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Mainstreaming climate and environmental objectives in EU international funding programmes in the post-2027 period

Final Report

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MAINSTREAMING CLIMATE AND ENVIRONMENTAL OBJECTIVES IN EU INTERNATIONAL FUNDING PROGRAMMES IN THE POST-2027 PERIOD

Final report

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STUDY ABSTRACT

The European Union (EU) has positioned itself as a global leader in addressing climate change and biodiversity loss, reflecting its commitments under international frameworks such as the Paris Agreement and the Kunming Montreal Global Biodiversity Framework (KMGBF). This study evaluates the EU's approach to mainstreaming climate and biodiversity objectives into its external financing instruments during the Multiannual Financial Framework (MFF) 2021–2027 with the aim to provide recommendations for the post-2027 period. Financial instruments under review include the Neighbourhood, Development and International Cooperation Instrument (NDICI) – Global Europe and the Instrument for Pre-accession (IPA III), as well as underlying funds such as the European Fund for Sustainable Development Plus (EFSD+). The study highlights advancements in integrating green priorities while addressing emerging concerns regarding EU international competitiveness and security; yet it identifies persistent challenges, such as aligning local ownership with environmental goals, improving the effectiveness of biodiversity financing and addressing transparency in expenditure tracking for the post-2027 period.

Recommendations focus on refining methodologies for monitoring climate and biodiversity actions, strengthening the implementation of the Do No Harm (DNH) principle, enhancing sectoral exclusions to prevent funding harmful activities and leveraging global best practices to improve reporting systems. While the EU is expected to contribute to the ambitious New Collective Quantified Goal for climate finance and the KMGBF biodiversity finance targets, this study advises maintaining current financial targets due to existing constraints. Instead, it calls for reinforcing political will, fostering financial innovation and improving standardised processes to ensure EU investments align with green principles.

EXECUTIVE SUMMARY

The EU stands at the forefront of global efforts to combat climate change and biodiversity loss. As the impacts of these environmental crises become more pronounced, the EU's commitment to addressing them through its policies and actions has grown stronger through the European Green Deal.

One of the key strategies employed by the EU to ensure sustainable development is the concept of environmental mainstreaming – the systematic integration of climate and biodiversity objectives into EU policies, financing instruments, programmes and investments, including those governing EU external action and financing to third countries. Mainstreaming in this context goes beyond mechanisms to avoid and minimise the adverse impacts on the environment and climate, reflected in the Do No Harm (DNH) and Do No Significant Harm (DNSH) principles, but also involves prioritising positive contributions to biodiversity and environmental sustainability, low-carbon development and/or climate resilience in all investments.

Environment mainstreaming is an obligation established by the EU Treaty[1]. The European Consensus on Development[2] reaffirms that 'the EU and its Member States will integrate environment and climate change throughout their development cooperation strategies, including by promoting a sound balance between mitigation and adaptation'. Since the early 2000s, EU international cooperation has employed a multifaceted approach to mainstreaming, including guidelines[3], tools, conferences and a virtual helpdesk. Mainstreaming is a central part of the European Green Deal and reflects the EU's international (financing) goals and targets under key multilateral climate and biodiversity conventions, such as the United Nations Framework Convention on Climate Change (UNFCCC) and Paris Agreement, or the Convention on Biological Diversity[4] and Kunming Montreal Global Biodiversity Framework.

The 2021–2027 MFF for external action has adjusted to a rapidly evolving global landscape, as reflected by the transition from 'Development Cooperation' to 'International Partnerships'. The new external financing landscape showed a more policy-focused approach, implementing new methods within EU institutions and enhancing collaboration with Member States and other partners, including the private sector. Several separate instruments from the 2014–2020 period have been consolidated under the Neighbourhood, Development and International Cooperation Instrument (NDICI) – Global Europe. Key aspects of the current MFF include the introduction of **the Global Gateway strategy and the Team Europe approach**. With the Global Gateway, the focus on traditional grant-based cooperation has shifted towards large investment portfolios and flagship initiatives, often targeting hard infrastructure and other more sensitive sectors such as mining for critical raw materials. This development has proven difficult for biodiversity action, a lot of which has been based on grants.

According to the MFF Regulation[5], the Commission needs to make proposals for the next MFF (post-2027) by mid-2025. This study evaluates the current funding landscape and presents a series of proposals to further enhance the needed integration of climate and environmental objectives into EU international funding programmes for the post-2027 period, in alignment with the EU's shifting

[1] Article 11 of the Consolidated version of the Treaty on the Functioning of the European Union (2012) (link)

[2] EU Joint statement (2017), The new European consensus on development 'our World, our Dignity, our Future'

[3] European Commission (2024). Greening EU international cooperation toolbox.

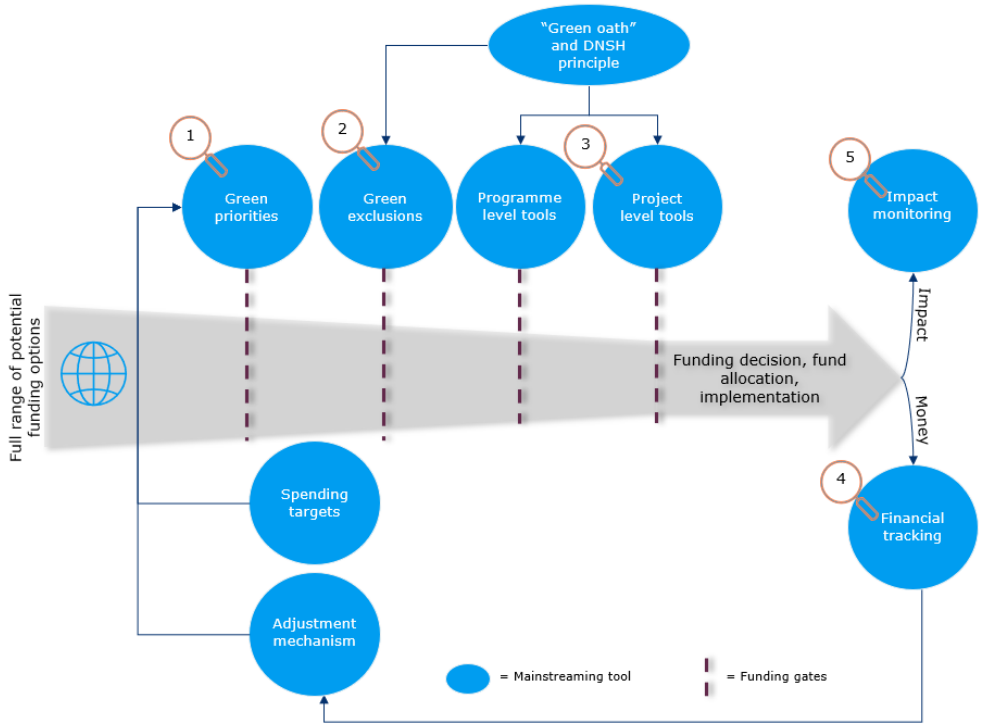
[4] Second resumed session of the sixteenth meeting of the Conference of the Parties to the Convention on Biological Diversity expected on 25–27 February 2025 in Rome, Italy.

[5] Regulation (EU, Euratom) 2020/2093 laying down the multiannual financial framework for the years 2021 to 2027.

political priorities for external action and the growing/continued global urgency to address climate change and biodiversity loss.

The Figure below provides a high-level overview of the mainstreaming architecture of the current MFF. The study provides concrete suggestions for improvement of many of the elements in this architecture. Within the Figure, these instances are highlighted with a magnifying glass and then summarised underneath the Figure.

Figure 1 High-level overview of the mainstreaming architecture



1 **Green (climate and biodiversity) funding priorities** (Chapter 2.2) in the EU budget refer to the strategic allocation of financial resources towards initiatives, sectors and projects that support the EU's climate and environmental objectives. The new current structure of the EU's External Financing Instruments (EFIs) for the current MFF did not undermine, but rather strengthen, the focus on climate and biodiversity, as reflected in the listed priorities of the financing instruments under scope.

In the coming years, the EU aims to place a strong focus on clean industrial development, enlargement, security and global competitiveness[6]. However, without strong climate and biodiversity policies and standards in international partnerships, there is a risk that green priorities could be compromised. Neglecting the green agenda defeats long-term prosperity, economic growth

[6] As outlined in:

- Ursula von der Leyen, Candidate for the European Commission President (2024). Europe's Choice. Political Guidelines for the next European Commission 2024–2029. Available at: e6cd4328-673c-4e7a-8683-f63ffb2cf648_en
- Draghi, Mario (2024). The Future of European Competitiveness. European Commission. Available at: 97e481fd-2dc3-412d-be4c-f152a8232961_en
- The Competitiveness Compass for the EU.

and, most critically, security, as crises are increasingly linked to climate change and environmental degradation.

Amidst a hierarchy of priorities, future green priorities should focus **on safeguarding green ambitions by tailoring them to each instrument's needs and objectives, while maximising cost-efficiency, impact and overall EU added value**. Some recommendations include increased alignment across DGs for external action (INTPA, ENEST and MENA) on incorporating greening principles in their investment strategies and facilities, as well as supporting partner countries in aligning with EU green policies and priorities. Also, improvements are needed in sustainability-proofing investments involving financial intermediaries, while putting a stronger emphasis on and scaling up finance for biodiversity, climate adaptation and the climate-biodiversity nexus. The list of recommendations for priorities has been compared against several criteria (relevance, coherence and EU added value) and includes examples of specific investments.

Green priorities are reflected in the EU instruments' spending targets. While NDICI – Global Europe and IPA III are to some extent progressing towards meeting climate expenditure targets, both instruments are lagging behind in meeting biodiversity targets, most notably in the European Neighbourhood and Enlargement regions. Shortcomings regarding the transparency and accuracy of environmental reporting and monitoring, especially for EFSD+, suggest that while spending targets may be achieved, in practice it can be unclear to what extent targets translate into effective and impactful actions.

In the coming years, the EU is expected to contribute to meet the ambitious New Collective Quantified Goal (NCQG) of USD 300 billion per year by 2035, as well as to meet the international finance targets for biodiversity established in the KMGBF. This development would easily justify increasing the proportion of climate and biodiversity spending targets in the EU's post-2027 MFF. However, given the current constraints related to increased complexity and reduced flexibility, and the ongoing challenges in meeting existing targets, this study recommends a financial target of 30 % for climate and biodiversity mainstreaming in the next MFF. Even though an even higher target would be desirable, it might be unobtainable in the current situation, and a 30% target for climate and biodiversity is considered both ambitious and feasible. Yet, there is a need for increased grant-based financing as well as to continue leveraging third party investments through the EFSD+. Moreover, clearer tracking mechanisms are needed to ensure that biodiversity funding remains distinct and adequately supported, and a stronger focus could be given to improving the quality and impact of investments (e.g. the effective application of standards and principles investments while considering time and resource constraints).

Climate and biodiversity are major thematic areas within EFSD+, however, aligning them with the operations of the fund remains a challenge (see Chapter 2.4).

Biodiversity projects are currently especially difficult to support due to the lack of market incentives and the lack of clear and enforceable biodiversity targets, which confirms the need for financial reform. Guarantees, in particular, have limited impact here, as biodiversity projects often lack the short-term financial return to attract private sector interest. For adaptation, the private sector is sometimes still unable to capture the environmental and social benefits that result from their investment generating unfavourable risk return profiles. The Global Assessment on Biodiversity and Ecosystem Services (IPBES GA, 2019) has already made it clear that the evolution of global financial and economic systems to build a sustainable economy steering away from the current narrow growth paradigm is a key component of sustainable pathways. However, differentiated approaches are needed for developed and developing countries which both require new paradigms.

A main implication for EFSD+ is the need for more effective integration of climate and biodiversity goals within geographically oriented funding. This requires balancing local ownership with environmental priorities, improving investment attractiveness and flexible geographic approaches.

Such an integration reveals the limits of EU-tools like the Taxonomy and the need to adapt assessment processes to fit international contexts, focusing on tailored tools and the Do-No-Harm principle.

Enhancing tracking methodologies to accurately measure real impacts would help to ensure **transparent and effective reporting** aligned with evolving international targets. Methodologies and frameworks employed for example by the World Bank and the European Bank for Reconstruction and Development (EBRD) could enhance the ability of EFSD+ to contribute to deliver on Paris alignment. The use of transaction-based and counterparty-based assessments can ensure that EFSD+ investments align with mitigation goals, avoid supporting carbon-intensive or non-compliant activities, promote Nature-Based Solutions and biodiversity co-benefits, and include mechanisms for risk management in high-risk sectors. By setting clear requirements for International Financial Institutions (IFIs) to manage and report on climate risks, EFSD+ could better ensure that funds are directed towards resilient and low-carbon development pathways.

Green exclusions (Chapter 3) here are understood as specific elements directly listed in a fund's legal and official documentation that are ineligible to receive funding because they are deemed harmful to the environment and to climate change Art. 29 of the NDICI Regulation includes exclusions for EU external financing and is considered a 'horizontal provision', thus applicable also to IPA III and EFSD+

The findings of this study suggested that the **current exclusions do not reach their objective effectively**, namely avoiding the funding of interventions with harmful environmental and climate impacts. This is partly due to a lack of clear guidelines and/or criteria on how to implement these exclusions and their derogations. Exclusions, therefore, act more as 'guiding principles' which can be circumvented without having to provide a justification.

After defining a typology for exclusions and assessing the strengths and weaknesses of each and for certain types of investments, the study proposed a series of suggestions to be considered in the future programming of green exclusions for EU external funding based on maximising coherence, effectiveness and efficiency. These involve the introduction of a clear exclusion framework and guidance for its application (e.g. for financial institutions that implement investments), a simple environmental screening and due diligence system on investment pipelines, and mandatory training for all staff starting posts in delegation. Specific sectoral recommendations are also proposed, guided by a general international framework for setting green exclusions.

In Chapter 4, the study examines **the EU's green mainstreaming toolbox – based on the new INTPA-NEAR Greening Toolbox for external funding**, including the application of the Do No Harm (DNH) principle. The analysis and mapping of these tools reveals that they generally follow a logical sequence, with clearly defined roles for the actors involved.

