *Indicators of biodiversity relevant results and impact*

During the current period, the EAFRD results indicators related to biodiversity impact defined in the Common Monitoring and Evaluation Framework (CMEF) track the percentage of agricultural land or of forest or other wooded areas under management contracts supporting biodiversity. This provides some indication of the relative coverage of biodiversity related support from the agri-environment measure, organic farming measure, and the Natura 2000 payment (or afforestation and agroforestry



support and Natura 2000 payments to forest areas). The current CMEF does not specify any indicators of the biodiversity impact of EAGF spending. The two biodiversity relevant impact indicators – the farmland birds index and the amount of High Nature Value (HNV) farming – do not relate directly to the financing tracking information and indicators, unless the Member State has conducted its own evaluation of impacts and the connection to funding.

Some Member States go further and track biodiversity spending in more detail, for example in Spain (SEO/BirdLife España, 2018):

- Castilla-la-Mancha tracks the area within Natura 2000 under management contracts supporting biodiversity, area of extensively managed grassland, area of forest that is under contracts to improve adaptation capacity or environmental value (and other relevant indicators)
- Catalonia tracks percentage of wetland area under management contracts supporting biodiversity, percentage of agri-environment spending going to Natura 2000, percentage of agricultural area within Natura 2000 under management contracts supporting biodiversity (and other relevant indicators)
- Navarra tracks area within Natura 2000 under management contracts supporting biodiversity, area within identified areas of importance for steppe birds that is under management contracts supporting biodiversity (and other relevant indicators)

However, each Member State and region takes their own approach, so their indicators are not comparable, plus this information is only available in their regional or national reports on CAP implementation and is currently not assembled at the EU level.

### 1.2.2. European Structural Funds (Regional Development Fund, Social Fund, Cohesion Fund, EMFF)

The current tracking method for the Regional Development Fund, Social Fund and Cohesion Fund applies the Rio markers to the intervention fields programmed in each Operational Programme as follows:

Table 3: Biodiversity markers applied to Structural Funds expenditure, 2014-2020

Intervention field (Nomenclature defined in Annex I of the Implementing Regulation (EU) No 215/2014 ) <sup>45</sup>	Coefficient for the calculation of support to biodiversity objectives
085 Protection and enhancement of biodiversity, nature protection and green infrastructure	100%
086 Protection, restoration and sustainable use of Natura 2000 sites	100%
022 Wastewater treatment	40%
087 Adaptation to climate change measures and prevention and management of climate-related risks e.g. erosion, fires, flooding, storms and drought, including awareness-raising, civil protection and disaster management systems and infrastructure	40%
091 Development and promotion of the tourism potential of natural areas	40%

The markers are firstly applied ex-ante at the level of the operational programme assignments to the intervention fields and then ex-post at the level of selected projects and project expenditure (Ernst &

<sup>45</sup> [Commission Implementing Regulation \(EU\) No 215/2014](#)

Young, 2017). DG REGIO maintains a webpage and database<sup>46</sup> which shows 1) the total planned allocations under the ERDF and Cohesion Fund, 2) allocations to the selected investment projects, and 3) expenditure by those projects each year.

During the current funding period, the tracked biodiversity expenditure mainly arises from the European Regional Development Fund (Ernst & Young, 2017). The current results are strongly influenced by the fact that Romania allocated €335,419,274 to Axis 4<sup>47</sup> (biodiversity conservation, monitoring of air quality and decontamination of historically polluted sites), but still has €276 million of unallocated funds<sup>48</sup>.

Under the EMFF, the current tracking approach assigns markers to the relevant measures in each operational programme, as proposed by Kettunen et al<sup>49</sup>. The 100% marker is applied to 9 measures and the 40% marker to another 20 measures in the regulation, out of 64 measures in total.

#### *Limitations of current method and alternatives*

The main weakness of the current approach lies in the allocation of the 40% marker to expenditure for which the biodiversity benefits are uncertain (Ernst & Young, 2017). For example, climate change adaptation measures are often based on grey infrastructure interventions (traditional, man-made, engineered infrastructure, typically made of artificial materials such as concrete and steel) that do not provide any nature benefits and can in fact destroy biodiversity values. An analysis of the ways in which Member States allocated these five intervention fields to the Thematic Objectives<sup>50</sup> showed that the funding allocations to the Thematic Objective most closely connected to biodiversity, i.e. Thematic Objective 6 (protecting the environment and promoting resource efficiency), were dominated by spending on wastewater treatment (Ernst & Young, 2017). Whilst this has indirect biodiversity benefits through the improvement in water quality, these are not necessarily targeted on biodiversity outcomes or in proportion to the amount of spending. Thus, an expensive treatment upgrade in an urban area may produce a relatively marginal water quality improvement downstream, whilst a small investment in a rural area may lead to a significant improvement for downstream biodiversity.

#### *Indicators of biodiversity impact*

During the current period, there is one common results indicator for the European Structural Funds relevant to biodiversity impact (European Commission, 2014): “Surface area of habitats supported in order to attain a better conservation status of habitats or species (inside and outside Natura 2000)”. Member States are not given more specific guidance on how to assess this indicator and there is no direct link to the biodiversity funding tracking method.

### 1.2.3. LIFE programme

The LIFE programme tracking method is carried out firstly by applying the Rio markers ex ante at the budget line and priority area level and then ex post at the project level. All projects belonging to the sub-programme for Environment - Priority area Nature and Biodiversity are assigned the 100% marker since the primary objective of all listed projects under this priority area is the conservation and restoration of biodiversity and the maintenance of ecosystem services. Projects belonging to other

<sup>46</sup> <https://cohesiondata.ec.europa.eu/stories/s/tdxi-ibcn>

<sup>47</sup> The cohesion policy funds define their strategic priorities as ‘priority axes’. For each priority axis, further appropriate investment priorities are selected in line with the Common Provisions Regulation. Those are translated into specific objectives, types of actions and targets.

<sup>48</sup> Status in June 2019 as noted in the unpublished Romania country profile produced under contract to DG ENV for Support for the organisation of bilateral dialogues with Romania in the context of Action 5 of the Action Plan for Nature, People and the Economy

<sup>49</sup> Kettunen et al, 2014

<sup>50</sup> The Common Provisions Regulation defines eleven thematic objectives, which contribute to the implementation of the Europe 2020 strategy. See: [https://ec.europa.eu/clima/sites/clima/files/docs/tracking\\_climate\\_expenditure\\_en.pdf](https://ec.europa.eu/clima/sites/clima/files/docs/tracking_climate_expenditure_en.pdf)

programmes and sub-programmes are assigned one of the three markers according to the project objectives (Ernst & Young, 2017). Analysis of a sample of projects in the climate change adaptation or mitigation and the environment and resource efficiency subprogrammes revealed that the application of the 0% Rio marker was more appropriate to some of the projects than the 40% marker, as biodiversity and ecosystem services were not mentioned in their objectives, and they would have been conducted irrespective of whether or not any biodiversity benefits could be expected, despite the fact that the LIFE applicant indicated a significant contribution to biodiversity in the application form (Ernst & Young, 2017).

### 1.3. Climate and biodiversity tracking in the 2021-2027 period

The Commission has not proposed a radical change in either the overall mechanism for tracking climate expenditure, or the tracking of biodiversity expenditure, in its proposals for the 2021-2027 financial period. However, in the case of individual funds it has proposed changes in the way expenditure is scored. The impact of these changes is to create a significant increase in climate expenditure.

Two improvements in the overall management of climate tracking which have been implemented by the Commission in its proposals for the new MFF are, firstly, developing an ex ante strategy for achieving the overall climate spending target of 25%, and secondly, ensuring that similar types of project in different programmes are tracked in the same way<sup>51</sup>. Both developments build on recommendations from the Commission's 2017 climate mainstreaming study<sup>52</sup>. However, as we explain below, changes proposed to the scoring of CAP expenditure have made the 25% target achievable without the need for an increased contribution from other programmes. Moreover, it should be noted that the European Parliament's response to the Commission's MFF proposals<sup>53</sup> called for further progress on tracking, calling for it to be based on "reformed performance indicators that differentiate between mitigation and adaptation", and for a mid-term review to be included, enabling changes to be made to take into account progress towards the 25% target, and underlining the need to move towards a 30% expenditure target as soon as possible.

We look first at the proposed changes to the tracking of CAP expenditure, and their impact on delivery of the 25% target, and then examine the approach proposed in selected other programmes.

#### 1.3.1. How the increase in climate spending from 20% to 25% is achieved: proposals for the Common Agricultural Policy

For the 2021-2027 period, the way it is proposed that the climate markers will be applied to the different CAP instruments and measures (both under the EAGF and EAFRD) is set out under Article 87 of the legislative proposals for the CAP post 2021<sup>54</sup>. These proposals also state that '*actions under the CAP are expected to contribute 40% of the overall financial envelope of the CAP to climate objectives*' (preamble 52).

<sup>51</sup> See the Working Document of the Commission Services "Multiannual Financial Framework 2021-2027: Fiche 52, Climate Tracking Methodology in the 2021-2027 Financial Framework" (unpublished)

<sup>52</sup> Ricardo, Trinomics, IEEP, 2017

<sup>53</sup> European Parliament resolution of 14 November 2018 on the Multiannual Financial Framework 2021-2027 – Parliament's position with a view to an agreement

<sup>54</sup> COM(2018) 392 final Proposal for a Regulation of the European Parliament and the Council establishing rules on support for strategic plans to be drawn up by Member States under the Common agricultural policy (CAP Strategic Plans) and financed by the European Agricultural Guarantee Fund (EAGF) and by the European Agricultural Fund for Rural Development (EAFRD) and repealing Regulation (EU) No 1305/2013 of the European Parliament and of the Council and Regulation (EU) No 1307/2013 of the European Parliament and of the Council

In a significant change from the current period, the proposals for the CAP for the 2021-27 period set out a common framework within which both the EAGF and EAFRD would sit. This framework sets out a series of EU-level objectives (general and specific) and general types of interventions. Member States must develop a Strategic Plan to cover all support they propose to offer under the CAP, which must be approved by the Commission before it can be implemented.

The four general objectives for the new CAP are:

- To foster a smart, resilient and diversified agricultural sector ensuring food security;
- To bolster environmental care and climate action and to contribute to the environmental-and climate-related objectives of the Union;
- To strengthen the socio-economic fabric of rural areas;

And one cross-cutting objective:

- To modernise the sector by fostering and sharing knowledge, innovation and digitalisation in agriculture and rural areas, and encouraging uptake.

Under these sit nine specific objectives, one of which focuses directly on climate, with others having the potential to have an indirect impact. These are as follows:

- a) support viable farm income and resilience across the Union to enhance food security;
- b) enhance market orientation and increase competitiveness, including greater focus on research, technology and digitalisation;
- c) improve the farmers' position in the value chain;
- d) contribute to climate change mitigation and adaptation, as well as sustainable energy;
- e) foster sustainable development and efficient management of natural resources such as water, soil and air;
- f) contribute to the protection of biodiversity, enhance ecosystem services and preserve habitats and landscapes;
- g) attract young farmers and facilitate business development in rural areas;
- h) promote employment, growth, social inclusion and local development in rural areas, including bio-economy and sustainable forestry;
- i) improve the response of EU agriculture to societal demands on food and health, including safe, nutritious and sustainable food, food waste, as well as animal welfare.

For the **EAGF**, there are a number of changes proposed to the structure and content of Pillar 1 of the CAP which has influenced changes in the way climate markers have been applied. The new structure is set out below:

Table 4: Climate markers applied to EAFRD in 2014-2020

Direct payments	
<i>Decoupled direct payments</i>	<i>Coupled direct payments</i>
- Basic income support for sustainability (BISS)	- coupled income support
- Complementary redistributive income support for sustainability	- crop-specific payment for cotton
- Complementary income support for young farmers	
- Schemes for the climate and the environment (eco-scheme)	
<p>All direct payments are subject to adherence with:  <b>Conditionality<sup>55</sup> requirements</b>  a series of standards with which farmers must comply to receive agricultural area payments under the EAGF and the EAFRD and which replace the current cross-compliance requirements and the Pillar 1 greening measures.</p>	

The way that the climate markers have been applied to this new structure is set out in **Table** below. For the new eco-schemes, the 100% co-efficient has been applied, although climate is only one of the objectives of this intervention. A 40% marker is proposed for all expenditure under the Basic Income Support Scheme for Sustainability & Complementary Income Support, double the marker provided for all direct payments (including the green direct payments) in 2014-2020. The enhanced climate ambition of the new conditionality requirements compared to its predecessors - greening and cross-compliance - has been advanced as the justification. It is proposed that both types of coupled direct payments will receive a 0% marker.

Table 5: Climate markers proposed for the EAGF for 2021-27

EAGF 2021-27	
100% marker	- Schemes for climate and the environment (eco-schemes)
40% marker	- Basic Income Support Scheme for Sustainability & Complementary Income Support (BISS)
0 % marker	- Coupled income support - Crop specific payment for cotton

For the **EAFRD**, the attribution of the climate markers has been simplified somewhat and allocated according to the new set of nine CAP objectives highlighted above. As before the 100% coefficient is attributed to all interventions where the expenditure is identified as addressing the CAP's environmental and climate objectives, but with the exception of the intervention of Areas with Natural or other Specific Constraints (ANC). The ANC intervention is allocated a 40% coefficient instead. This change takes account of criticisms during the current period that the majority of ANC expenditure was allocated to the EAFRD's environmental priority (Priority 4) and therefore attributed the 100% climate coefficient, despite the fact that the purpose of the payment is not climate or environment focussed, although indirect benefits may ensue from its use, depending on how it is implemented by Member States.

<sup>55</sup> Conditionality, like cross-compliance under the 2014-2020 CAP, comprises both Statutory Management Requirements (SMRs) – requirements deriving from EU Directives as applied in Member States (and therefore legally binding) and 28 standards of Good Agricultural and Environmental Conditions (GAECS) which are additional standards that may or may not be covered by national legislation.

Table 6: Climate markers proposed for the EAFRD for 2021-27

EAFRD 2021-27	
100% marker	- Rural development interventions addressing specific environmental- and climate-related objectives (excluding ANC)
40% marker	- Payments in Areas with Natural or other Specific Constraints (ANC)
0 % marker	- Any expenditure for rural development measures not addressing climate and environmental objectives and the ANC intervention

This new approach to applying markers to the EAGF represents a significant increase in its contribution to climate mainstreaming in the 2021-2027 MFF, although the precise amount will depend on how Member States split their expenditure allocations of the EAGF between the eco-scheme and the BISS.

This means that it will be the changes in climate markers for the EAGF, rather than the EAFRD that will primarily account for the increase in the CAP's contribution to the revised climate mainstreaming target under the MFF. This increase in tracking of climate expenditure is based on a couple of enhanced baseline standards for land managers (a number of which are under pressure to be watered down during the negotiations on the CAP proposals<sup>56</sup>) and the introduction of the eco-scheme, which is as yet unproven in terms of its climate ambition.

In fact, so significant is the proposed change in climate reporting of direct payments, that the EAGF would be responsible for more than the entire five per cent increase in climate mainstreaming across all budget lines, given the size of the CAP budget, as illustrated by **Table** below. We have assumed in this calculation that Member States choose on average a relatively low 20% for the share of EAGF expenditure allocated to eco-schemes – if Member States allocate more, the EAGF's contribution to the climate expenditure target will increase further.