Based on the assessment and consultations with stakeholders – including the European Commission DGs, the Greening Facility, EU delegations and third-party implementers – the study identifies several challenges associated with the deployment of these tools in the context of EU external funding. The **key challenges** include:

- A limited legal establishment of the tools and a less-developed process for compliance compared to the context of EU domestic funds. The current mandate of the Greening Facility in quality assessment and due diligence is limited. For blended finance, the safeguards of the financial institutions apply instead of the EU's Toolbox, but a clear due diligence mechanism is lacking.
- Insufficient knowledge and capacity on climate and biodiversity for all types of stakeholders involved. Risks are most pronounced in the implementation of the programmes. In case of blended finance, partners, including private partners, may be less familiar with climate and biodiversity mainstreaming. Conversely, EU delegation staff are less acquainted with blended finance as this is a relatively new instrument.

- Even if legally mandated assessments are being performed, their quality is not always sufficient. Strategic Environmental Assessments (SEAs) become more relevant as EU funding for infrastructure increases but are not carried out systematically. Third-party implementers may adhere to the right safeguards on paper, but this does not guarantee a sufficient quality level of these assessments.

For biodiversity mainstreaming in EU external funding, the Chapter identifies additional challenges, including a pronounced lack of specific knowledge and understanding of the pivotal role of biodiversity among stakeholders as well as misalignment with certain elements of the Global Gateway approach, including its focus on a smaller number of larger (infrastructural) projects, involving private investments.

To address the key challenges, the study proposes the following **recommendations**:

- Strengthen due diligence processes for all stakeholders involved:
  - For recipient countries, technical assistance could be directed specifically at governance in the field of climate and biodiversity, including the performance of impact assessments. Safeguarding green mainstreaming in trade agreements and investment partnerships would also strengthen compliance.
  - For EU actors, early warning mechanisms could be developed, with a key role for EU delegations. The Greening Facility's mandate could be strengthened to include quality assessments of SEAs and Environmental Impact Assessments (EIAs).
  - For third-party implementers, more transparency on assessments performed and risks identified could be required. Also in this case, the Greening Facility may play a role in performing a quality check on EIAs.
- Integrate climate and biodiversity mainstreaming into the pillar assessment for third-party implementers. This would create a formal instrument to ensure compliance, but it is not a silver bullet as currently, on paper, third parties already apply safeguards, which does not guarantee a sufficient quality level of assessments. Also, it requires that the EU first define a (minimum) set of environmental standards.
- Further enhance capacity and knowledge on climate and biodiversity for all stakeholders:
  - For EU delegations, climate and biodiversity specialists could be added to the teams, possibly in the role of 'green focal point'. Mandatory training could be developed on green mainstreaming tools and the need to take into account climate *and* biodiversity aspects of each project. The Greening Facility's role in supporting delegation staff in implementing green mainstreaming tools and providing expert knowledge could be enhanced. A specific tool on the climate and biodiversity nexus could be developed.
  - For third-party implementers, including climate and biodiversity mainstreaming into the pillar assessment may lead to an increase in capacity in these fields. Delegations could be given a larger role in the establishment of agreements between the EC and third-party implementers by bringing in insights from the local context.
  - For recipient countries, efforts to increase capacity and knowledge could be focused on targeted technical assistance, including a strategic approach to environmental impact assessments as well as the importance of local public consultation.

For biodiversity mainstreaming in particular, we recommend establishing clear and enforceable spending targets, preferably at the country level, and bringing biodiversity spending in line with globally agreed targets. Furthermore, effective performance indicators, informed by the Nature Positive concept and going beyond traditional approaches, could be included in the design of biodiversity projects. Lastly, the attractiveness of biodiversity projects to private investors could be enhanced, for instance by pooling smaller projects to de-risk and increase return, or by using public

biodiversity funding as seed money, with projects attracting other funding sources when they grow more mature.

Regarding the **Do No Harm (DNH) principle**, our findings reveal that its implementation currently lacks a clear and robust set of criteria. Its application depends partly on existing mainstreaming tools, such as EIA and SEA and screening for these, but as we have seen, the quality of these assessments is not always guaranteed. In the next MFF, the Do No Significant Harm (DNSH) principle will be applied throughout the MFF, where feasible and appropriate, but given the fundamental differences between domestic and external EU funding, applying criteria and thresholds in the context of DNSH to third countries should take into account their specific circumstances and specificities. A better defined and operationalised DN(S)H principle in the next MFF, tailored to the specific characteristics of external funding, could strengthen the EU's green mainstreaming toolbox for external funding as a whole as well as enhance due diligence for implementing parties.

Chapter 2.3 assesses the **tracking methodologies, monitoring and reporting systems** for climate and biodiversity spending in external financing instruments, and how to improve the current framework.

The transition from a tracking methodology based on coefficients for intended outcomes (OECD Rio Markers) to one focused on quantifying impacts and contributions to global climate and biodiversity goals is essential to align with the latest international agreements under the Convention on Biological Diversity (CBD) and UNFCCC. Existing methodologies, such as the Rio Markers and the multilateral development banks' (MDBs) Joint Methodology for Climate Finance Tracking or the MDBs' principles for tracking nature-positive finance, need updates to reflect evolving requirements and commitments, particularly in tracking mechanisms and impact measurement. The OECD is developing guidance to support DAC members in adjusting their practices accordingly. The EU climate coefficients are a step in the right direction as they measure expected outcomes rather than intent alone. An alignment between updated OECD Rio Markers and the climate coefficients would help avoid reporting inconsistencies between DAC reporting and EU budget reporting.

To incorporate **impact monitoring of international finance**, the Commission could look beyond the Rio Markers methodology, which only allows financial tracking. Ex-post assessments can be informed by the practices of the OECD, specialised funds like the GCF and the forthcoming tracking methodologies of the Loss and Damage Fund and the Global Biodiversity Framework Fund (GBFF). The operational structures and methodologies of these funds can provide insights for a more cohesive and effective finance tracking system that includes impact measurement.

The European Commission should prioritise improving the granularity of its international expenditure methodology and complement it with additional monitoring practices to measure tangible contributions towards climate and biodiversity targets. Future developments could focus on **aligning methodologies globally** to ensure comparability and aggregation of contributions towards CBD and UNFCCC goals. The OECD has stated that the Rio Markers will remain central to the new convention reporting system, enabling an automated approach to translate Rio Marker data into a suitable format for reporting. However, this is limited to measuring intent-based funding.

The EU methodology should enhance granularity and harmonisation, leverage impact-based indicators, incorporate adaptive methodologies, and assess the negative impacts that expenditures can have, i.e. monitoring adverse impacts of climate adaptation spending on biodiversity. **Limiting reporting burdens** while **maintaining robust tracking** and accountability is achievable through strategic actions such as integrating climate and biodiversity indicators into existing systems, developing standardised guidelines, enhancing coordination among DGs, aligning with international policies, and implementing capacity-building and technology solutions.

1 INTRODUCTION

This document is the final report of the project 'Mainstreaming climate and environmental objectives in EU international funding programmes in the post-2027 period'.

The general objective of this project was to feed into the reflections from relevant Commission services on the Commission's upcoming MFF proposals in the area of external action, expected by mid-2025. The study built on the findings from DG CLIMA and DG ENV's recently closed study on Mainstreaming climate and environmental objectives in EU funding programmes in the post-2027 period which focused on the EU's domestic funds.

The study focused both on reviewing current experiences and exploring options for further improvements, to better align with the current external financing framework (e.g. the Global Gateway); the EU's international climate and biodiversity commitments established through the Paris Agreement or the Kunming Montreal Global Biodiversity Framework, such as the COP29 New Collective Quantified Goal; and with the external dimension of EU policies as outlined in the Political Guidelines for the current Commission 2024–2029, especially those stemming from the European Green Deal.

The methodology for data collection for this study was based primarily on an extensive literature review of relevant policy documents (e.g. evaluations, studies, assessments, programming documents and official communications), as well as stakeholder consultations. The latter included numerous interviews with policy officers from the relevant DGs within scope (DG INTPA, DG NEAR, DG ECHO, DG BUDG, DG CLIMA and DG ENV).

A workshop was organised to collect additional inputs and validate draft findings. It featured the participation of over 40 stakeholders from EU and non-EU organisations, including other prominent international development banks and financing institutions.

A survey was launched with EU Delegations to gather insights for this study. To encourage participation, reminder emails were sent and the survey link was included in an internal newsletter. Despite these efforts, the response rate remained too low for the findings to be considered. In hindsight, additional measures could have been taken to improve engagement, such as targeted follow-ups with key Delegation contacts, extended deadlines or integrating the survey into existing reporting processes. Future surveys could also benefit from higher-level endorsement or incentives to increase participation and ensure more representative input.

2 PRIORITY AREAS AND LEVELS OF INTERNATIONAL CLIMATE AND BIODIVERSITY SPENDING AT EU LEVEL IN THE POST-2027 PERIOD

The objective of this task is to assess and provide recommendations on climate and biodiversity related priority areas, spending targets, tracking, reporting and monitoring methodologies for EU external financing in the post-2027 period. The analysis and suggestions were developed for the most relevant EU External Financing Instruments (EFIs) and strategies, with a focus on the Global Gateway and the EFSD+.

2.1 Introduction to the chapter

This Chapter starts by assessing the current green priorities and proposing future green priorities for international climate and biodiversity spending. Based on a literature review and stakeholder consultations, an assessment is presented of the current climate and biodiversity priorities for the main EU external financing instruments during the period 2021–2027, as well as an assessment of spending targets, including their performance up until 2023. This is followed by an analysis of the Global Gateway and its coherence with the external dimensions of the European Green Deal, as well as with the Paris Agreement (and its New Collective Quantified Goal), and the Kunming Montreal Global Biodiversity Framework (KMGBF). Lastly, recommendations are presented for future climate and biodiversity mainstreaming priorities and spending targets, taking into account aspects of relevance, coherence and EU added value, and including specific examples of investments and synergies.

Secondly, it provides an analysis and suggestions to improve the tracking methodologies and reporting and monitoring system used for EU international climate and biodiversity spending. The section presents a mapping of the main climate and biodiversity tracking methodologies (e.g. Rio Markers, OECD methodology) that have played a significant role in shaping national climate budget tagging systems. Moreover, it identifies the main challenges and provides potential future developments in the common methodology, based on extensive insights from stakeholder consultations.

The third section presents a closer view on the EFSD+, including an assessment of how it has delivered in reaching climate and biodiversity objectives and spending targets, its main challenges and implications. The findings underscore several critical challenges and areas for improvement, with a focus on expertise gaps among intermediaries, the applicability of green mainstreaming tools and the limitations of existing tracking methodologies. These results highlight the potential to enhance the impact of EFSD+ in meeting its climate and biodiversity goals. For EFSD+, adopting a structured approach like the World Bank's and EBRD's methodologies can enhance its ability to deliver on Paris alignment.

2.2 Priorities for international climate and biodiversity spending

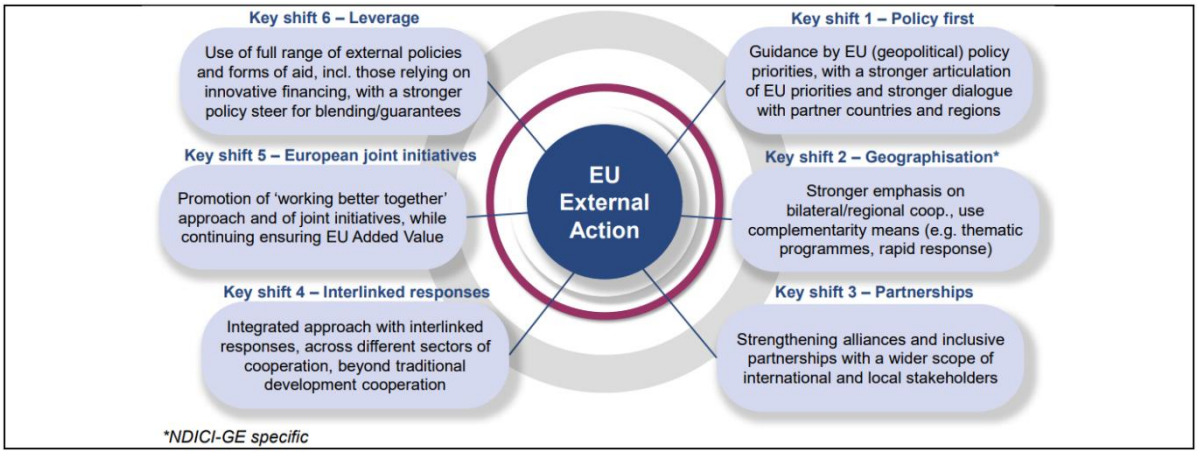
Appendix 1 – Annex 1 includes a summary of the existing climate and biodiversity priorities and targets for each of the assessed funds, as depicted in the fund's legal basis and programming documents. It also shows a (non-exhaustive) overview of the main flagships and projects (evidence) per fund, regions and topical cluster towards the achievement of objectives and spending targets.

2.2.1 Overview of climate and biodiversity priorities and targets in EU external action for the period 2021–2027

The Neighbourhood, Development and International Cooperation Instrument

The Neighbourhood, Development and International Cooperation Instrument (NDICI – Global Europe) was introduced in 2021 and merges several former EU EFIs. The current external financing architecture reflects a more **policy-focused approach**, designed to enhance the EU's global influence while aligning with key international agreements such as the Paris Agreement, the 2030 Agenda and the Convention on Biological Diversity. This approach is shaped by **six key principles or 'shifts'** (see Figure 2).

Figure 2 Key shifts in the new EFI architecture[7]



Other key changes include the introduction of **the Global Gateway strategy** (see Box 1) **and the Team Europe approach**. The focus on traditional grant-based cooperation has shifted towards large investment portfolios and flagship initiatives, often targeting hard infrastructure and other more sensitive sectors such as mining for critical raw materials.

Box 1 Introduction to the Global Gateway strategy

Together with the adoption of NDICI – Global Europe, the Global Gateway strategy was launched in 2021. Global Gateway is widely viewed as a geopolitical tool to support infrastructure development in emerging economies and developing countries, particularly in green and digital transitions. It complements other EU initiatives like Green Alliances and Partnerships, and Critical Raw Materials Strategic Partnerships, as well as plurilateral efforts such as the Just Energy Transition Partnerships (JETPs), all aimed at enhancing the EU's global influence and climate diplomacy.