Table 7: The change in EAGF's contribution to the climate target

Climate spending calculated on old basis			Climate spending calculated on new basis		
Greening payment (30%)	Permanent pasture @ 100%	10.00%	Eco-scheme	(?)20% @ 100%	20%
	EFA @ 40%	4.00%			
	Crop divers'tion @ 0%	0.00%			
Basic payment (70%)	20% "climate relevant" @40	5.60%	Basic Income Support	(?) 80% @ 40	32%
<b>Total climate share</b>		<b>19.60%</b>	<b>Total climate share</b>		<b>52.00%</b>
Direct payments budget =		€267484m			
MFF total =		€1134583m			
<b>Direct payments proposed recording of climate spending, as a percentage of the MFF total:</b>					
<b>19.6% * €267484m / €1134583m</b>		<b>4.62%</b>	<b>52%*€267484m / €1134583m</b>		<b>12.26%</b>

Given the criticism by the European Court of Auditors in its 2016 report that the approach to scoring climate expenditure from the EAGF was too generous, the Commission's proposed move to report

<sup>56</sup> For example, the proposal that farmers should be required to use a nutrient management tool (although there are limited details on what this would look like currently) and the proposed requirement for the 'appropriate protection for peatlands and wetlands' - the objective of which is to protect carbon-rich soils (which modifies the current protections afforded to 'environmentally sensitive permanent grassland' under the current greening measures).

higher climate expenditure from the fund is striking, even taking into account the moves towards increased climate ambition of the expenditure.

Clearly, if a significant improvement in the climate benefits of the expenditure were achieved, the justification for this approach would be stronger. However, a number of environmental stakeholders have criticised the legislative proposals for a lack of ambition on climate and biodiversity objectives. Moreover, there are risks that the amendments adopted by Council and Parliament weaken the environmental contribution; for example, if amendments seeking to weaken conditionality requirements for greening payments under EAGF, or to include EAFRD expenditure on “Areas of Natural Constraint” towards the minimum required spend for “environmental and climate purposes”, the level of environmental ambition will be reduced. Our own view is that, while the contribution to climate and biodiversity objectives is undoubtedly “moderate”, recording a 40% contribution for the whole of the EAGF significantly weakens the credibility of the climate tracking mechanism. It will be important that the Commission reflects on the real nature of the changes in EAGF expenditure, and the real nature of its climate and biodiversity contributions, in the light of the approach to the legislation finally agreed with the co-legislators before making final decisions on how much of it should count towards climate and biodiversity expenditure.

Given that the headline increase in climate spending from 20% to 25% of the budget has become an important symbol of an increased focus on climate issues, if the Commission were to revert to the 2014-2020 view on climate impact (i.e. 19.6% of the direct payments total), a significant increase in climate expenditure from other programmes would be required. An alternative approach, and one that we recommend, is that Council and Parliament should significantly strengthen the real nature of the EAGF’s contribution to climate and biodiversity targets in their consideration of the draft legislation. Options which could be considered in this direction including a strengthening of the conditionality requirements for receipt of support; requirements for eco-schemes to set clear, quantified, and demanding targets for the delivery of environmental objectives; and removing options for Member States to link support to livestock production.

### 1.3.1. Cohesion policy (ERDF, CF, ESF, EMFF)

The approach proposed for climate tracking in the ERDF and Cohesion Fund is essentially the same as used for the current period, although with some changes proposed by the Commission<sup>57</sup>. Among the intervention fields with a proposed marker of 100%, these include a wider range of types of adaptation investment; new intervention fields for marine renewable energy investments and for alternative fuels infrastructure; and an increase from 40% to 100% in the markers applied to a range of rail and urban transport interventions.

### 1.3.2. Horizon Europe - The next research and innovation framework programme

The research fund Horizon Europe is expected to contribute 35% of its overall financial envelope to climate-related expenditure under the 2014-2020 financial perspective<sup>58</sup>. A specific target is not included in the Commission’s legislative proposal for the 2021-2027 period, although the proposal does emphasise the need to contribute towards the overall 25% target. Relevant priorities are set out

<sup>57</sup> See COM/2018/375 final - 2018/0196 (COD), Proposal for a Regulation of the European Parliament and of the Council laying down common provisions (etc.)

<sup>58</sup> <http://www.caneurope.org/docman/climate-finance-development/3373-assessment-eu-budget-climate-mainstreaming-can-europe-august-2018/file>

in the Specific Programme. Pillar II 'Global Challenges and Industrial Competitiveness' with the following components is the most relevant pillar with the following components:<sup>59</sup>

- a) cluster 'Health';
- b) cluster 'Inclusive and Secure Society';
- c) cluster 'Digital and Industry';
- d) cluster 'Climate, Energy and Mobility';
- e) cluster 'Food and Natural Resources';
- f) non-nuclear direct actions of the Joint Research Centre (JRC).

Specific priorities for climate mitigation and adaptation will be further defined in the implementation of the specific programme, as well as the strategic planning and the 2-year work programmes.

### 1.3.3. LIFE

The post-2020 LIFE proposal specifies the need to track climate and biodiversity spending, by using the Union climate marker system for the former, and a specific set of markers for the latter<sup>60</sup>, which will be carried out based on previous experience. The tracking methodology will be used to quantify the commitment appropriations expected to contribute to its objectives over the Multiannual Financial Framework for 2021-2027 at the appropriate level of disaggregation. The Commission will continue to present the information annually in terms of commitment appropriations in the context of the annual draft budget.

In order to provide evidence of the co-benefits of the LIFE programme between climate action and biodiversity the monitoring framework includes the methodology for tracking climate and biodiversity-related expenditures as defined in the MFF Communication<sup>61</sup>.

### 1.3.4. Implications of the European Green Deal

The Commission's publication of its Communication on the European Green Deal<sup>62</sup> (EGD), together with the subsequent Communication on the Sustainable Europe Investment Plan and the EGD Investment Plan<sup>63</sup>, and the accompanying proposal for a Regulation establishing the Just Transition Fund<sup>64</sup>, have important implications for climate expenditure, and to a lesser extent for biodiversity expenditure, in future.

In particular, the European Green Deal, together with the political priorities set out by President von der Leyen for the European Commission, creates a greater level of climate ambition, with a net zero emissions objective, and clarity that climate action should be at the heart of the EU's action. This will be emphasised by the refocusing of the European semester process to "put sustainability and the well-being of citizens at the centre of economic policy". This focus on climate and sustainability objectives suggests that the rigour of climate mainstreaming and climate tracking mechanisms will need to be increased, with – as we suggest later in this report – a clearer link to the delivery of targets, rather than the current largely subjective assessment of the "significant" or "moderate" contribution of expenditure to climate objectives.

<sup>59</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2018%3A436%3AFIN>

<sup>60</sup> ANNEXES to the Proposal for a Regulation establishing a Programme for the Environment and Climate Action (LIFE) and repealing Regulation (EU) No 1293/2013, Chapter IV, Art 18.4, page 23

<sup>61</sup> ANNEXES to the Proposal for a Regulation establishing a Programme for the Environment and Climate Action (LIFE) and repealing Regulation (EU) No 1293/2013, Legislative financial statement, 1.4.2, page 28.

<sup>62</sup> COM(2019) 640 final, Communication from the Commission to the European Parliament etc. "The European Green Deal"

<sup>63</sup> COM (2020) 21 final, Communication from the Commission to the European Parliament etc. "Sustainable Europe Investment Plan, European Green Deal Investment Plan"

<sup>64</sup> COM (2020) 22 final, Proposal for a Regulation of the European Parliament and of the Council establishing the Just Transition Fund



Specific expenditure proposals in the European Green Deal will require decisions on how their climate contribution should be tracked. In particular, the proposed Just Transition Fund (JTF) requires its own climate tracking methodology. The role of the JTF, according to the Commission's proposal, is to contribute to the Cohesion objective of "enabling regions and people to address the social, economic and environmental impacts of the transition towards a climate-neutral economy". Thus, while the proposal is part of a political focus on climate change, the expenditure itself will not directly deliver climate benefits, and should therefore not have a 100% climate marker. The most straightforward approach, as proposed by the Commission<sup>65</sup>, is to track the climate content of expenditure using the same intervention fields identified for ERDF and Cohesion Fund expenditure (see 0 above).

---

<sup>65</sup> See COM (2020) 23 final, amending the proposal for a new Common Provisions Regulation; in particular amendment 9(3) to Article 4, paragraph 3.

## 2. ASSESSMENT OF STRENGTHS AND WEAKNESSES OF THE CURRENT SYSTEM

### KEY FINDINGS

- The climate tracking methodology used by the Commission is probably the most advanced Government expenditure methodology used in developed economies.
- It has a number of advantages, including a low level of administrative burden, an emphasis on capturing climate policy co-benefits of other policy areas, and an encouragement to integrate climate considerations across the European budget.

However, it has a number of weaknesses, particularly as climate policy has risen in importance and is now both at the top of the Commission’s policy agenda, and central to the political debate in the European Parliament. These include a number of areas where climate expenditure is recorded in an approximate way; and several areas of spending in well-funded programmes where the climate markers are applied in a way which appears to be over-generous.

This section of our report aims to identify the main strengths and weakness of the current systems for tracking of climate and biodiversity expenditure.

### 2.1. A relatively advanced tracking system, with a low level of administrative burden...

The 2017 evaluation of climate mainstreaming found that the EU system of climate tracking was more ambitious than systems in any other developed economy, and that appears to still be the case. While France has made progress (see the Annex) in developing an ambitious system, and while its system has some strengths, it is not yet as comprehensive as the EU level system. Norway (see Annex) is developing a mechanism for tracking the climate impacts of its public expenditure (as distinct from the EU system, which, as noted above, focuses on identifying budgetary inputs, with limited focus on sectoral impacts); but this has yet to be implemented.

Moreover, the Commission’s approach has been designed to provide information on budgetary inputs without creating excessive complexity, either for Commission services themselves or, importantly, for public authorities in Member States and the ultimate beneficiaries of EU funds. The mechanisms adopted for programmes under shared management, particularly the European Structural and Investment Funds and the Common Agricultural Policy, have applied broad rules of thumb aimed at identifying expenditure likely to produce climate benefits, and generated information automatically, without requiring detailed tracking of individual projects or investments.

### 2.2. ... But which provides approximations which may not always be accurate

The corollary of the relative simplicity and low administrative burden of the Commission’s system, however, is that it does not always appear to identify the expenditure which genuinely has the greatest impact on delivering climate benefits. The box below examines the example of rural development expenditure in two Member States – Estonia and Austria – where the different levels of climate expenditure recorded do not appear to reflect a real difference in the climate contribution of the programmes.

### Box: Applying the climate markers to the Rural Development Programmes – Austria and Estonia

EU climate markers for the EAFRD are applied at the level of the focus areas (sub-objective). Expenditure under a given measure is given the climate marker of the focus area to which that measure contributes. For the 2014-2020 programming period the following markers apply:

- 100% marker – all expenditure under Priorities 4 (environment) and 5 (climate)
- 40% marker – all expenditure under Focus Areas 3B (farm risk prevention and management) and 6B (local development in rural areas)
- 0% marker – all other priorities and focus areas.

These markers are applied regardless of which CAP measures are programmed under these priorities and whether or not they deliver climate benefits in practice. The climate expenditure tracked using the climate markers is highly dependent on the proportion of funding allocated to Priority 4, to which approximately 46% of the total EAFRD budget was allocated for the 2014-2020 period. Within this, across the EU as a whole, 35% was allocated to the agri-environment-climate measure (for which climate is one amongst a number of objectives) and 36% to payments for Areas facing Natural Constraints (ANC) which does not have climate as an objective. Looking at the measures programmed under Priority 4 for two Member States the variation in the proportion of budget allocated to the different measures is clear:

		<i>Austria</i>		<i>Estonia</i>	
		<i>% of RD budget</i>	<i>Climate tracked</i>	<i>% of RD budget</i>	<i>Climate tracked</i>
<i>priority 4 (all focus areas) (100%)</i>		63.7%	63.7%	36.5%	36.5%
<i>of which:</i>	<i>Agri/envt/climate</i>	26%	26%	22.2%	22.2%
	<i>Organic</i>	10%	10%	9.6%	9.6%
	<i>Areas of Natural Constraint</i>	23%	23%	0%	0%
	<i>Forestry</i>	1.3%	1.3%	0.1%	0.1%
<i>priority 5 (all focus areas) (100%)</i>		3.0%	3.0%	2.2%	2.2%
<i>Focus Area 3B (40%)</i>		0.03%	0.0%	0.5%	0.2%
<i>Focus Area 6B (40%)</i>		8.7%	3.5%	9.1%	3.6%
<i>Other priorities</i>		24.6%	0.0%	51.7%	0.0%
<i>Tracked climate spending</i>			<b>70.2%</b>		<b>42.5%</b>

Thus, while Austria's climate spending is recorded as being 70%, and Estonia's 42%, the main difference between the two programmes is the 23% of its programme that Austria spends on supporting farms in areas of natural constraint. Estonia (with a significantly lower allocation of EAFRD funds per hectare) does not spend any funds on this measure. A major change in climate tracking is driven by expenditure on a measure with little or no climate relevance.

Source: RDPs for the 2014-2020 period as submitted to the European Commission in 2015/16, and Commission RDP factsheets

To a lesser extent, the markers used for ERDF and Cohesion Fund expenditure may sometimes give a misleading approximation – the 2017 evaluation<sup>66</sup> notes that "For example, innovation in large companies could include a significant energy efficiency component; but would be recorded at 0 %;

<sup>66</sup> Ricardo, Trinomics, IEEP, 2017

investment at ports would be given a 40 % marker, but could ... include new facilities for fossil fuel imports.” However, the number of intervention fields (123) should mean that the information is sufficiently granular to ensure a reasonably accurate picture, provided there is no systemic bias towards choosing climate-relevant intervention fields.

### **2.3. Capturing co-benefits**

The Commission’s tracking methodology, which does not aim to identify the intention behind expenditure, but the nature in practice of its potential impacts on climate policy outcomes, implicitly encourages programmes to identify – and to maximise - climate policy co-benefits, although the primary purpose of the expenditure may be different. While this creates some challenges for the accurate presentation of the results – in particular, policymakers have frequently stated that the climate spending target relates to spending “on” climate policy, when it would be more accurate to describe it as expenditure with climate policy benefits – there is some evidence, as noted in the 2017 evaluation<sup>67</sup>, that programmes have been encouraged to increase climate policy co-benefits in order to ensure that their expenditure is counted.

### **2.4. A focus on ex ante prediction**

The Court of Auditors report of 2016 commented that: “The established approach presents an inherent risk, since it focuses on identifying the plans for future expenditure. Planned expenditure on climate action does not, however, necessarily translate into actual spending.” The Commission’s response has been to emphasise that the delay between commitments being made, particularly under shared management programmes such as the structural and investment funds, and expenditure subsequently being realised, would mean that an approach based on actual expenditure would provide data that was too late to be of use. However, as the 2017 study noted, there would be some value in checking to see whether the climate intensity of spending eventually realised matched the expected level.