The Global Gateway aims to direct EU global spending based on seven key principles, one of which is '**Green and Clean**'[89]. This principle prioritises high-impact green infrastructure projects and investments with significant environmental, climate and energy benefits, such as aiming to accelerate global decarbonisation.

[7] Figure extracted from: European Commission, Directorate-General for International Partnerships, MacKellar, L., Massey, C., Smaïl, T. et al., European Union's external financing instruments (2014–2020 and 2021–2027). Volume I, Synthesis report, Publications Office of the European Union, 2024, https://data.europa.eu/doi/10.2841/05549

[8] Questions and Answers on Global Gateway (europa.eu)

[9] European Commission (2021). Joint Communication to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank. The Global Gateway.

In the context of infrastructure development, the Global Gateway emphasises green financing mechanisms and promotes the integration of renewable energy sources, energy efficiency measures, green transport corridors and sustainable urban development initiatives. Moreover, it promotes sustainable trade and supply chains through strategic forest partnerships and includes climate and environmental impact screening processes in investment policies.

A perceived advantage of integrating external financing instruments into one broad instrument is that global issues such as **climate change can be addressed in a more coherent manner** across all partner countries (e.g. by harmonising the application of common standards such as Do No Harm or Paris Agreement compatibility)[10]. Under the NDICI – Global Europe, climate and biodiversity considerations are embedded across both geographic and thematic programmes, in line with the 'Policy First' approach. The 'Global Challenges' thematic programme designates 'Planet' as a priority area; yet, thematic programmes operate with a reduced budget, including as a result of rechannelling of funds to address the impacts of Russia's war of aggression against Ukraine.

Compared to previous MFFs, **climate and biodiversity objectives within NDICI – Global Europe saw an increased focus and financial commitment,** reflecting the EU's strategic positioning on environmental sustainability and resilience. The European Green Deal[11] and Global Gateway strategies have a more pressing influence in the current Multiannual Indicative Programmes (MIPs), alongside national strategies and other international commitments.

The Commission Delegated Regulation[12] sets out specific objectives and thematic priorities for assistance. NDICI – Global Europe focuses on both upstream actions and localised initiatives, the first supporting countries in strengthening the enabling frameworks necessary to drive an effective and large-scale green transition. Moreover, there has been a trend towards narrowing the gaps between climate change mitigation and adaptation, which is important given that many recipient countries prioritise adaptation in their Nationally Determined Contributions (NDCs).

Regarding financial targets, the NDICI – Global Europe translates its climate and biodiversity related objectives and commitments to specific financial **targets**, as stated in recital 49 of the NDICI Regulation:

> *'[…] the Instrument should contribute to mainstream climate action in the Union policies and to the achievement of an overall target of 30 % of the Union budget expenditure supporting climate objectives. Actions under the Instrument are expected to contribute 30 % of its overall financial envelope to climate objectives. […] In view of contributing to halting and reversing the decline of biodiversity, the Instrument should contribute to the ambition of providing 7.5 % of annual spending under the multiannual financial framework to biodiversity objectives in the year 2024 and 10 % of annual spending under the multiannual financial framework to biodiversity objectives in 2026 and 2027, while considering the existing overlaps between climate and biodiversity goals.'*

Moreover, President von der Leyen pledged an additional EUR 4 billion of funding for climate for the 2021–2027 period and announced that the EU would double its external funding for biodiversity to

[10] European Commission, Directorate-General for International Partnerships, MacKellar, L., Massey, C., Smaïl, T. et al., European Union's external financing instruments (2014–2020 and 2021–2027). Volume I, Synthesis report, Publications Office of the European Union, 2024, https://data.europa.eu/doi/10.2841/05549

[11] The European Court of Auditors analysis of available development assistance codes (DAC) shows that MIPs have a strong overall emphasis on climate change and environment or 'Green Deal' sectors, such as agriculture, environment, forestry, fishing and green energy[11].

[12] COMMISSION DELEGATED REGULATION (EU) 2021/1530 of 12 July 2021 supplementing Regulation (EU) 2021/947 of the European Parliament and of the Council establishing the Neighbourhood, Development and International Cooperation Instrument – Global Europe, amending and repealing Decision No 466/2014/EU of the European Parliament and of the Council and repealing Regulation (EU) 2017/1601 of the European Parliament and of the Council and Council Regulation (EC, Euratom) No 480/2009. See: https://eur-lex.europa.eu/eli/reg_del/2021/1530

EUR 7 billion, in particular for the most vulnerable countries[13]. These targets concern NDICI – Global Europe and IPA III, where contributions will be made from the overall amount of EUR 79.462 billion through geographic, thematic and rapid-response programmes.

Assessment of outcomes until 2024[14]

The NDICI – Global Europe instrument does not foresee interim milestones for climate and biodiversity expenditure, so the figures portrayed below can only be compared against targets set for the entire period of the MFF. The latest known results present the results for NDICI – Global Europe programmes managed by DG INTPA.

Between 2021 and 2023, DG INTPA allocated EUR 6.9 billion from NDICI funds on behalf of the EU to support international cooperation and development assistance focused on **climate change adaptation and mitigation**. This funding accounted for 29.5 % of the total NDICI-financed and DG INTPA-managed international cooperation and development assistance during that period. This is close to the 30 % commitment set in the Regulation but would fall behind when factoring in the additional political commitment of EUR 4 billion.

By 2023, the EU had supported 115 countries and cities in developing or implementing climate change and disaster risk reduction strategies since 2020, surpassing the 2024 target ahead of schedule. Preliminary 2023 data indicates that 60.6 million tonnes of CO_2 equivalent emissions have been avoided, exceeding the 2024 target one year early.

Other key initiatives in 2023 included significant progress in EUROCLIMA+, with over 80 % of funding implemented across 130 actions in 15 Latin American countries. The EU also launched a EUR 30 million support programme as part of the Green TEI with ASEAN/South-East Asia and adopted two decisions under the Team Europe Initiative (TEI) Adaptation and Resilience in Africa, focusing on disaster risk finance and early warning systems.

For **biodiversity protection**, EUR 2.2 billion, which represents 9.2 % of EU-funded and DG INTPA-managed international cooperation and development assistance (NDICI – Global Europe only) was allocated during 2021 and 2023. This indicated a positive trend towards the 7.5 % target for the entire period of the MFF but would fall short when considering the 10% target set for the end of the MFF and the political commitment to doubling biodiversity finance. Moreover, EUR 1.6 billion (5.1 %) was contributed to combating desertification and EUR 10.8 billion (34 %) was contributed to protecting the environment, which exceed the 2024 target.

Some key biodiversity protection-related outputs by 2023 include the advancement of the TEI Five Great Forests of Mesoamerica, which promotes green growth, sustainable resource management and climate resilience. The European Investment Bank (EIB) received approval for a EUR 250 million Lending Envelope under EFSD+, set to finance deforestation-free bioeconomy projects from 2024 onwards. Additionally, three Forestry, Climate Change and Biodiversity (FCCB) contracts were signed in late 2023, with activities starting soon after.

[13] This new level of ambition was communicated by the President of the European Commission in the State of the Union address on 15 September 2021.

[14] European Commission (2024) Annual Activity Report 2023 – Annexes – DG for International Partnerships. Ref. Ares(2024)2360923 – 29/03/2024.

Financial instruments in the European Neighbourhood

The **Instrument for Pre-accession Assistance (IPA III)**[15][16], with a budget of EUR 14.2 billion for the Western Balkans and Türkiye, adopts a policy-driven framework aligned with EU strategic priorities. Its thematic windows, including the 'Green Agenda and sustainable connectivity', focus on climate action and environmental sustainability within broader green, digital and economic goals, particularly through the Economic and Investment Plans for the Western Balkans[17]. Following the regulation, IPA III is meant to contribute to mainstreaming climate action in the Union's policies and to the achievement of the Union's overall targets for climate and biodiversity[18]. Yet, the IPA III Regulation only includes the specific target of 18 % of the overall financial envelope to climate objectives, with the aim of augmenting this share to 20 % by 2027[19]. This is a significantly lower target for climate compared to NDICI – Global Europe and does not include specific targets for biodiversity.

The emphasis on cross-border cooperation was expected to bring strategic advantages and opportunities for shared environmental projects and green infrastructure development, reinforcing the EU's priorities for smart, sustainable and inclusive growth in pre-accession countries. However, the transition has been slow, with Strategic Responses to the IPA III Programming Framework presenting **delays and challenges in terms of quality and strategic direction**[20]. Moreover, interviews revealed that the Instrument's climate and biodiversity priorities occasionally **conflict with other objectives,** such as those centred on transport, growth and/or industry. Additionally, the growing collaboration with the private sector has led to **reduced influence and oversight** over how climate and biodiversity goals are implemented.

The 2023 Growth Plan's **Reform and Growth Facility for the Western Balkans (RGF)**[21] will provide EUR 6 billion between 2024 and 2027, conditional on beneficiaries' reform implementation. Like the Recovery and Resilience Facility[22] for EU domestic investments, the RGF modality is likely to be the norm in European Neighbourhood Policy and Enlargement Negotiations for the next MFF[23]. While the RGF Regulation cites that the investments under the Facility shall be guided by the principles of 'Do No Harm', the text contains no provisions on how these will be regulated, implemented and monitored. This has been a cause of concern as some Facility priorities may entail a major risk for climate and biodiversity (e.g. mining strategic raw materials for the EU while failing to apply EU environmental standards or achieve appropriate community benefits). NGO networks

[15] Regulation (EU) 2021/1529 of the European Parliament and of the Council of 15 September 2021 establishing the Instrument for Pre-Accession assistance (IPA III).

[16] EU, Commission Delegated Regulation (EU) 2021/2128 supplementing Regulation (EU) 2021/1529 as regards setting out certain specific objectives and thematic priorities for assistance under the Instrument for Pre-Accession Assistance (IPA III), 2021.

[17] European Commission (2024) COMMISSION STAFF WORKING DOCUMENT Accompanying the document Report from the Commission to the European Parliament and the Council on the evaluation of the European Union's External Financing Instruments for the 2014–2020 and 2021–2027 Multiannual Financial Frameworks {COM(2024) 208 final}.

[18] Paragraph 25 of Regulation (EU) 2021/1529: 'IPA III should contribute to mainstreaming climate action in the Union's policies and to the achievement of an overall target of 30 % of Union budget expenditure supporting climate objectives and the ambition of 7.5 % of the budget reflecting biodiversity expenditures in 2024 and 10 % in 2026 and 2027, while taking into account the existing overlaps between climate and biodiversity goals.'

[19] See: Instrument for Pre-accession Assistance (IPA) III - Performance - European Commission (europa.eu)

[20] European Commission, Directorate-General for International Partnerships, MacKellar, L., Massey, C., Smaïl, T. et al., European Union's external financing instruments (2014–2020 and 2021–2027). Volume I, Synthesis report, Publications Office of the European Union, 2024, https://data.europa.eu/doi/10.2841/05549

[21] Regulation (EU) 2024/1449 of the European Parliament and of the Council of 14 May 2024 on establishing the Reform and Growth Facility for the Western Balkans

[22] Regulation (EU) 2021/241 establishing the Recovery and Resilience Facility.

[23] For example, Moldova also has a recent RGF: Commission adopts EUR 1.8 billion support package to underpin Moldova's economic growth plan on its path to the EU - European Commission

have also advised that clearer and narrower priorities should be defined for the Facility, focusing on social and/or environmental goals, and that the Facility Agreements must require public consultations on the Reform Agendas, Do No Significant Harm (DNSH) assessments and, where applicable, Strategic Environmental Assessments.

The RFG Regulation mandates that at least 37 % of non-repayable support through the Western Balkan Investment Framework is allocated to climate objectives. However, loan-based budget support does not include climate allocations unless they are conditional policy loans – which are becoming the norm – or debt-for-nature or climate swaps. Also, like IPA III, the Regulation omits biodiversity targets, risking biodiversity funding being overshadowed by climate priorities.

Lastly, the Ukraine Facility, with a planned EUR 50 billion allocation, designates 20 % of its support under the Ukraine Investment Framework and the Ukraine Plan to climate change, environmental protection, including biodiversity conservation, and to the green transition[24]. The Regulation states that the Facility shall, to the extent possible, not support activities or measures which promote investments in fossil fuels, or that do not respect the principle of Do No Significant Harm, including to biodiversity or the climate.

Assessment of outcomes until 2024

In 2023, DG NEAR continued to support the green transition in the Enlargement and Neighbourhood regions by strengthening institutional capacities and promoting investments in renewable energy, transmission grids, energy efficiency of households and businesses. Under IPA III, it advanced the Green Agenda for the Western Balkans and supported Türkiye's green transition. The EU4Green project in the Western Balkans was implemented for the first year, while over half of the 59 flagship investments under the Western Balkan Investment Framework contributed to decarbonisation, including energy efficiency measures and the deployment of renewables. In the Eastern Neighbourhood, programmes such as EU4Environment supported policy reforms, capacity development and greening of the enterprise sector. Additionally, DG NEAR facilitated greater inclusion of Enlargement countries in EU agencies and initiatives relevant for the Green Deal. A detailed summary of these initiatives is provided in Appendix 1 – Annex 1 (Table 2).

According to IPA III performance reviews, the partial[25] results for 2021–2023 show **contributions of 24.7 % for climate change action**, suggesting climate mainstreaming is on track. DG NEAR achieved some progress on climate financing, reaching close to 15 % for the NDICI – Global Europe Neighbourhood window by the end of 2023. However, substantial efforts are still needed to meet the 30 % climate financing target set by the NDICI regulation, which translates into a target of 42 % for the NDICI – Global Europe geographic pillar[26].

In contrast, progress on biodiversity targets has been minimal. The IPA III performance review indicates **cumulative contributions of just 2.9 % for 2021–2023**, while DG NEAR overall reached only 1.8 %, significantly below the 7–10 % biodiversity funding target for the 2021–2027 MFF.