### **2.5. Lack of explicit targets for results**

The choice of a focus on climate policy impacts is weakened by the absence of a systematic approach to identifying the nature and scale of impacts that the expenditure aims to achieve. This, in turn, makes it difficult for stakeholders to assess the credibility of the climate marker allocated to expenditure, or to assess whether the expenditure is a good choice for investment of EU funds to tackle climate change. Some focus on results is ensured in programmes under shared management, which represent 80% of the climate expenditure tracked in the EU budget – particularly cohesion and rural development programmes – by the process of developing Partnership Agreements with the Member States, where Commission services place significant emphasis on ensuring an adequate climate focus, and there is evidence<sup>68</sup> that the agreements have achieved a greater degree of focus on climate outcomes. However, this process takes place after the allocation of funds to programme headings in the Multi-annual Financial Framework, and does not allow the co-legislators to assess the potential climate impacts of different expenditure choices; and there does not appear to be any mechanism for reporting consistently on the overall climate (and biodiversity) impacts of the different programmes while they are being implemented.

While identifying clear, quantifiable targets for climate adaptation and biodiversity across the EU is challenging, because of the different nature of the policy outcomes in different geographical regions

---

<sup>67</sup> Ricardo, Trinomics, IEEP, 2017

<sup>68</sup> Nesbit, Paquel & Illes (2017) Research for REGI Committee – Cohesion policy and Paris Agreement Targets, European Parliament, Policy Department for Structural and Cohesion Policies, Brussels

of the EU, setting programme level targets for climate mitigation should be straightforward. And for all three policy areas, it could be considered essential for individual spending programmes which claim to make a positive contribution to delivery of relevant policy outcomes to set out a clear ambition for the scale of that contribution, in order for Europe to have clarity on its overall approach to delivery of those policy outcomes.

## 2.6. A number of areas where climate/biodiversity scoring is questionable

As earlier sections of this study record, there are several areas where the climate markers applied to expenditure have been criticised as over-generous. This applies particularly to agricultural subsidies, where the current 19.6% composite climate marker applied to direct payments under the EAGF was criticised by the ECA 2016 report; and the proposed increase in climate marker to around 50% does not appear to be credibly justified by a likely increase in climate policy impacts. Other climate markers which have been criticised include:

- The 100% marker currently applied to payments to farms in Areas of Natural Constraint under the EAFRD (by virtue of its inclusion in Priority 4 (Environment), notwithstanding the fact that farms do not need to commit to additional environmental standards or actions in order to receive the payments)<sup>69</sup>;
- Individual intervention fields for ERDF and Cohesion Fund expenditure with a 40% marker, including investment in ports.
- The 100% marker applied to permanent cessation of fishing activities under the EMFF.

The section above (0) detailing the biodiversity tracking methodology notes several areas where the current approach potentially leads to an over-estimation of relevance – particularly in EAFRD measures (although there are also some measures with biodiversity-relevant expenditure which is not included); and in cohesion policy expenditure, for example on wastewater treatment.

## 2.7. Lack of connection to the political process of agreeing the annual budget

The Commission's presentation of data on climate tracking in the annual budget documentation is extensive, and represents a major exercise, even if the quality and transparency of the material varies between areas of expenditure. However, there does not appear to be a formal mechanism which enables co-legislators to identify the impact of different approaches to the annual budget on the climate tracking of expenditure. To some extent, this reflects the fact that the bulk of climate-relevant expenditure is found in programmes – including those in shared management – with multi-annual commitments of expenditure and with pre-allocated national envelopes. However, there could be value in finding mechanisms which give legislators a clearer view both of the climate implications of expenditure decisions, but also of the total climate (and biodiversity) impact of each year's expenditure plans.

## 2.8. Risks of negative climate and biodiversity impacts of expenditure

There is a continuing debate on the potential for some EU expenditure programmes to have negative impacts on climate or biodiversity outcomes, and on the desirability or otherwise of introducing specific rules to ensure that such expenditure is avoided or prevented. Examples put forward include investments in gas distribution networks; infrastructure investments with negative impacts on

<sup>69</sup>The Commission has proposed a reduction to a 40% marker for the next programming period – see **Table** .

biodiversity outcomes in protected areas; and support from agriculture funds to livestock farming. The Commission's current tracking methodologies for climate and biodiversity do not attempt to identify expenditure with negative impacts.

Arguably, failing to identify this expenditure, and to deduct it from the reported totals of EU expenditure to tackle climate change, leads to overstating the extent of the EU budget's support to climate objectives. However, it seems unlikely that effective mechanisms could be devised both to identify and to net off from climate expenditure the "negative" expenditure. Developing negative markers at 40% and 100%, for example, would run into potentially greater technical difficulties than the development of markers for positive expenditure; and, critically, would rely on budget holders and programme authorities being willing to offer a negative assessment of their expenditure decisions. Those responsible for programmes both at EU level and (where relevant) at programme authority level in the Member States would have a clear incentive to avoid identifying investments as climate-harmful or biodiversity-harmful. A more effective approach seems to us to be to introduce firmer safeguards against expenditure which harms climate and biodiversity policy objectives, either through the introduction of a negative list of types of project where there would be a clear a priori assumption against funding, or in the case of the European Structural and Investment Funds and the EAGF, by giving the Commission a clear mandate not to approve Partnership Agreements or the proposed new CAP Strategic Plans unless they are satisfied that climate or biodiversity-harmful expenditure is avoided. Legislation which creates a risk of funding either being prevented, or found to have been unlawful and therefore subject to repayment, is likely to create a significantly greater deterrent than an exercise in tracking negative expenditure.

## 2.9. Links to SDG indicator methodologies

Finally, the current methodology for tracking climate expenditure in the EU budget is not well-integrated with mechanisms for monitoring Europe's progress towards the Sustainable Development Goals adopted at UN level in 2015. In part, this is unsurprising, since the adoption of the SDGs post-dates the start of the 2014-2020 multiannual financial perspective. However, a recent ECA report<sup>70</sup> also identified weaknesses in the integration of the SDGs into budgetary processes, noting that:

"There is, apart from in the EU's external actions area, no systematic analysis or reporting framework [on] how individual programmes or parts of the budget contribute to the implementation of the SDGs."

An improved focus on the budget's focus on climate policy outcomes, rather than expenditure inputs, could be one way of improving the SDG relevance of Europe's budgeting and financial reporting processes.

---

<sup>70</sup> ECA Rapid case review (June 2019) "Reporting on sustainability: A stocktake of EU Institutions and Agencies"; see also the IEEP briefing "Assessing and accelerating the EU progress on Sustainable Development Goals (SDGs) in 2019", Monteville and Kettunen, 2019.

### 3 TOWARDS AN IMPROVED SYSTEM

#### KEY FINDINGS

- There is a mismatch between the Commission’s approach of tracking expenditure which “contributes to climate objectives”, regardless of the primary objective of the expenditure, and likely public interpretation of a commitment to spend at least 25% of the EU budget on climate action.
- However, it is important to avoid excessive bureaucracy in implementation of the EU budget.
- Expenditure on climate change (and biodiversity) should be targeted to ensure that the 25% of the EU budget, or whatever objective is chosen, makes the maximum contribution to meeting climate objectives.

This section identifies, first, what an improved tracking system should aim to achieve – including those strengths of the current system that we should aim to retain; and then sets out some options for doing so, noting the steps that might be needed to transition to an improved system.

#### 3.1. What should an improved system aim to achieve?

A key requirement of any system for tracking the EU’s contributions towards policy goals – in this case, climate mitigation and climate adaptation – is that it should be transparent and informative for the public and for policymakers alike. The European Council and the European Parliament have respectively adopted the positions that:

“Climate action objectives will represent at least 20% of EU spending in the period 2014-2020”<sup>71</sup>

and that:

“the EU’s contribution to the climate objectives target should reach at least 25 % of expenditure over the MFF 2021-2027 period”<sup>72</sup>.

In delivering on these commitments, both in the current financial perspective and in the 2021-2027 MFF, it is important to ensure that the expenditure reported against the target would be recognised by well-informed members of the public as being spent with a clear objective of delivering climate policy benefits, rather than simply having an incidental positive impact on them. The Commission’s expression of what is meant by the climate expenditure target is more circumspect, and refers instead to “EU expenditure contributing to climate objectives”<sup>73</sup>; however, the general impression presented is that a quarter of the budget will be consciously used to deliver climate objectives. A number of the areas of expenditure currently counted as contributing towards the objective, particularly those identified as making a “moderate” contribution, would not easily be recognised by the public as being climate expenditure<sup>74</sup>, and would not feature prominently in Member States’ climate strategies. There is thus a mismatch between the Commission’s approach of tracking expenditure which “contributes to climate objectives”, regardless of the primary objective of the expenditure, and likely public

<sup>71</sup> “Conclusions of the European Council (7/8 February 2013) as regards the item Multiannual Financial Framework”, EUCO 37/13. The European Council has not yet endorsed the Commission’s proposal for a 25% contribution to climate objectives for the 2021-2027 financial framework.

<sup>72</sup> European Parliament resolution of 14 November 2018 on the Multiannual Financial Framework 2021-2027 – Parliament’s position with a view to an agreement

<sup>73</sup> Proposal of the Commission for the Multiannual Financial Framework 2021-2027 (COM(2018) 321 final), [Vol 1](#), p 13

<sup>74</sup> For example, we have not been able to find a reference to the contribution to climate mitigation from either renewal of the fishing fleet, or support to farms in areas of natural constraint, in any Member State National Energy and Climate Plans.

interpretation of the commitment to spend at least 25% of the EU budget on climate action. A more explicit political process for determining what is and what is not counted would ensure greater accountability; and the Commission's substantial moves in this direction in the legislative proposals for the new Multi-annual Financial Framework are to be welcomed.

At the same time, it is vitally important for the European Union's funds to be spent efficiently, and for excessive bureaucracy to be avoided. The Commission's approach of making broad assumptions about the climate contribution of programmes (with more detail added where possible, for example where there is detailed information available on the categories of expenditure funded by the ERDF and Cohesion Fund), therefore makes considerable sense. An approach where individual project developers were required to demonstrate the climate impacts of their expenditure would be more complex, and would potentially result in delayed expenditure.

Finally, it is important to ensure that there are strong incentives for ensuring that the funds which Europe's democratic decision-making processes call for to be spent on delivering climate objectives are used as effectively as possible in meeting climate objectives. If expenditure currently included within the 20% target, or proposed for inclusion in the 25% target, has a relatively weak impact on climate mitigation, for example, while other expenditure might have a more direct contribution, the more effective expenditure should be preferred. Given the immediacy of the challenges of climate change, climate funds should be spent as effectively as possible. As this study notes, climate mainstreaming is a much wider process than the tracking of climate expenditure, and the contributions made by climate-proofing of expenditure, and from enabling conditions under ESI Funds and CAP expenditure, are important. Climate tracking can contribute both by being more accurate and informative, and by providing greater incentives to maximise the delivery of climate policy objectives.

### 3.2. Options for an improved system

On the basis of our observations of the current system, and that proposed for 2021-2027, and in order to meet the objectives set out in section 0 above, we have developed some proposals for an improved system, as requested. Our key recommendation, however, is that the approach to climate mainstreaming needs to be more transparent and easier for citizens to understand. As the Commission and Parliament have both pointed out, Europe needs to show leadership in tackling the climate emergency, and climate objectives are Europe's first priority. Demonstrating that the EU budget is prioritising effective action on climate is therefore an important step.

This could be facilitated through **an explicit political decision on the expenditure counted towards the target** – since the decisions to mandate expenditure of 25% towards climate objectives are taken by the Council and Parliament, there should be a process to enable Council and Parliament to ensure that the expenditure counted towards the 25% (or any higher figure set at a later date) is contributing effectively to the delivery of climate targets. At the same time, it would be important not to add to the already complex political challenge of reaching agreement on legislation on the MFF and on expenditure programmes. Options would include either a separate co-decided decision on monitoring the delivery of the 25% target, once the MFF has been agreed; or there could be a requirement on the Commission to bring forward an implementing act once the co-decided legislation governing the programme has been agreed. If an implementing act were chosen, it would be important for the co-decided legislation to specify clearly the requirements it would need to satisfy.

Currently, as noted above, no distinction is made between expenditure which contributes to climate mitigation, and expenditure which contributes to adaptation to climate change. The two objectives are



very different, both in the nature of the interventions necessary to achieve them<sup>75</sup>, and the extent to which private as well as public benefits are derived (broadly, the private benefit from individuals and organisations improving their resilience is significant; while the private benefit from climate mitigation per se – as opposed to reduced energy costs – is negligible). Transparency of the climate tracking system would therefore be improved if it were to **distinguish clearly between contributions to climate mitigation, and contributions to improved resilience to climate change** (as called for by the European Parliament in its position on the MFF). This would also help in developing a clearer link between climate expenditure, and the detailed targets it seeks to deliver. For those measures, particularly those funded under the CAP, which deliver both mitigation and adaptation benefits, separate totals would be reported under mitigation and adaptation respectively, while ensuring that double-counting is avoided when reporting the total climate-relevant expenditure.

**Expenditure programmes should only be included in climate tracking where they have explicit (and, ideally, quantified) targets for their climate contribution.** If the delivery of climate objectives is genuinely an objective of the expenditure in question, then it can be expected that it will be featured prominently in the impact assessment for the programme's legislative instrument, with an indication of the quantified impact for mitigation contributions<sup>76</sup>. Quantified impacts may be more difficult in the case of a contribution to climate adaptation and climate resilience objectives, but clarity on what the expenditure aims to achieve would in any case be essential.

Decision-makers should also **ensure that programmes report on the delivery of those targets**, and have adequate monitoring frameworks in place to enable them to do so. This would ensure that the budgetary authority can then decide on future adjustments to the expenditure on different programmes, in order to optimise the delivery of climate objectives alongside other policy aims.

Implementation of this approach would need to **reflect the requirements of programmes under shared management**, where implementation of the expenditure is carried out by Member State and regional authorities – notably the ESI Funds but also EAGF expenditure, given the increasing scope for Member States to design their own approaches to implementation. If targets are set at Fund level for the EU as a whole, the Commission would need to be able to negotiate with Member States to ensure that targets for each programme were set which were capable of delivering the EU-level target. The approach to be adopted by the Commission could be set out either in the co-decided legislation governing the funds, or in implementing legislation. It would provide scope to ensure that targets at Member State and regional level reflected the nature of the challenges in each case – with higher contributions expected from those programmes where there were greater opportunities, or where social and economic needs were less pressing.

Quantifiable targets are easier to develop for climate mitigation than for climate adaptation, or for biodiversity. Climate mitigation actions can generally be measured in terms of their net impact on GHG emissions; whereas improved resilience cannot be reduced to a single variable, and improvements in biodiversity require assessment of a number of habitats and species. This suggests that the approach recommended here is best suited to climate mitigation expenditure; although a broad requirement for quantified targets on resilience and biodiversity improvements, leaving the nature of those targets to those managing the funds, could be considered.

---

<sup>75</sup> With the exception of some land management measures, which can contribute both to lower net emissions, and e.g. enhanced flood resilience.

<sup>76</sup> There may be cases where a specific quantified impact cannot be estimated – for example, in the case of research expenditure into potentially promising but untested mitigation options – but these should be clearly substantiated.

### 3.2.1. For climate mitigation expenditure, consider requiring a minimum level of emissions reduction impact per Euro.