Although the Commission's programme performance review suggests IPA III is on track to meet its climate targets, stakeholder consultations for this study highlight key challenges. Climate risk

[24] Regulation (EU) 2024/792 of the European Parliament and of the Council of 29 February 2024 establishing the Ukraine Facility

[25] Due to the introduction of a new information system, the presentation of disaggregated data (linked to EU Results Framework, Global Europe Results Framework, IPA Performance framework and IPA III Results framework) at the country level has been affected. The overall figures at DG NEAR level remain correct, although ongoing efforts are being made to explore potential refinements for improved accuracy.

[26] European Commission (2024) Annual Activity Report 2023 – Annexes – Directorate General Neighbourhood and Enlargement Negotiations. Ref. Ares(2024)2584318 – 09/04/2024.

assessments are not systematically integrated into environmental impact assessments, particularly, for energy infrastructure such as electrical grids. Additionally, concerns persist over transparency and compliance with environmental assessments in guarantee investments, often managed by financial institutions like the EIB, European Bank for Reconstruction and Development (EBRD) and KfW.

Stakeholders have also identified shortcomings in tracking and monitoring the impacts of EU investments. Current reporting frameworks rely on financial institutions indicators which often lack consistency and reliability, particularly within large investment portfolios where the Commission may not have access to granular data.

These challenges suggest that while spending targets may be achieved, the **effectiveness of investments in advancing climate and biodiversity objectives is limited**.

Humanitarian Aid

The Humanitarian Aid instrument follows a 'need-based approach', on which funds are disbursed based on an assessment of the situation following the onset of a natural disaster or other event requiring humanitarian assistance. There is no mention of climate and environment in the active 1996 regulation, yet the European Consensus on Humanitarian Aid (2007) already listed climate adaptation among its priorities. This includes integration of Disaster Risk Reduction (DRR) into national strategies and policies, provision of funding for DRR programming and advocacy for DRR and climate-related issues in international fora.

The latest Annual Report[27] on the EU's humanitarian action aid operations stated that in 2023, over EUR 78 million was allocated to targeted preparedness activities and that 32 % of EU-funded humanitarian operations included elements of disaster preparedness. In addition, investments in disaster preparedness are indirectly supporting green initiatives by focusing on climate adaptation measures and infrastructure that enhance community resilience to climate-induced disasters.

While humanitarian aid is not subject to the 30 % climate mainstreaming target under the 2021–2027 MFF, it **nevertheless contributes to climate action**, as stated in the 2021 European Commission's Communication[28]. The 2021 European Parliament resolution (2021/2163(INI))[29] **welcomed commitments to further strengthen the climate resilience of vulnerable regions** through disaster preparedness and anticipatory action on climate and environment through capacity building, tracking climate-related expenditure, increasing the share of climate funds, and developing and applying risk-informed financing approaches. It also called for making **EU humanitarian aid more environmentally sustainable** and for EU and Member States to implement and promote the Nansen Initiative Agenda for the protection of cross-border-displaced persons in the context of disasters and climate change. Emphasis was also placed on food security by bolstering the resilience of food systems to climate, human and economic shocks.

[27] COM(2024) 427 final. REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL. Annual Report on the European Union's humanitarian aid operations financed in 2023. See: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52024DC0427

[28] European Commission (2021). COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on the EU's humanitarian action: new challenges, same principles.

[29] See: Texts adopted - New orientations for the EU's humanitarian action - Wednesday, 15 December 2021 (europa.eu)

Assessment of outcomes until 2024

The EP resolution on new orientations for the EU's humanitarian action[30] and the EC communication 'A new outlook on climate and security nexus: […]'[31] highlight the increasing challenges posed by climate change, natural disasters and environmental degradation, among others, and recognises that **more funding and decisive political efforts in Humanitarian Action are needed to mitigate and adapt to climate change**. Among its calls it includes bridging global gaps on climate resilience and disaster preparedness.

The green budgeting performance for Humanitarian Aid[32] has reported contributions up to 2023 only for climate mainstreaming. The tracking is based on the EU's climate-marker methodology rather than the OECD methodology used in the instruments above. Generally, humanitarian aid projects have climate adaptation as a significant objective (40 % coefficient), with some exceptions (such as DG ECHO humanitarian flights, epidemics or communications actions, which have a 0 % contribution to climate), while preparedness actions within humanitarian aid have a 100 % contribution to climate, as climate adaptation and/or mitigation are fundamental to the design of their objectives or are the motivation for the activity.

In 2023, the **EU mandated minimum environmental requirements** for all EU-funded humanitarian aid operations and introduced **voluntary environmental indicators to guide implementing partners** in incorporating these standards into their projects. During consultations, it was noted that DG ECHO aims to increase its ambitions by focusing not only on project-level impact but also on the organisational practices of its implementing partners. Additionally, plans were mentioned to improve monitoring of projects with environmental impacts to better assess their specific environmental footprints within their implementation areas.

At the UNFCCC COP28 Conference in 2023, the EU endorsed two key initiatives: the 'Declaration on Climate, Relief, Recovery and Peace' and the 'Charter on Finance for Managing Risks', and provided financial support to the Climate and Environment Charter Secretariat. In the period 2021–2024, the EU responded to several climate-related disasters, such as Hurricane Otis in Mexico and flood relief in the Horn of Africa.

The EU's association with Overseas Countries and Territories

The current amending Decision on the Overseas Association including Greenland[33] (DOAG) was adopted in 2021, merging and simplifying two previous instruments: the 2014 Overseas Association Decision financed by the European Development Fund, and the 2013 Greenland Decision funded by the EU budget. This resulted in a single EU instrument covering all Overseas Countries and Territories (OCTs) partners and 16 Multiannual Indicative Programmes (MIPs) framing EU cooperation based on the OCT territorial development plans as well as EU policy priorities.

[30] See: Texts adopted - New orientations for the EU's humanitarian action - Wednesday, 15 December 2021 (europa.eu)

[31] European Commission (2023). JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL A new outlook on the climate and security nexus: Addressing the impact of climate change and environmental degradation on peace, security and defence.

[32] See: Humanitarian Aid Programme - Performance - European Commission (europa.eu)

[33] COUNCIL DECISION (EU) 2021/1764 of 5 October 2021 on the association of the Overseas Countries and Territories with the European Union including relations between the European Union on the one hand, and Greenland and the Kingdom of Denmark on the other (Decision on the Overseas Association, including Greenland).

At the 20th Overseas Countries and Territories–European Union Forum (February 2024), the Commissioner for International Partnerships highlighted the shared values around the Global Gateway strategy and its **priorities such as climate and energy**[34].

Most OCTs are located in global biodiversity hotspots and account for a major proportion of the EU's biodiversity. The Programme established by the Decision is expected to respond to global challenges and align with the 2030 Agenda, and the Paris Agreement, recognising the vulnerability and needs of OCTs in relation to climate change and environmental degradation.

During the 2021–2027 period, the Programme is expected to allocate 25 % of its total budget to climate-related objectives. In addition, like NDICI – Global Europe, the programme should contribute to the ambition of providing 7.5 % of annual spending under the MFF to biodiversity objectives in the year 2024 and 10 % of annual spending in 2026 and 2027, while considering the existing overlaps between climate and biodiversity goals[35].

Assessment of outcomes until 2024

For the period 2021–2027, the European Green Deal emerged as a central priority in cooperation and investments across OCTs. From the total resources allocated, around 40 % will be mobilised for Green Deal cooperation, such as renewable energy, water, disaster risk reduction, sustainable agriculture and green growth. Most (9 out of 12) bilateral Multiannual Indicative Programmes have a prominent Green Deal focus (Bonaire, Curaçao, French Polynesia, Greenland, New Caledonia, Saba, Saint Barthélemy, Sint Eustatius, Sint Maarten), along with the three regional Multiannual Indicative Programmes (Indian Ocean, Pacific and Caribbean).

For example, in the case of Greenland, the Multiannual Indicative Programme's second priority area – green growth (EUR 22.5 million) – is supporting the extension of a renewable energy supply to promote low-carbon development, as well as the protection of biodiversity. However, the annual action programme and support initiatives committed to in 2021 did not include markers on biodiversity or climate change. This is a shortfall, as markers are required to assess the actual budget performance for climate and biodiversity action. Nevertheless, in 2022 seven initiatives that contribute to climate coefficients were committed to[36].

2.2.2 The Global Gateway: Coherence with EU climate and biodiversity policies and commitments

Alignment with the European Green Deal

Although the latest political elections have been considered to have a negative impact on implementation of the European Green Deal, the vast majority of its legislative proposals were adopted through the Fit for 55 package, and the Political Guidelines for 2024–2029[37] include statements to uphold and advance the agenda under the new European Commission. These include stepping up green diplomacy efforts and engaging with partner countries on external aspects of the EU policies.

[34] See: Global Gateway: Five new cooperation agreements signed at the EU – Overseas Countries and Territories Forum - European Commission (europa.eu)

[35] See Recital 24 of DOAG Regulation.

[36] See: https://commission.europa.eu/strategy-and-policy/eu-budget/performance-and-reporting/programme-performance-statements/decision-overseas-association-including-greenland-performance_en#contribution-to-horizontal-priorities

[37] Ursula von der Leyen, Candidate for the European Commission President (2024). Europe's Choice. Political Guidelines for the next European Commission 2024–2029. Available at: e6cd4328-673c-4e7a-8683-f63ffb2cf648_en

The 'Green and Clean'[38] principle underscores the Global Gateway's commitment to leverage the external dimension of European Green Deal policies and objectives for climate and environment by accelerating sustainable development and recovery, fostering inclusive growth and job creation, and supporting the transition to a cleaner, more circular global economy through sustainable trade and investment policies. However, there is no clear instruction on how to effectively implement and monitor these and their actual impact.

The 'Green and Clean' principle includes the use of Environmental and Social Impact Assessments (ESIAs), Strategic Environmental Assessments (SEAs) or Climate Risk Assessment (CRA) tools which help ensure environmentally integrated sector plans that will eventually underpin the investment projects. However, ESIAs have been flagged for inconsistencies and, in some cases, corruption. ESIAs are managed by intermediary financial institutions, so the Commission cannot establish an external quality assurance facility to provide greater credibility and accuracy to these assessments.

In the case of Strategic Environmental Assessments (SEAs), the primary challenge is their lack of promotion, despite their significant potential to ensure that investment projects align with environmentally integrated sector development plans and strategies. To date, no SEA has been promoted for a Global Gateway investment, and Global Gateway and EFSD+ projects are often not aligned to a government sector strategy that has integrated environment and climate change[39].

Global Gateway projects are expected to abide by the European Green Deal oath to Do No Harm (DNH), yet there is a lack of DNH implementation guidance for international cooperation, and the taxonomy is not applicable to external action. Moreover, there are no indications on the consequences for projects that fail to meet these sustainability criteria, including the DNH principle.

Alignment with the Paris Agreement and EU's Climate Agenda

Climate change is an important aspect of the Global Gateway narrative, thus aligning with the Paris Agreement and EU's climate agenda. Key sectors targeted for investment under Global Gateway are closely tied to climate mitigation and resilience. One of its priorities is to support a clean and just energy transition in partner countries, which also includes fostering sustainable supply chains for critical raw materials. This transition will be driven by investments in energy efficiency and renewable energy, particularly in areas such as smart grids, hydrogen production and the development of sustainable energy markets. To date, the EU has concluded four JETPs aimed at enabling policy changes and facilitating investments that align with the Paris Agreement's objectives[40].

Another priority is to promote connectivity through smart, resilient, inclusive and safe transport networks across all modes of transport. The adherence to EU climate mitigation goals and commitments in this sector are challenging, given that investments will also support carbon-intensive modes of transport such as aviation, road and maritime transport. Nevertheless, Global Gateway will foster convergence with European or international technical, social, environmental and competition standards in the area of transport infrastructure planning and development, for example, by fostering sustainable investments to minimise greenhouse gas emissions, and supporting infrastructure for zero-emission vehicles, as well as renewable and low-carbon fuels.

[38] European Commission (2021). Joint Communication to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank. The Global Gateway.

[39] Statement provided by the Greening Facility.

[40] European Commission, Directorate-General for CLIMATE ACTION (2024). Consistency of financial flows with the Paris Agreement objectives – the EU navigating the transition towards climate neutrality and resilience.

Climate finance and, in particular, the support to developing countries for mitigation and adaptation is a central point of the Paris Agreement. In 2023, the EU and its 27 Member States were the biggest providers of climate finance internationally, contributing EUR 28.6 billion from public sources and mobilising an additional EUR 7.2 billion in private finance to support developing countries in combating climate change and adapting to its impacts[41]. That same year, developed countries exceeded the USD 100 billion goal for the first time.

The Global Gateway represents the EU's effort to help close the global climate investment gap by expanding access to sustainable finance, particularly in low- and middle-income economies. A priority of the Global Gateway strategy is attracting and mobilising finance from other sources, including national governments, private investors and banks. The EFSD+, the Western Balkans Investment Framework and the Investment Facility for Türkiye have launched several initiatives to support this goal:

- The Global Green Bond Initiative (GGBI), a flagship Global Gateway project that promotes the development of green bond markets in low- and middle-income countries.
- The Sustainable Finance Advisory Hub, a Team Europe Initiative that provides accessible, high-quality technical assistance to the EU's partner countries.
- The International Platform on Sustainable Finance (IPSF) and the High-Level Expert Group on Sustainable Finance (HLEG) have been established to guide EU efforts in low- and middle-income countries.
- A European Export Credit Facility has been introduced to complement Member States' export credit systems, with a focus on low-carbon, environmentally sustainable and climate-resilient investments aligned with partner countries' climate commitments and the Paris Agreement. To further align with the Paris Agreement, the EU called on an 'EU climate pact for export finance' which extended the 2021 OECD agreement to end export credits for coal to also include the entire fossil fuel energy sector, except for in clearly defined circumstances[42].

However, concerns have been raised regarding the Global Gateway strategy, particularly due to a perceived shift from addressing the needs of partner countries to advancing EU interests and goals[43]. In cases where EU interests that do not prioritise combatting biodiversity loss or climate change prevail, there is a risk of not adhering to the Paris Agreement or other relevant multilateral environmental agreements.

Alignment with the Kunming Montreal Global Biodiversity Framework (KMGBF)

As opposed to climate change, there are no references or links to biodiversity in the Global Gateway strategy documents. This signals a significant decline in the focus on biodiversity issues compared to the NDICI – Global Europe instrument. It also raises concern towards meeting the international finance targets committed to in the KMGBF, notably Target 19 to mobilise USD 200 billion per year for biodiversity from all sources, including USD 30 billion through international finance. The text specified that at least USD 20 billion per year by 2025, and at least USD 30 billion per year by 2030, should be allocated by developed countries, including through ODA, to developing countries and countries with economies in transition.

As highlighted in earlier sections, the NDICI – Global Europe explicitly prioritises biodiversity in its funding provisions. EU external funding supports numerous direct and indirect investments aimed

[41] See: https://www.consilium.europa.eu/en/press/press-releases/2024/11/05/council-publishes-2023-international-climate-finance-figures/#:~:text=In%202023%2C%20the%20European%20Union,the%20impacts%20of%20climate%20change.

[42] See: The Council adopted conclusions on export credits - Consilium

[43] European Commission, Directorate-General for International Partnerships, MacKellar, L., Massey, C., Smaïl, T. et al., European Union's external financing instruments (2014–2020 and 2021–2027). Volume I, Synthesis report, Publications Office of the European Union, 2024, https://data.europa.eu/doi/10.2841/05549

at combating biodiversity loss, including the conservation of protected areas, restoration of degraded ecosystems, and sustainable natural resource management. Furthermore, ongoing initiatives seek to strengthen the link between climate and biodiversity and promote innovative financial mechanisms for biodiversity conservation efforts.

Regarding Global Gateway flagship initiatives, there are initiatives linking financial assistance and market access to compliance with environmental regulations and climate targets through which the EU encourages alignment with the Paris Agreement and the KMGBF. In particular, the Team Europe Initiative (TEI) on Deforestation-free value chains, linked to the EU regulation on deforestation-free products which entered into force in June 2023, helps address deforestation on a global scale and support the commitments outlined in the Glasgow Leaders' Declaration on Forests and Land Use from COP26 to halt and reverse forest loss and land degradation by 2030. Since the launch of Global Gateway, the EU has built or strengthened partnerships with Lao People's Democratic Republic, Honduras and Côte d'Ivoire, among others.

Despite these efforts, a stronger emphasis on biodiversity and the climate-biodiversity nexus is needed to better align the Global Gateway narrative with the Kunming Montreal Global Biodiversity Framework. In particular for infrastructure investments, a bolder narrative and more standardised protocols on the need to align competitiveness and security priorities with climate and biodiversity objectives is advised. Nature-based solutions – the term used here in all its definitions (i.e. green, blue and hybrid infrastructure) – can address infrastructure needs while increasing climate resilience, mitigating emissions and enhancing biodiversity. The benefits of such investments go well beyond environmental aspects to include health and food security, by improving urban heat island effects, enhancing air and soil quality, increasing access to green areas in urban settings, and improving flood and drought resilience.

The economic importance and value of these services that nature provides should be better portrayed and monetised overall in climate and environmental assessments prior to projects and investments. A more nature-focused approach would also enhance the promotion of the external dimension of European Green Deal policies and biodiversity-related regulations, such as the EU Nature Restoration Law and the EU Biodiversity Strategy for 2030.

2.2.3 Recommendations for future climate and biodiversity mainstreaming priorities and targets

On priorities

EU external financing has often been used to encompass a wide range of policy goals, 2030 Agenda for Sustainable Development and the EU Global Strategy. The broad scope of selected priority areas in programming allows for a level of flexibility, enabling adjustments to unforeseen events (i.e. flexible approach)[44]. However, it is then challenging to set clear strategic priorities[45].

In the coming years, the EU aims to place a strong focus on clean industrial development, enlargement, security and global competitiveness[46]. However, without strong climate and

[44] European Court of Auditors, Programming the neighbourhood, development and international cooperation instrument, Global Europe – Comprehensive programmes with deficiencies in the methods for allocating funds and impact monitoring. Special report 14, 2023, Publications Office of the European Union, 2023, https://data.europa.eu/doi/10.2865/639

[45] This challenge is somewhat unavoidable, given that the central focus is on aligning with the 2030 Agenda for Sustainable Development and the EU Global Strategy, both of which lack specific prioritisation of objectives.

[46] As outlined in:

biodiversity policies and standards in international partnerships, there is a risk that green priorities could be compromised. In the case of humanitarian aid and emergency response mechanisms, the urgency of immediate action can take precedence over climate and biodiversity considerations. Yet, scientific forecasts make it clear that neglecting the green agenda undermines long-term prosperity, economic growth and, most critically, security, as crises are increasingly linked to climate change and environmental degradation.

Amidst a hierarchy of priorities, future green priorities should focus on safeguarding green ambitions by tailoring them to the different instruments' needs, issues and objectives, while also maximising cost-efficiency, impact and EU added value. Overall, finding the right balance between high standards and streamlined systems while minimising administrative burdens, including in reporting, is a key priority for the new Commission. Excessively complex requirements and systems risk becoming impractical due to resource constraints, particularly in human resources. This balance is important in an increasingly competitive landscape for external action and investment.

Future green priorities should align with global climate and biodiversity conventions, i.e. UNFCCC and CBD, and international commitments. In addition, nexus approaches as laid out in the IPBES NEXUS Assessment[47] pursuing synergies between objectives should be raised as a priority in EU international action. Promoting multiple-benefit initiatives (e.g. between climate, biodiversity and gender) can reduce duplication, improve resource use and enhance planning, implementation, monitoring and financing. The interdependence of climate and biodiversity requires integrated policymaking, but national-level responses have often been fragmented, hindering effective action. International organisations[48] have identified actions to improve synergetic investments, such as enhancing coordination and multi-governance processes, mapping of synergies between existing policies, joint analysis of financial requirements and multi-stakeholder engagement.

Future green budgeting strategy

Regarding the green budgeting strategy, Appendix 1 – Annex 2 includes a structured analysis of the **benefits and challenges presented by a general mainstreaming of climate/biodiversity spending versus earmarking**, such as a stand-alone 'green funding' **dedicated budget line** covering e.g. 30–50 % of all international funds under the next MFF for climate and/or biodiversity. The choice between mainstreaming climate/biodiversity spending and establishing a stand-alone green funding budget line in EU external policymaking involves trade-offs.

Mainstreaming offers a holistic approach that integrates environmental considerations into existing policies, which is key for safeguarding green ambitions in a context of shifting or short-term potentially 'conflicting' political and geopolitical priorities. Mainstreaming also allows the potential for implementing synergies and increasing efficiency. However, it requires overcoming coordination challenges and may lack the visibility and focus of stand-alone funding. On the other hand, stand-alone green funding provides clear prioritisation and flexibility but risks fragmentation and resource constraints. This study considers that the most effective approach depends on balancing these factors to achieve the EU's environmental objectives in external actions.

- Ursula von der Leyen, Candidate for the European Commission President (2024). Europe's Choice. Political Guidelines for the next European Commission 2024–2029. Available at: e6cd4328-673c-4e7a-8683-f63ffb2cf648_en
- Draghi, Mario (2024). The Future of European Competitiveness. European Commission. Available at: 97e481fd-2dc3-412d-be4c-f152a8232961_en
- The Competitiveness Compass for the EU.

[47] See: Thematic assessment of the interlinkages among biodiversity, water, food, and health | IPBES secretariat

[48] UNCC, CBD, IISD, NAP, GIZ, UNEP, SwedBio (2022) Promoting Synergies Between Climate Change Adaptation and Biodiversity – Through the National Adaptation Plan and National Biodiversity Strategy and Action Plan Processes. See: https://unfccc.int/documents/619807

EU added value criteria for setting priorities

To maximise the impact of EU spending, it should be directed towards areas with the highest 'EU added value' (although determining this is challenging), while also contributing to other strategic priorities such as combating climate change and protecting biodiversity. Table 1 proposes different criteria that contribute to EU added value, specifically for EU climate and biodiversity international spending.

Table 1 Criteria to define EU added value for environmental EU external funding.

Criterion	Comments
Resource Pooling: Maximising impact through resource pooling for large-scale projects can lead to outcomes more effectively and efficiently compared to fragmented national efforts. This includes encouraging and facilitating joint initiatives through a Team Europe approach, or by involving multiple international donors/IFIs/MDBs or through blended finance.	Examples include research and innovation in green technologies, and shared marine conservation areas, where joint efforts can reduce costs and accelerate progress, or large-scale projects such as offshore wind farms, transnational water management or reforestation projects, hydrogen infrastructure or sustainable connectivity infrastructure.
Coordination Benefits: Maximising impact through prioritising funding for central coordination of efforts where this central coordination adds significant efficiency and effectiveness benefits as compared to fragmented efforts by other donors (as reflected by the Team Europe approach).	Examples include disaster response mechanisms, environmental monitoring systems and climate adaptation strategies.
Increasing global ambition: Increasing global climate and green ambition by being a credible frontrunner in funding, including by mainstreaming of climate and biodiversity objectives and Do No Harm principles in all types of investments.	/
Aligning with EU's priorities: Aligning funding with the EU's strategic priorities and policies with an external dimension.	An example would include the Cross-Border Adjustment Mechanism, circular economy measures and encouragement of cleaner industrial production in non-EU countries.

Suggestion for potential future priorities

Please see Table 2 on the following page.

Table 2 Proposed priorities

Proposed priorities	Cluster specifications	Fund/DG/Initiative specifications	Relevance	Coherence (e.g. with EU policies and international commitments, with partner priorities, etc.)	EU added value	Examples of specific actions (e.g. prioritising synergies)
Increased alignment across EU institutions for external action (INTPA, ENEST and MENA) on incorporating greening principles in major investment strategies	All	Global Gateway strategy for INTPA, while for ENEST and MENA the focus would be more on WBIF, WB Facility, NIP, Ukraine Facility, as well as EFSD+ guarantees.	DG BUDG has requested a reallocation of resources toward migration and Enlargement, shifting the focus to DG ENEST and DG MENA. Consulted stakeholders argue the previous DG NEAR's mainstreaming efforts for investments have been notably less developed than those of INTPA; hence, greening strategies and principles should be more effectively integrated into actions and investments in the Neighbourhood regions.	The 2024 report on the EU EFIs calls for a more **streamlined and simplified approach to programming** and implementing external action instruments to ensure they effectively contribute to green and sustainable initiatives[49]. In the case of the Global Gateway, the 'Green and Clean' principle should be applied to all projects equally.	Increased coordination amongst EU external actions and financing instruments will help align EU priorities, credibility and impact.	Climate and biodiversity mainstreaming to be flagged as a priority in IPA III and EFSD+ (see priority for climate proofing two rows below). It is key to maintain a centralised knowledge of expertise (such as the Greening Facility) that focuses on supporting and training Commission Units and EU delegations to implement green mainstreaming tools. Also, better guidance through communicating/sharing examples of good practice.
Support partner countries in aligning with EU green policies and priorities	All	NDICI – Global Europe, IPA III and DOAG. However, pursuing such an alignment may be notably complex in certain INTPA countries. Higher focus should be places on countries under Enlargement process.	Among the European Green Deal policies and legislations that will have an impact on international trade and markets, and EU external investments are the EU Taxonomy, CSRD, ESRS, Green Claims Directive, regulations on packaging, batteries, textile.	The new political guidelines for the 2024–2029 Commission outline the promotion of the external dimension of EU policies.	Increased alignment between EU and partner countries' policies and priorities will bring coordination benefits, increased influence and impact, and improved EU relations with partner countries.	Supporting countries in the Enlargement through technical assistance and support facilities to comply with EU environmental and climate regulations. Although intra-European exclusion lists cannot strictly apply to all partner countries (with very different needs, circumstances and legal frameworks), the EU should strive to apply domestic Union general principles and general approach for green exclusions in external investments. This is important for coherence of the EU budget, for not 'undoing' through external investments the negative impacts avoided through internal investments and to avoid contributing to locking partner countries into unsustainable development pathways (see Chapter 3).
Sustainability-proofing foreign policy and investments	Climate change and biodiversity.	All, but especially hard infrastructure investments (e.g. under Global Gateway and EFSD+)	This measure is especially relevant for **hard infrastructure investments** in key Global Gateway sectors such as energy, transport and trade or industry supply chains, where it will be most	Introducing protocols to implement the 'Do No Harm' principle, increasing the quantity and quality of screening processes (e.g. SEAs), climate and environmental impact and	Higher impact, credibility (improved transparency and accountability), better alignment	For guarantee investments, the Commission could apply a **basic due diligence system** on financial institutions (FIs), as well as work hand-in-hand with the FIs to address ESIA quality and EMP implementation issues. Another, more ambitious yet effective initiative would be to **reform the pillar**

[49] European Commission, Directorate-General for International Partnerships, MacKellar, L., Massey, C., Smaïl, T. et al., European Union's external financing instruments (2014–2020 and 2021–2027). Volume I, Synthesis report, Publications Office of the European Union, 2024, https://data.europa.eu/doi/10.2841/05549