Given the urgency of action to mitigate and adapt to climate impacts, it is vitally important that the EU's expenditure on climate action is focused on those actions where it can make the greatest contribution. Moreover, the ratio of climate policy benefits to public expenditure can be a valuable guide to whether the climate contribution of a programme is genuinely significant enough to count towards the EU's climate expenditure target. If a target-based approach to climate tracking is adopted, it could be progressively adapted to ensure that only expenditure above a specific level of outputs per Euro is counted towards the overall climate spending target. This approach would fit well to programmes where the nature of the mitigation impact is predictable, measurable, and generally well-understood – in particular, investments in decarbonisation of sectors such as energy, transport, and buildings, as well as improvements in agricultural practice. It would fit less well in the case of programmes with a more speculative – but potentially significant – contribution, such as research expenditure, or certain projects under LIFE aimed at piloting new approaches to mitigation; there may, therefore, need to be some exceptions. However, the discipline of requiring a demonstration of the scale of contribution expected from, or potentially by, the expenditure remains important.

In addition, the question of the attribution of climate policy benefits to public expenditure, and to the EU share of public expenditure, would need to be addressed. A number of programmes rely on either Member State co-financing – for example, regional development programmes and rural development programmes; and a number of areas of expenditure rely on private sector co-financing. Attributing the totality of the carbon savings from projects funded in this way to the EU budget contribution could thus over-estimate the total impact of EU spending; and, perhaps more importantly, risk distorting budgetary choices between investments where the EU financial contribution was less significant, and those where the EU contribution was both significant and essential.

### 3.2.2. Mechanisms to avoid negative climate impacts of EU programmes

Concern has been expressed that the climate tracking methodology does not pay adequate attention to negative impacts on emissions, or on climate resilience, from EU expenditure. For example, it could be argued that the positive contribution of climate-relevant expenditure could be reduced by the extent of expenditure with negative impacts, to produce a net figure. In theory, a system could be developed that would assign a negative coefficient to clearly negative spending (for example highway construction or subsidies for intensive livestock operations), and a neutral grade to disputed spending. This is similar to the proposed French system (see Annex) which has established five categories of climate impact for expenditure, ranging from directly favourable to directly unfavourable. In this way, a rough estimate of the net effect of spending on climate could be included. Norway has also started to look at ways of calculating the direct negative effects of government spending, although this has a number of methodological difficulties (see Annex).

Our view is that such an approach would be difficult to implement at EU level in any meaningful way; programme authorities, and Commission services responsible for EU funds, would need to agree on a mechanism for identifying climate-harmful expenditure, and both would face clear incentives for minimising the extent of such expenditure. A more effective approach would be – as, again, many observers have argued – to reduce the scope for climate-negative expenditure. This could be achieved by the introduction of a list of categories of investment judged *a priori* harmful and therefore not eligible for support; with, possibly, mechanisms to allow for investment in some of those categories if a detailed and independently-produced impact assessment concluded that there were net climate benefits.

### 3.2.3. Linking tracking of Union expenditure to national strategies and plans

Both for climate expenditure and for biodiversity expenditure, it would be helpful to ensure a clear link between climate expenditure from the EU budget, and national strategies, in order to ensure that there was a good understanding of the priorities at national level. For climate expenditure, an enhanced focus in National Energy and Climate Plans on contributions from European expenditure, particularly from the CAP and from cohesion policy, would help to ensure shared understanding of the areas requiring focus. In the case of a difference of views between Member States and the Commission, discussion and assessment of the different approaches would help to identify which was more in accordance with the objectives set for the EU programmes by the Parliament and Council.

For biodiversity, a possible vehicle for ensuring a shared understanding would be the Member States' Prioritized Action Frameworks for Natura 2000 funding. This corresponds to the European Court of Auditors request that Member States' EU funding programmes in the next programming period include indicators and targets specific to Natura 2000 allowing more precise and accurate tracking of the results generated by Natura 2000 funding (European Court of Auditors, 2017). The PAF format requires that Member States report the total amount of funding from the different EU funds targeted at Natura 2000. A more informative approach is to identify the area within Natura 2000 under management contracts supporting biodiversity, as certain Member States and regions already do. While it would be valuable to have a similar understanding of biodiversity funding beyond the Natura 2000 network, there is not at present a similar common reporting format.

Finally, the difference in approach between setting a target for climate expenditure from the EU budget, and not setting a similar target for biodiversity expenditure, needs to be given an explicit justification. Purely from a biodiversity policy perspective, setting a target for expenditure would be valuable, and could be expected to have the impact of encouraging programme managers to consider more thoroughly the opportunities for funding biodiversity-related expenditure. However, we note that biodiversity is less prominent as a political priority for the EU institutions than climate change<sup>77</sup>; and that a profusion of targets for different political objectives could limit the flexibility of EU expenditure (for instance, other issues such as gender equality could make a similar case for expenditure targets).

---

<sup>77</sup> For example, while it receives significantly greater attention in the Von der Leyen political guidelines than those of the Juncker Commission, it is given significantly less prominence than climate change.

## CONCLUSIONS AND RECOMMENDATIONS

The European budget has been a leader in climate tracking among developed economies, with a more detailed and sophisticated approach to measuring the budgetary inputs contributing to climate change than any other. The similar mechanism tracking biodiversity expenditure, while less politically prominent, is nevertheless an important element in the EU's approach to the delivery of its commitments under the Convention on Biological Diversity.

The climate tracking system differs from the so-called Rio markers approach by focusing not on the intention behind expenditure, but on its expected effects. While the approximation involved in the current system may have been justified when climate change was one among a number of priorities, it is less clear that it is fit for purpose now, when addressing the climate crisis is at the heart of the Commission's agenda and that of Europe's legislators.

This study suggests that a revised system could be based on including expenditure within the climate and biodiversity tracking systems only where it has clear, verifiable targets for the delivery of climate and biodiversity outcomes, and that those targets are appropriate to the level of climate or biodiversity expenditure proposed. This approach could be linked in particular to the mechanisms for tracking the EU's delivery of climate and biodiversity outcomes towards the UN Sustainable Development Goals. Section 3.2 above sets out a number of possible approaches to improving the system, in particular:

- The requirement for tracked expenditure to have explicit targets for the delivery of outcomes;
- A clear distinction between contributions to climate mitigation, and contributions to climate adaptation, with separate totals recorded for each;
- Greater legislative oversight of which expenditure is counted towards the target;
- Measures to improve the targeting of climate expenditure, with consideration given to requiring a minimum level of climate mitigation per Euro spent, before expenditure can be counted towards the target;
- Mechanisms to reduce the risk of climate-harming expenditure being funded in the first place (rather than an effort to track climate-harming expenditure); and
- A clearer link between climate and biodiversity tracking and relevant national strategies.

The timetable for the introduction of such a revised system would need to be realistic. It would take time for the Commission to design a more credible target-based system in line with the proposals in this study. The need for the rules for each programme to be outlined in the relevant co-decided legislation, rather than just introduced as an administrative measure by the Commission, also adds to the complexity in comparison to the initial introduction of climate tracking. Given the advanced stage of negotiations on the next multi-annual financial framework and on the legislation governing individual spending programmes, our view during the writing of this study was that it would not have been realistic to implement it for the beginning of the new financial framework. The delayed timetable and new challenges caused by the Coronavirus crisis possibly create an opportunity, however. If the Parliament chose to emphasise the need for a radically improved tracking system, it could be possible to make more rapid progress in implementing it, although the Council and its Presidency can be expected to be hostile to the introduction of new elements to the negotiations. Failing that, the Commission could be charged with investigating the feasibility and modalities of such an approach in time for a mid-term review of the new MFF, with a view to its introduction for the following financial perspective; and the institutions could collectively commit to its progressive introduction for individual programmes where feasible in advance of 2028.