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Proposed priorities	Cluster specifications	Fund/DG/Initiative specifications	Relevance	Coherence (e.g. with EU policies and international commitments, with partner priorities, etc.)	EU added value	Examples of specific actions (e.g. prioritising synergies)
			challenging to achieve climate neutrality and biodiversity commitments. Nevertheless, it should also concern sectors where the link with environmental issues/goals is less obvious, such as health, education, research, migration and foreign security.	risk assessments could enable the EU to advance the implementation of the Global Gateway's 'Green and Clean' principle effectively. Also, it would increase coherence with the external dimension of the European Green Deal and the DNH principle.	with EU domestic policies and increased global ambition.	**assessment** procedure so that it also investigates the environmental safeguards in the investment pipeline. For SEAs, these could be applied on strategic investment funds and strategic frameworks underlying the investments, rather than applying ESIAs on specific investments only. Moreover, improve guidance and protocols to ensure that all investments comply with the **exclusion criteria** set out in Art. 29 of the NDICI regulation. However, transitional or relative improvement considerations are suggested for certain development projects that may not align with environmental goals in the immediate future (See Chapter 3 on exclusions). Increase resources dedicated to defining and applying the **DNH principle** in external investments. **For humanitarian aid**, climate proofing tools could be further developed for WASH and shelter projects (mostly related to construction).
Stronger emphasis on biodiversity action, addressing the market gaps for biodiversity and the climate-biodiversity nexus	Focus on biodiversity and nature-related projects but can concern climate sectors.	All	There is currently a strong emphasis on climate action and decarbonisation in EU investment strategies, i.e. in the EFSD+ or Global Gateway strategy. However, there is a not enough emphasis on nature and biodiversity principles and objectives, which are crucial to avoid adverse consequences of investment projects, many of which may carry high risks for the environment. Moreover, many biodiversity projects lack (initial) bankability, so there are market gaps for biodiversity (see Conclusions and key challenges in Section 2.4.4).	This is crucial to ensure alignment EU external investments with the KMGBF, including Target 19 on international biodiversity finance. This shift would also enhance the promotion of the external dimension of European Green Deal policies and biodiversity-related regulations, such as the EU Nature Restoration Law.	Increased credibility, impact and global ambition.	Blended finance can offer more flexibility, but grant-based financing (e.g., in the form of biodiversity - earmarked finance under EFSD+ or under traditional cooperation modalities) would be crucial for biodiversity projects that lack (initial) bankability. In addition, high-quality national plans or sectoral strategies for biodiversity in partner countries that identify key needs, issues and priorities have been shown to have a high impact. The Global Gateway and other investment strategies that are more relevant to ENEST and MENA can address in their communications the interdependency between climate mitigation, adaptation and biodiversity, and focus on holistic action by **promoting synergies**. **Nature-based solutions** to prevent floods/droughts, agro-ecology and sustainable forest management are a good example of

Proposed priorities	Cluster specifications	Fund/DG/Initiative specifications	Relevance	Coherence (e.g. with EU policies and international commitments, with partner priorities, etc.)	EU added value	Examples of specific actions (e.g. prioritising synergies)
						action that can be prioritised instead of hard-infrastructure[50]. Lastly, the EU should leverage its resources and influence for promoting the mobilisation of private sector finance for biodiversity, as well as shifting production and consumer patterns to do no harm/make a positive contribution to biodiversity, via a series of mechanisms including tradable permit systems, environmental labelling laws, international global green bonds, debt-for-nature swaps and market-based instruments like biodiversity credits and certificates.
Improving tracking and monitoring methodologies	All	All, yet in terms of reporting, stronger focus on ENEST and MENA instruments which are lagging behind in terms of accurate and effective reporting.	Financial reporting is based on inputs and intentions rather than impacts and results. There is a need to improve the link between upstream planning and downstream financial monitoring, ensuring that resources align more effectively with climate and biodiversity policy priorities. Moreover, there is a need for more granularity in tracking and reporting. While standardisation is essential for efficiency, it is crucial to avoid creating unnecessary burdens or additional work for stakeholders.	Improving existing climate and biodiversity finance methodologies would increase alignment with latest international agreements under CBD and the UNFCCC. Improved tracking and monitoring systems would better align with the main EU international conventions by linking the tracking, monitoring and reporting mechanisms and indicators to the NBSAPs, NDCs and NAPs.	Alignment with EU international commitments, strategic priorities and policies, and impact.	**<u>Specific recommendations for the upcoming MFF are developed in Chapter 2.3.</u>**
Strengthening institutional capacities in EU Delegations and partner countries	All	All	Partner countries often require additional or external resources to deliver **high-quality national climate and biodiversity plans**, including their NDCs. These national plans are very effective especially when it comes to attracting, mobilising and directing public and private finance towards	This type of action aligns with EU international commitments (e.g. Paris Agreement and KMGBF).	Coordination benefits and higher impact.	Given the 360-degree approach of the global gateway, measures should include **soft interventions** that support high-quality national planning and/or sector strategies that integrate climate change and biodiversity. There are opportunities to incorporate climate and biodiversity goals into less obvious areas, such as **Governance or Finance**, e.g. through greening public finance management and budgeting systems,

[50] However, caution is needed when defining and investing in Nature-Based Solutions (NBS), as an increasing number of infrastructure projects are misclassifying basic impact mitigation measures as NBS. Additionally, actions involving carbon offsets are often insufficiently ambitious or fail to deliver meaningful added value.

Proposed priorities	Cluster specifications	Fund/DG/Initiative specifications	Relevance	Coherence (e.g. with EU policies and international commitments, with partner priorities, etc.)	EU added value	Examples of specific actions (e.g. prioritising synergies)
			actions that contribute to climate and biodiversity objectives.			and improving Public Expenditure and Financial Accountability (PEFA) methodologies and implementation. This approach would help refine priority-setting in partner countries and better identify where financial investments can deliver the greatest impact.
Improving enabling frameworks	All	NDICI – Global Europe, but especially IPA III and EFSD+	Large investments in sectors such as energy, mining and transport risk undermining climate and biodiversity objectives even when considering sustainability principles, if these are not supported by robust policies and enabling frameworks.	Aligns with external vision of the European Green Deal goals.	Higher impact of EU external actions, increasing global ambition while aligning with EU's strategic priorities.	Focus on leveraging **transition finance** to promote and facilitate private investments that contribute to decarbonisation and improving the state of the environment. Investments and actions that promote systemic and behavioural changes. In the energy sector, for instance, it is important to allocate resources to mitigate risks such as rebound effects[51] from investments in clean energy and **carbon lock-in**[52] from investments in non-renewable energy sources.
Creating a long-term foreign climate and biodiversity policy/financial strategy	All	NDICI – Global Europe, but especially IPA III and EFSD+	Expectations for developed countries' contribution to climate finance/action are very high. Multilateral finance requires long-term planning among EU, its Member States, its partner (development) financing institutions, as well as governments, to avoid overlaps and multiply impact.	Aligns with international commitments.	Coordination benefits, resource pooling, enhanced visibility and credibility and impact of external climate and biodiversity actions[53].	Investments to improve strategic alignment across the EU and its MS that endures through time, leveraging the potential of Team Europe. Among other actions, this could include sharing EU MS technology, information and good practices in 'place-based' climate progress.
Emphasis on climate adaptation	Climate change adaptation	All	Par. 14 of the **COP29 New Collective Quantified Goal (NCQG**) recognises the need for public and grant-based resources and highly concessional finance, particularly for adaptation and responding to loss and damage in	Scaling up finance for climate adaptation responds to the external dimension of the European Green Deal, the European Consensus on Development, and international commitments under UNFCCC.	Higher impact through resource pooling and alignment with EU's strategic priorities.	For humanitarian aid, increase the focus on adaptation, **disaster preparedness and anticipatory actions, early warning systems**, tracking and predicting models (which are very cost-efficient). For general cooperation, support for **high-quality national plans or sectoral strategies** for

[51] The rebound effect in energy economics refers to the phenomenon where improvements in energy efficiency lead to a less-than-expected reduction in overall energy consumption. This happens because as energy efficiency increases, the cost of using energy decreases, encouraging increased use of the energy-efficient service or product.

[52] Carbon lock-in refers to the self-reinforcing dynamics of economic, technological, and institutional systems that make it difficult to transition away from carbon-intensive energy sources and practices, perpetuating reliance on fossil fuels despite the availability of cleaner alternatives.

[53] Kahlen, L., Outlaw, I., Kachi, A. (2023) Climate Audit of the European Union's Foreign Policy Assessing the alignment of the European external action with the objectives of the Paris Agreement. NewClimate Institute.

Proposed priorities	Cluster specifications	Fund/DG/Initiative specifications	Relevance	Coherence (e.g. with EU policies and international commitments, with partner priorities, etc.)	EU added value	Examples of specific actions (e.g. prioritising synergies)
			developing countries, although no specific provisions or enforcement mechanisms are included.			adaptation in partner countries that identify priorities have been shown to have a high impact. Allocate resources to separately track adaptation components, based on the Joint methodology for tracking climate change adaptation finance[54]. In addition, promote and develop innovative financing mechanisms for adaptation-focused projects that are less bankable, such as global green bonds, **loss and damage funds and climate resilient debt clause**, such as by leveraging private finance through guarantees and blending.

[54] European Investment Bank (2022). Joint methodology for tracking climate change adaptation finance, Available at: Joint methodology for tracking climate change adaptation finance

On targets

Quantified targets for climate and biodiversity are key for advancing EU commitments and policy developments that reflect political priorities, and sustain momentum and help reach international obligations, e.g. under the UNFCCC of CBD. For example, the 30 % climate funding target under the current MFF drove the integration of climate objectives into all sectors, which would not have occurred under business-as-usual conditions. Similarly, the EU's biodiversity EUR 7 billion target for external funding for the period 2021–2027, and the international finance targets committed to in the KMGBF[55], have triggered a series of legislative developments (e.g. the Nature Restoration Law) and helped improved transparency (e.g. through the targets submitted for COP16 which will be monitored via the KMGBF online reporting tool).

In the coming years, the EU is expected to contribute to meet the ambitious New Collective Quantified Goal (NCQG) of USD 300 billion per year by 2035, as well as the international finance targets for biodiversity established in the KMGBF. As a case example, this study has attempted to portray the implications of such targets for climate finance:

Given the EU's historical role as the world's largest contributor of climate finance provided and mobilised to developing countries, estimating its contribution to the NCQG goal requires considering EU historical contributions. In 2023, the EU and its Member States provided around EUR 28.5 billion (USD 30 billion) in public climate finance, which includes EUR 3.2 billion from the EU budget, including from the European Fund for Sustainable Development Plus, and EUR 2.6 billion from the European Investment Bank. The total number accounted for approximately one third of total global public climate finance from developed countries.

Assuming that the EU maintains the trend of the last year has strong implications for the EU budget, which will have to significantly increase external climate funding commitments. Needless to say, the KMGBF international targets for biodiversity, although lower, would have similar implications. This requires political will, budgetary expansion and financial innovation to leverage private sector contributions. Blending and guarantee mechanisms with private finance and mobilising contributions through EU financial institutions (e.g. EIB, EFSD+) will be necessary to achieve the target without overwhelming direct budget allocations.

In this context, for the post-2027 MFF it does not seem appropriate to reduce or eliminate the climate and biodiversity targets currently set by the EU budget and its external financing instruments.

However, some institutional stakeholders do not have positive perceptions of the effectiveness or efficiency of horizontal expenditure targets. For example, in the IPA III and EFSD+ contexts, the requirement to achieve climate goals is sometimes seen as a burden that stretches resources rather than acting as an opportunity. The 2024 evaluation of the EU's EFIs[56] portrayed that the high number of targets (i.e. also for other cross-cutting priorities such as migration, education, gender) has contributed to constraining the flexibility of the financing instrument and can lead to sectoral fragmentation.

Moreover, it appears unclear to what extent targets translate into concrete, impactful actions. The path to effective implementation faces several challenges, particularly in monitoring and reporting

[55] Target 19 of the KMGBF to mobilise USD 200 billion per year for biodiversity from all sources, including USD 30 billion through international finance. The text specified that at least USD 20 billion per year by 2025, and at least USD 30 billion per year by 2030 should be allocated by developed countries, including through ODA, to developing countries and countries with economies in transition.

[56] European Commission (2024) COMMISSION STAFF WORKING DOCUMENT Accompanying the document Report from the Commission to the European Parliament and the Council on the evaluation of the European Union's External Financing Instruments for the 2014–2020 and 2021–2027 Multiannual Financial Frameworks {COM(2024) 208 final}.

outcomes. For *projects and programmes*, the main issue in the use of targets is that contributions are measured at the level of commitments, but not later in the implementation process. This absence of tracking and monitoring hinders the ability to determine whether the actual contributions align with those outlined in the action documents. In the case of *investments*, current reporting frameworks rely heavily on indicators provided by third-party financing institutions, which often lack the consistency and reliability necessary to accurately gauge impact. This lack of comprehensive monitoring is especially challenging within large portfolios where the Commission may not have direct access to detailed data.

Furthermore, disparities in environmental integration across EU bodies add another layer of complexity. For instance, up until now DG NEAR operated funding mainly through geographic units, while thematic units, such as those dealing with horizontal matters such as green mainstreaming, have less resources, staff and capacity compared to DG INTPA. However, the change expected with the new structure for overseeing the Neighbourhood regions (including the new DG MENA and DG ENEST) offers an opportunity to ensure that sufficient relevant staff and resources are provided for those purposes.

To add to these reflections, Appendix 1 – Annex 3 includes an overview of future scenarios for climate and biodiversity spending targets. Reflections are made in terms of ambition, alignment with EU domestic and international policy goals and commitments, EU influence and promotion of external dimension of EU policies, impact on EU relations with partner countries, impact on accountability, transparency, level of guidance/clarity, and potential for synergies, among others.

Given the current constraints in flexibility and ongoing challenges in meeting existing targets, this study recommends a financial target of 30 % for climate and biodiversity mainstreaming in the next MFF. Even though an even higher target would be desirable, it might be unobtainable in the current situation, and a 30% target for climate and biodiversity is considered both ambitious and feasible. Nonetheless, to fulfil international obligations, efforts should continue to refine the accuracy and coherence of reporting methodologies and monitoring system (especially for less developed sectors, like biodiversity) while at the same time amplifying the external impact of these commitments (see Chapter 2.3 on tracking, reporting and monitoring).

Apart from targets, the focus can be on other mainstreaming mechanisms such as introducing protocols to implement the 'Do No Harm' principle or allocating resources to increase the quantity and quality of climate and biodiversity screening processes, impact and risk assessments (see Chapter 4 on mainstreaming tools). Additional safeguard measures can be considered, such as allocating more resources to the Greening Facility or introducing conditional funding for partner countries (e.g. financing conditional on the submission of appropriate national plans and strategies for climate and biodiversity).

The current granularity of climate and biodiversity targets is deemed appropriate, but greater emphasis on the climate-biodiversity nexus is needed to better align EU funding commitments with those under the COP29 NCQG and the Kunming Montreal Global Biodiversity Framework. Recognising the interdependence between EU climate and biodiversity expenditure and potential overlaps – where nearly all biodiversity spending also supports climate objectives, and a portion of climate spending contributes to biodiversity – could allow for more efficient allocation of resources, ensuring that funding maximises synergies rather than being siloed into separate categories. However, there is also a risk that biodiversity funding could be overshadowed if it is primarily counted within climate spending rather than having distinct, ambitious targets. To avoid this, the next MFF should establish clear and transparent tracking mechanisms that differentiate and quantify contributions to both objectives while ensuring that biodiversity action receives dedicated, sufficient funding rather than being treated as a secondary outcome of climate investments.

Similarly, in a context of improved tracking mechanisms, separate targets for climate change mitigation and adaptation could be considered in order to ensure that the provision of financial resources is balanced between the two, as affirmed in the COP29 proposals on the NCQG[57]. One option is creating a balanced approach to adaptation and mitigation, similar to the Green Climate Fund's 50:50 funding split between the two.

Lastly, it is advised that, in principle, all EU external actions, and therefore financing instruments, adhere to a set of overarching green spending targets, while allowing a certain degree of flexibility for partner countries to adjust the targets[58] to safeguard country-driven strategies, priorities and needs of partner countries, as affirmed in the COP29 Decision on the NCQG.

2.3 Tracking methodologies and monitoring of climate and biodiversity spending

2.3.1 Assessment of existing methodologies

The tables in Appendix 1 – Annex 4 illustrate a selection of climate and biodiversity tracking methodologies[59] reviewed with the aim of identifying good practice and alternative approaches that may inform the proposals to be presented as part of the current study.

Box 2 Summary of Rio Marker methodology

Rio Markers are a tool developed by the Organisation for Economic Co-operation and Development (OECD) to track the extent to which development finance addresses environmental goals, including climate change, biodiversity and combating desertification. They were introduced following the 1992 Rio Earth Summit, which is why they are called 'Rio Markers'.

Each financial contribution is scored on a scale of 0 to 2:

- 0 means the activity does not target the environmental objective (0 %)
- 1 means the activity significantly contributes to the objective but is not its main focus (40 %)
- 2 means the objective is the principal focus of the activity (100 %)

The Rio Markers from 1998 (further adapted in 2010)[60] differentiate between principal, significant and not targeted objectives for climate and biodiversity that, as applied by the Commission, allow to attribute 100 %, 40 % and 0 % respectively of spending to climate and biodiversity contribution (presented in Box 2).

The Rio Markers and methodologies used by multilateral development banks (MDBs) have played a significant role in shaping national climate budget tagging systems. This influence is especially notable in the work of the UNDP and World Bank on Climate Public Expenditure and Institutional Reviews (CPEIRs). An analysis done for climate around the world showed that tagging is usually done during budget preparation, meaning it reflects allocations rather than actual expenditures. Rarely does it extend to monitoring actual spending. Even when tagging is part of financial management systems, expenditure reports are often not produced or analysed. This disconnection between tagging and actual spending highlights the need to improve the link between upstream

[57] See paragraph 13: New collective quantified goal on climate finance

[58] As long as the average of all regional targets is at least equal to the overarching target.

[59] Nesbit, M., Stainforth, T., Kettunen, M. and Blot, E. (2021). Review of approaches to tracking climate expenditure. Institute for European Environmental Policy (IEEP), Brussels and London.

[60] OECD Statistics on External Development Finance Targeting Environmental Objectives Including the Rio Conventions. See: OECD Statistics on External Development Finance Targeting Environmental Objectives Including the Rio Conventions. See: https://web-archive.oecd.org/temp/2023-05-22/658061-rioconventions.htm

planning and downstream financial monitoring, ensuring that resources align more effectively with climate policy priorities[61]. The findings below show how the issue is approached by the EU.

The Rio Markers are also the foundation of many subsequent biodiversity spending classification systems. The main weakness of the Rio Markers is that the decision as to whether a project's objectives contribute principally or significantly to biodiversity targets is based on an individual assessment[62]. The new Total Official Support for Sustainable Development (TOSSD) statistical measure, introduced in Annex 4, applies to biodiversity as it is included in several SDGs. It is worth noting that the system used by the Commission already applies the SDGs to tag international funding.

European Union Common Methodology

The European Commission developed a system for tracking climate and biodiversity spending which has been in use since 2014. As part of its proposals for the 2014–2020 budget, the Commission aimed to highlight the increasing importance of climate change in EU policy. Rather than creating separate funding lines for climate initiatives (in addition to the existing LIFE programme), the Commission opted to integrate climate objectives into various other programmes. This approach was supported by a target – endorsed by the European Council and European Parliament – to allocate at least 20 % of the EU budget to climate objectives during that period, with current targets set at 30 % (+EUR 4 billion i.e. 35 %) for climate and 10% for biodiversity in 2026 and 2027 (7.5 % for 2024). An additional political commitment exists to double biodiversity finance compared with the 2014–2020 baseline.

The Commission's tracking methodology is based on the Rio Markers system, developed by the OECD (see Box 2). In an interview with DG NEAR, it was pointed out that there is a need to improve the processes to ensure that the Rio Markers agreed upon during the budgeting phase remain consistent throughout the implementation of projects.

The OECD approach and updates on the Rio Markers guidance

In our interview, OECD representatives indicated that they are currently working on an update to the Rio Marker guidance. This includes an indicative table, published in the second half of 2024, that provides support in applying Rio Markers on a wide range of adaptation and mitigation measures in various sectors[63]. An upcoming revised version of the guidance handbook for reporting to the OECD in 2025 will also provide a comprehensive list of activities to serve as examples for Rio Marker application (indicative tables have been updated recently (for biodiversity, end of 2024) or are expected (for desertification in 2025)). Within the mandate of the OECD, however, only the financial assessment is relevant, which is based on more than 150 institutions reporting more than 400 000 activities and the respective financial commitments and disbursements in grants, loans, guarantees, etc. The entire system is based on and designed for financial reporting on inputs and intentions rather than impacts and results.

Standardised impact metrics would be difficult to design, because projects vary in their characteristics and evaluations of the overall success must be conducted ex-post. Specifically for biodiversity and adaptation, standardised impact metrics would not make sense due to the diversity

[61] 2021. 'Climate Change Budget Tagging: A Review of International Experience' EFI Insight-Governance. Washington, DC: World Bank.

[62] Nesbit, M, Whiteoak, K, et al (2022) Biodiversity financing and tracking: Final Report. Institute for European Environmental Policy and Trinomics.

[63] 2024. OECD Indicative table. See: https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwebfs.oecd.org%2Fclimate%2FRio_markers_indicative_tables_2024_approved.xlsx&wdOrigin=BROWSELINK

of impacts. The OECD has separate teams working on results and evaluation, but this information is less standardised in the development world due to the variety of indicators used for different projects. This means that monitoring systems beyond the financial assessment guided by the Rio Markers should be developed and implemented by development agencies according to their interests and capacities.

Potential future developments in the common methodology

While some DGs (e.g. ENV) have expressed interest in a taxonomy or an exclusion list of eligible activities to make assessments and reporting easier, these would have to be pushed by the Commission (see Chapter 3 on Exclusions). The DGs' different focus areas make it difficult to find common ground for a unified approach. Each DG also has certain fields and activities that they would still want to finance under a 'moderate contribution' heading, even if the activity is not contributing to climate or biodiversity targets immediately but will potentially in the long term (e.g. building new roads can contribute to climate action in the long term if they are designed to support sustainable transportation systems such as dedicated lanes for electric buses and bicycles).

Possible approaches include adjusting the internal use of the Rio Markers or amending the regulation to add exceptions (e.g. NDICI – Global Europe) for relevant DGs and potentially also to meet partner countries' requirements. This is important because not every partner country is at the same level of development, and transition support might be overlooked if not recognised appropriately. These approaches could help avoid conflicts with the application of the OECD Rio Markers as prescribed and prevent reliance on a one-size-fits-all solution, given that their coefficient approach may miss the long-term sustainable potential of some interventions.

The upcoming MFF will also include a limited number of interventions that are going to be informed by the EU Taxonomy, proposed by DG BUDG. In cases where the Taxonomy then applies to an intervention, a 100% marker would be warranted. For the general level of granularity (0/40/100) a decision has not been made yet. However, from the perspective of DG BUDG, there is no issue if the alignment between DAC categories and intervention fields is not perfect as long as the two reporting methodologies and potential double reporting problems are made transparent. According to their assessment, since DNSH criteria are now integrated in the financial regulation and applied to the entire budget, tracking of negative contributions should not be necessary anymore. It remains to be seen what this will mean in practice, since, for example, any kind of infrastructure development is going to have a level of negative impacts on, for example, biodiversity. If the DNSH applies to the entire budget, then certain activities potentially could not be financed anymore unless the level of significance is redefined. Furthermore, the purpose of tracking negative contributions is to allow for an assessment of the overall impact of financed activities and to help identify priorities and potential blind spots in terms of net contribution. Thus, while the need for tracking is reduced, it would still provide additional insights even when DNSH criteria are efficiently applied.

Application of standards in third countries

The current designs of the EU climate coefficients and the OECD Rio Markers are meant to incentivise action and increase spending on climate and biodiversity. This means that on a project level for European external action, the intent (Rio Markers) or expected outcomes (EU climate coefficients) have to align with the eligibility criteria defined by the EU. During the inception of a new project or funding programme, each of the DGs that currently has funds for external action (INTPA, MENA, ENEST, FPI) can consider its own contribution to the overall targets set by the EU. This approach has posed certain challenges. For instance, although using coefficients to measure progress towards targets provides clarity, it provides less incentive for improving sustainability when an action falls outside the fixed categories (0–40–100).

In cases where a DG currently falls short in terms of contribution, this could lead to treating the negotiation process like a mathematical exercise of determining the percentage of spending across various interventions to achieve the desired target based on the Rio Marker coefficients. Only in cases where the amount of funding allocated to the sustainability objective is greater than or equal to 40 % would this approach allow for investment in long-term projects that may not immediately contribute to mitigation, such as constructing of railways that are not yet electrified but have the potential to be in the future. However, this mathematical exercise approach to achieving a negotiated target carries the risk of spending inefficiencies, as it does not account for the marginal utility of additional spending.

In contrast, a taxonomy-based approach, which requires a certain level of efficiency for spending to be considered attributable to mitigation, for instance, poses the issue of potentially excluding developing countries from attributed spending due to stringent standards. The diverse nature of EU spending means that out of over 200 interventions, only around 20 align with the taxonomy due to its industry focus and limited scope. Additionally, neither approach provides the flexibility needed in developing countries, as noted in one interview.

An alternative approach could focus on relative improvements in the project area. This ensures that strict EU standards are not imposed on developing countries, which may find them impossible to comply with, while still directing spending efficiently. The shifting baseline for improvement guarantees that, in the long term, developing country performance standards will converge with European standards. This approach also avoids the problem of excluding certain interventions based on taxonomy standards or financing sub-par interventions in terms of marginal utility simply to meet a negotiated target. Moreover, exceptions and higher flexibility should be considered for certain actions such as emergency response to facilitate short-and mid-term aid.

Reflections from the interviews

From the interviews we have conducted, we have derived several areas of interest that would benefit from further discussion and rethinking existing approaches.

- **General timing issue:** The Multiannual Financial Framework (MFF) 2021–2027 was developed before the introduction of the EU Taxonomy and before the EU's biodiversity targets under the Convention on Biological Diversity (CBD) were set. This timing misalignment affects how well climate and biodiversity objectives are integrated into the budget.
- **Disparities in focus**: While climate mitigation is relatively straightforward to address, adaptation and biodiversity goals are more challenging and have not received the same level of attention or clarity[64].
- **Need for greater detail:** There is a need for more granularity in tracking and reporting[65]. While standardisation is essential for efficiency, it is crucial to avoid creating unnecessary burdens or additional work for stakeholders.
- **Integration with accounting systems**: Classification systems and indicators should be embedded within existing accounting structures to ensure that managers can track relevant expenditures without having to perform extra administrative tasks. This could help address the previous issues on details.
- **Contextual thresholds for efficiency**: Efficiency thresholds, such as those set by the EU Taxonomy, cannot be directly applied to international contexts. A more flexible, percentage-based improvement model which considers national baselines may be more appropriate,

[64] Annex 2 of the Greening EU Cooperation Toolbox provides a synthesis on the use of the policy and Rio Markers with links to the relevant documents and guidance available.

65 See: Assessing International Climate Finance by the EU and Member States: Key Insights for Shaping the New Climate Finance Goal – Climate Action Network Europe (2024)

especially for developing countries, to avoid imposing rigid EU standards. This could also be addressed by sticking to national plans (National Biodiversity and Action Plans (NBSAPs) , NDCs and National Action Plans (NAPs)), as well as considering national green and sustainable taxonomies.

- **Challenges of long-term projects**: Projects that initially contribute fully (e.g. 100 %) to a target could see their contribution reduced over time if accounting standards evolve. This creates the issue of 'long-term accounting with shifting baselines', where projects need to adapt to new criteria to maintain their original contribution levels.
- **Consistency and alignment**: All efforts should aim for consistency, particularly with the work of the greening facility. While achieving this requires significant time for review and correction, improvements could be made by ensuring that projects are climate- and biodiversity-focused from the outset, with clear links to the Rio Markers.
- **Lack of ongoing monitoring**: A major challenge faced by DG NEAR and DG INTPA is the inability to track whether the Rio Markers agreed upon at the start of a project remain consistent throughout implementation. Although some efforts have been made to standardise indicators and reduce workload, there is still a need for better ex-post monitoring and evaluation systems to ensure compliance. It is advisable to reflect on the ongoing work on indicators led by DG INTPA and their applicability to address this challenge.
- **Avoid over-restriction**: Cooperation should not be overly constrained. For instance, necessary infrastructure projects like roads should not be excluded from funding, even if they do not align with environmental goals in the immediate future. The Commission could consider adjusting exclusion criteria to allow for transition support (i.e. project needed to achieve environmental objectives in the medium and long term), but this must account for local context. Here the expected outcome design of EU climate coefficients could offer a more granular perspective if they were to differentiate between expected outcome in the short term and long term.
- **Negative contributions:** One gap in the scope of reporting is the negative contributions claim. A project that is marked as 100 % contribution to climate mitigation could, nevertheless, have a negative impact on biodiversity. The marker approach makes it difficult to account for these negative contributions on a project level. Negative contributions may need to be accounted for in the overall budget, rather than on the project level.