In the meantime, it is important to reinforce the credibility of the current tracking systems. This report and earlier reports have identified areas where the current approach is open to criticism; and as noted in section 0 above, the increase from 20% to 25% is more than accounted for by proposed changes to

the tracking of direct payments under the Common Agricultural Policy, which do not appear to be justified by the level of climate impact delivered by that expenditure. We therefore recommend that either the proposed regulation for the EAGF is strengthened significantly in its delivery of environmental outcomes; or that the previous approach to tracking, or a more conservative approach taking into account the comments of the European Court of Auditors, is adopted. This would require a significant effort to enhance climate mainstreaming in the programming of expenditure from other funds to ensure that the target of 25% is achieved.

## REFERENCES

- Alliance Environnement (2019) *Evaluation of the impact of the CAP on habitats, landscapes, biodiversity*. (IEEP and Oréade-Brèche), Brussels (forthcoming).
- Alliance Environnement and Thünen-Institut (2017) *Evaluation study of the payment for agricultural practices beneficial for the climate and the environment*. Alliance Environnement, Brussels.
- Ernst & Young (2017) *Study on biodiversity financing and tracking biodiversity-related expenditures in the EU budget*. Study for European Commission.
- European Commission (2014) *Guidance document on monitoring and evaluation: European Cohesion Fund, European Regional Development Fund. Concepts and Recommendations*. European Commission, Brussels.
- European Commission (2019) *DRAFT GENERAL BUDGET of the European Union for the financial year 2020: Working Document Part I Programme Statements of operational expenditure*. COM(2019) 400, European Commission, Brussels.
- ECA (2016) Special report no. 1, 2016, *Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short*. European Court of Auditors.
- Kettunen, M, Illes, A, Hart, K, Baldock, D, Newman, S, Rayment, M, Sobey, M and Medarova-Bergstrom, K (2014) *Tracking Biodiversity Expenditure in the EU Budget: Part II – Fund specific guidance documents*. Final Report for the European Commission – DG ENV, Institute for European Environmental Policy, Brussels.
- Medarova-Bergstrom, K, Kettunen, M, Illes, A, Baldock, D, Rayment, M and Hart, K (2015) *Tracking biodiversity expenditure in the EU Budget: Part I – Guidance on definition and criteria for biodiversity expenditure in the EU budget*. Final Report for the European Commission – DG ENV, Institute for European Environmental Policy, London/Brussels.
- Nesbit, Paquel & Illes (2017) Research for REGI Committee – *Cohesion policy and Paris Agreement Targets*, European Parliament, Policy Department for Structural and Cohesion Policies, Brussels
- Nitsch, H, Röder, N, Oppermann, R, Milz, E, Baum, S, Lepp, T, Kronenbitter, J, Ackermann, A and Schramek, J (2018) *Ecological focus areas: Well intended - Poorly implemented?* [Ökologische Vorrangflächen: Gut gemacht, schlecht gedacht?]. *Natur und Landschaft* No 6, 258-265.
- Ricardo, Trinomics, IEEP (2017) *Climate mainstreaming in the EU Budget: Preparing for the next MFF*. European Commission - DG CLIMA, Brussels.
- SEO/BirdLife España (2018) *Programas de Desarrollo Rural: informe de propuestas para su mejora y el futuro de la PAC*. SEO/BirdLife España, Madrid.

## ANNEX: OTHER APPROACHES TO CLIMATE TRACKING IN EUROPEAN PUBLIC ADMINISTRATIONS

### France

In 2018, the Government introduced a revised legal requirement to present a report, annexed to the annual finance bill, containing: a statement of all public funding for ecology, the energy transition and the fight against climate change included in the finance law for the current year and in the finance bill; an appraisal of the public and private financial resources used to finance the ecological and energy transition as well as an assessment of their adequacy with respect to respect European commitments, the Paris Agreement and the 2030 Agenda for sustainable development<sup>78</sup>.

In this context, and also as part of the OECD initiative supported by France and Mexico, “the Paris Collaborative on Green Budgeting”, the French government has developed a report recommending ways of implementing “green budgeting” in the future<sup>78</sup>. The report was delivered in 2019 and a methodology should be fully implemented for the 2021 budget allowing for a view of whether or not the budget on balance is favourable or unfavourable to the environment. The national budget evaluation considers both revenues and expenses.

Expenditures and revenues are grouped around six environmental objectives representing France's environmental commitments.

- Climate mitigation
- Climate adaptation
- Sustainable use and protection of water, terrestrial, and maritime resources
- Transition to a circular economy
- Water, air, and soil pollution
- Preservation of biodiversity

For each of these objectives, expenditure is classified into five categories:

- Category 3: Favourable, direct effect
- Category 2: Favourable but indirect effect
- Category 1: Favourable effect, but controversial (for example, may have short term benefits but dispute over long term effects, for example biofuels)
- Category 0: Neutral or unknown effects
- Category -1: Unfavourable effect

The classification of policies, programmes and projects will require a considerable analysis for full implementation and will require an ongoing evolution. The evaluation is made on the basis of the estimated effect of the expense or revenue. The evaluation of programming can be conducted at the level of granularity provided by the programmes annuels de performance (PAP) which report for each programme, the strategy, objectives, indicators and target results, the achievement of which will be measured in the annual performance reports (PCR) annexed to the draft by-law.

<sup>78</sup> Conseil général de l'Environnement et du Développement durable Inspection générale des Finances, (2019) *Green Budgeting : Proposition de méthode pour une budgétisation verte*, <https://vie-publique.fr/rapport/270663-green-budgeting-proposition-de-methode-pour-une-budgetisation-verte>

## Norway

The Norwegian Climate Change Act of 2017 mandates that the government report on the expected effects of its proposed budgets on GHG emissions. A technical committee was created to make recommendations on a methodology for this process, which released a first report in 2019<sup>79</sup>.

The Climate Act states that, in the budget proposal for next year's state budget, the government will explain the climate effect of the budget presented. Beyond this, no guidelines are provided regarding format and content. The Government has said that because of methodical challenges in quantifying the climate effect of state budget, where necessary ministries can report with textual, qualitative descriptions for the budget investments that they assume have a significant effect on greenhouse gas emissions, to the best of their professional judgement. In addition, the Ministry of Climate and Environment provided methodological guidelines for reporting on quantitative effects to the degree possible. Ministries were asked to focus on the emissions effects towards 2030, but also with the long-term (2050) effects in mind.

However, given many technical difficulties and lack of data, the emissions estimates remained limited and sporadic. Reporting was limited primarily to transport projects, the most relevant ministries, as well as the impact of Norwegian initiatives abroad. Much of the evaluation was qualitative in nature at this point, and there were significant differences in reporting styles between ministries. Often spending was simply classified as beneficial or harmful. The recommendation was that budget expenditure's effect was estimated vs. a situation where the spending did not take place, not in comparison to previous years' budgets or against a reference scenario.

The technical report analyses the large number of technical challenges involved in making systematic quantitative estimates of the effect of the state budget on emissions. It begins a review of the evidence and methods available and concludes that considerable work remains to finalise an approach, which it will continue to pursue with the aim of producing working methodologies for quantifying the emissions effect of the budget<sup>79</sup>. The aim will be to improve the working methodology year over year. The report mentioned inter alia the need to include the negative effects of spending as well as the positive, as well as to consider the behavioural impact of spending.

---

<sup>79</sup> Norwegian Government, *Rapport fra Teknisk beregningsutvalg for klima 2019*, (2019) <https://www.regjeringen.no/no/dokumenter/rapport-fra-teknisk-beregningsutvalg-for-klima-2019/id2662413/>









---

This study examines the current methodologies used for tracking climate-related and biodiversity-related expenditure in the EU budget. It identifies strengths and weaknesses of the current methodologies, and examines proposed changes to the methodologies for the 2021-2027 financial perspective. On this basis, it identifies potential objectives for strengthening the tracking mechanisms, and puts forward suggested approaches to meeting those objectives.

---