2.3.2 Recommendations for future improvement

New insights on interesting approaches

GCF methodology

The GCF is a specialised climate fund and therefore not directly comparable with the international funding operations of the European Commission. However, it presents an interesting case for the application of impact-based indicators and the correlations between climate and biodiversity finance on a project base. The GCF employs a tailored methodology to track and report climate expenditures, reflecting its exclusive focus on climate-aligned funding (equivalent to a 100 % Rio Marker for climate). Biodiversity aspects are also integrated through a defined set of indicators.

GCF submits comprehensive portfolio data annually to the OECD, covering all funded activities (projects and programmes) and readiness grants for the reporting year. This data is included in the OECD Creditor Reporting System (CRS) database, ensuring comprehensive coverage of GCF-funded climate finance. Reporting against Rio Markers follows the GCF results area classifications and funding percentages specified in funding proposals (section A4) approved by the GCF Board. While the GCF annually reports similar information to the UNFCCC, it does not strictly adhere to the OECD template.

In addition to external reporting, the GCF provides regular internal portfolio reports to its Board, offering updates on its climate finance contributions. These reports include the 'Final Report on the Implementation of the GCF Updated Strategic Plan 2020–2023', published annually, and the 'Status of the GCF Portfolio', presented at each Board meeting (three times a year).

Joint methodology for tracking climate change – MDBs

Each year, 10 MDBs, under the leadership of the European Investment Bank, publish a joint report on climate finance. They apply a joint methodology with differentiation between mitigation and adaptation finance. Since the approach followed by the Commission to track adaptation components is quite limited compared to climate mitigation[66], it is recommended to explore the approach offered by the 'Joint methodology for tracking climate change adaptation finance'[67]. This methodology is based on a context- and location-specific, granular and conservative approach and captures the amounts associated with activities directly linked to vulnerability to climate change. The banks try as far as possible to differentiate between their usual development finance and finance provided with an explicit intent to reduce vulnerability to climate change. Adaptation is no longer viewed purely as an add-on to development investments, but rather as an imperative for putting development on the path to resilience. Consequently, adaptation support has expanded from traditional infrastructure sectors to a wider range of sectors, such as education, health, social protection, financial services, and research and innovation for adaptation solutions. Hence, financing modalities have broadened from investment loans and programmes to other financial instruments, including policy-based loans, working capital and credit lines. There are three types of activities categorised under adaptation:

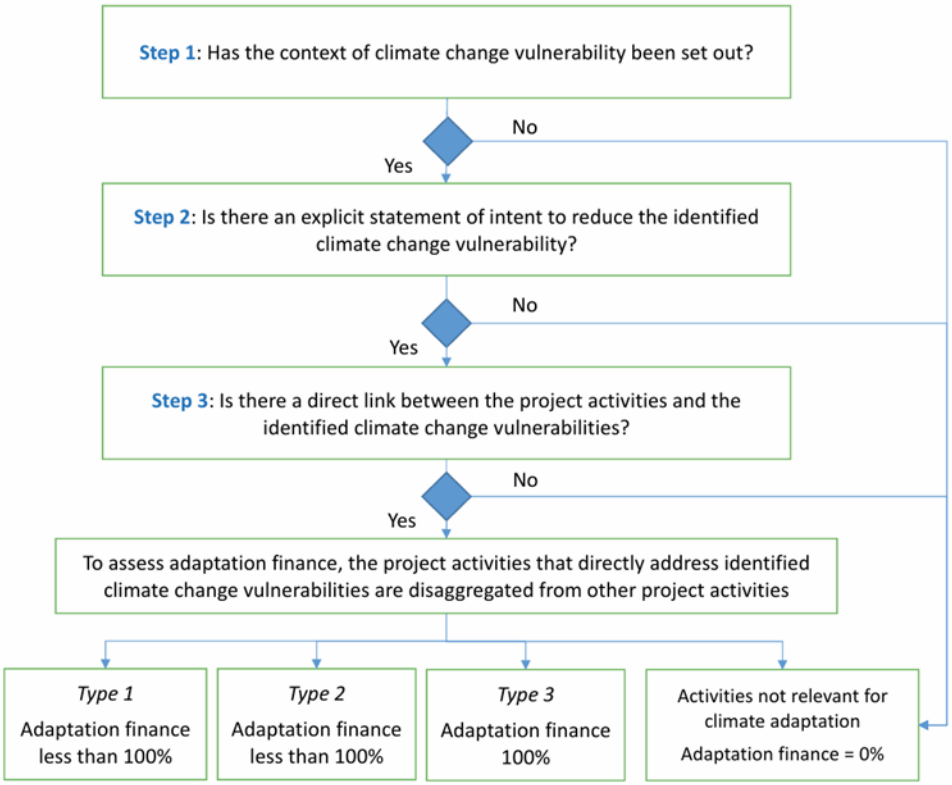
- **Type 1: Adapted Activities** – These activities incorporate measures to manage physical climate risks, ensuring the project achieves its objectives despite these risks. Adaptation is not the primary goal but is necessary for the project's success under climate impacts.
- **Type 2: Dual Objective Activities** – These activities directly address physical climate risks while building the system's adaptive capacity. Adaptation is one of the goals, developed based on an understanding of climate risks, and the activity itself is adjusted to cope with climate impacts.
- **Type 3: Enabling Activities** – These activities address systemic vulnerabilities to climate change by removing barriers like knowledge gaps, weak capacity or inadequate policies. Adaptation is the main objective, supporting broader adaptation efforts beyond the immediate project scope.

Figure 3 summarises the approach:

[66] European Commission (2022). Climate Mainstreaming Architecture in the 2021–2027 Multiannual Financial Framework.

[67] European Investment Bank (2022). Joint methodology for tracking climate change adaptation finance, Available at: Joint methodology for tracking climate change adaptation finance

Figure 3 Summary of the approach



Source: European Investment Bank (2022). Joint methodology for tracking climate change adaptation finance, Available at: Joint methodology for tracking climate change adaptation finance

Identification of potential elements for improvement

Recommendations for the MFF 2021–2027 for biodiversity, but also applicable to climate, pointed to the fact that the current EU methodologies should largely remain unchanged, except where necessary to improve accuracy, account for legislative differences or adapt to new programmes. With this, the study suggested that the Rio Markers approach should be maintained, with a stronger focus on assessing expected impacts rather than just stated objectives, which would also strengthen alignment with EU climate coefficients[68]. Another 2021 climate budgeting study highlighted issues of the methodology once ex-post evaluations were carried out: 'self-reporting by donors in the absence of independent quality control leads to considerable variation in the quality of information. An evaluation of 5 200 aid projects tagged as adaptation relevant by donors found that over 70 per cent were not clearly related to adaptation or lacked the information needed to be categorised. The proportion of projects that were "over-coded" or "greenwashed" varied from 42 per cent to 100 per cent across donors.'[69] In 2022, the European Court of Auditors published a special report revealing that in some cases, there was no evidence to justify the climate contribution made by EU spending, while in others the contribution was overstated. It disclosed that, between 2014 and 2020, the likely

[68] Nesbit, M, Whiteoak, K, et al (2022) Biodiversity financing and tracking: Final Report. Institute for European Environmental Policy and Trinomics

[69] 2021. 'Climate Change Budget Tagging: A Review of International Experience' EFI Insight-Governance. Washington, DC: World Bank

share of the EU budget that was climate-relevant was around 13 % (approximately EUR 144 billion) rather than 20 %.[70]

It is necessary to delve into possible solutions to reconcile the international commitment to utilise the Rio Markers with the need to improve the monitoring without increasing operational burdens and aligning to the main conventions by linking the tracking, monitoring and reporting mechanisms and indicators to the NBSAPs, NDCs and NAPs.

Transition from a tracking methodology based on coefficients to a methodology based on quantification of impacts and the contributions to global goals on climate and biodiversity:

To align with the latest international agreements under the CBD and the United Nations Framework Convention on Climate Change (UNFCCC), the existing climate and biodiversity finance methodologies, such as the Rio Markers and the MDBs' Joint Methodology for Climate Finance Tracking should be updated. The OECD understands these needs and develops guidance to support DAC members to adjust their practices. In general, these updates should reflect the evolving requirements and commitments outlined in these frameworks, particularly regarding tracking mechanisms and impact measurement.

Understanding the interest to incorporate impact monitoring of international finance it is recommended to look outside of the Rio Markers methodology, as this only allows financial tracking. Ex-post assessments can be informed by the practices of the OECD itself (results monitoring team), specialised funds such as GEF or GCF and, in the near future, by the tracking methodology of the Loss and Damage Fund and the Global Biodiversity Framework Fund (GBFF) currently under development. This could present an opportunity to incorporate innovative practices and lessons that could strengthen global tracking approaches. Hence, the operational structure and methodologies of such funds should be carefully monitored for insights that can inform a more cohesive and effective system of finance tracking.

In this context, the European Commission should prioritise improving the granularity of its international expenditure methodology and complementing it by additional monitoring practices. This is necessary if the objective is to measure the tangible contributions of funding towards climate and biodiversity targets, moving beyond input-based or activity-based metrics. Future developments should also focus on aligning methodologies globally to ensure comparability and aggregation of contributions towards CBD and UNFCCC goals. In this regard, the OECD stated that the Rio Markers will remain a central element of the new and forthcoming convention reporting system 'and ought to enable an automated approach to translate Rio Marker data reported to OECD DAC into a suitable format for reporting'[71]. But again, this is under the limitations of measuring intent-based funding.

Clear recommendations for the EU methodology and upcoming MFF to remain robust, future-proof, and fully aligned with international commitments:

- **Enhance granularity and harmonisation**: Build alignment with specialised funds, such as the Loss and Damage Fund and the Global Biodiversity Framework Fund, integrating best practices into the EU's tracking methodologies (to the extent possible). This means analysing the monitoring systems of these funds to identify which procedures can be easily integrated into the evaluations carried out by the Commission (e.g. via metrics and indicators).
- **Leverage impact-based indicators**: Establish measurable outcomes aligned with global frameworks, enabling transparent reporting on how funding supports ecosystem resilience,

[70] 2022. Climate spending in the 2014–2020 EU budget. Not as high as reported. European Court of Auditors.

[71] 2024. Stock Take Report on Members' Reporting Practices on Biodiversity-related Development Finance and Reporting against International Obligations. OECD. See: https://one.oecd.org/document/DCD/DAC/ENV(2024)1/REV1/FINAL/en/pdf

climate adaptation, and loss and damage mitigation. Such indicators could help fine-tune contribution claims to climate and biodiversity spending.

- **Incorporate adaptive methodologies**: Build systems for reporting contributions that are flexible enough to accommodate future adjustments in international agreements, enabling consistent and effective measurement over time.
- **Impact measurement and monitoring:** It would be beneficial to develop a complementary framework that systematically collects and links impact assessments or evaluations for each project. This could help in understanding the actual outcomes and effectiveness of the reported activities and making sure that the contributions claimed at commitment level match the contributions delivered.
- **Assessing the negative impacts of expenditure across dimensions**: The current methodology does not account for the potential negative effects arising from EU international funding. Ideally, such expenditure should be avoided. However, projects with negative impacts, such as infrastructure development or activities involving unavoidable greenhouse gas emissions, still occur and are likely to continue to some extent. While EU nature legislation and requirements within shared management programmes aim to mitigate these effects, tracking expenditure with significant negative impacts, even after mitigation, would provide a more comprehensive picture of the EU's funding impact on biodiversity and climate goals (i.e. positive – negative impacts). Implementing such tracking mechanisms, however, may require case-by-case assessments of projects, making it challenging to maintain low administrative costs. If the 'Do No Significant Harm' criterion is effectively applied, the need for tracking these expenditures might be reduced.
- **DG BUDG climate coefficients:** There is no decision yet on whether the climate coefficients will continue to exist with the 0/40/100% contribution levels in the next MFF. Regardless of whether the contribution levels align with the Rio Marker system, the difference between the intent and outcome-based systems can lead to misaligned reporting. With the climate coefficients, the same activity will always have the same contribution level, whereas in the Rio Marker system, it depends on the intended objective of the project. With the inclusion of DNSH criteria to the entire EU budget, the potential for reporting gaps between the two approaches is even larger, since the Rio Marker system does not include any DNSH criteria. Activities that do not qualify for the EU coefficients might still be 100% Rio Marker aligned. It is therefore important to diligently refer to the methodological basis in any climate and biodiversity reporting to avoid confusion.

Is it possible to avoid reporting burdens?

The answer is that avoiding reporting burdens at the Commission while maintaining robust tracking and accountability (beyond Rio Markers/OECD compliance) is challenging but achievable through strategic actions. Key measures include:

- **Integration of indicators into systems**: Embedding climate and biodiversity indicators directly into financial management and reporting systems can streamline the process, reducing manual efforts. This ensures that data collection happens automatically during project implementation rather than as a separate reporting task. It is important to understand that the Rio Markers can only account for financial allocations and impact should be measured separately.
- **Standardised guidelines for project development and monitoring**: Developing clear, standardised guidelines for designing, implementing and monitoring projects can help project managers align with reporting requirements from the outset. These guidelines should integrate Rio Markers, EU Taxonomy principles and impact-oriented metrics, ensuring consistency across all stages of a project. The 'Greening EU International Cooperation Toolbox' provides guidelines and reporting frameworks that help with international alignment and establishing a knowledge

base for future project development and monitoring. It might be useful to adapt the Toolbox to be universally applied in tandem with the Commission-wide climate coefficients in the upcoming MFF.

- **Enhanced coordination among DGs**: Improved collaboration between DGs – such as ENEST, MENA, INTPA, CLIMA and ENV – on shared priorities and methodologies can reduce duplication and ensure coherent reporting practices. Establishing joint working groups or centralised tracking tools could enhance efficiency and reduce redundant efforts.
- **Alignment with international policies and standards**: Coordinating tracking methodologies with global frameworks, such as those under the UNFCCC and CBD, ensures comparability and reduces the need for parallel systems. Learning from specialised funds (e.g. Loss and Damage Fund, Global Biodiversity Framework Fund) can provide insights for efficient, aligned methodologies.
- **Capacity building and technology solutions**: Providing training for staff and implementing user-friendly technology solutions can ensure that data input and reporting processes are simple and intuitive, reducing errors and additional workload.

2.4 Climate and biodiversity mainstreaming in EFSD+

2.4.1 Introduction to the chapter

The European Fund for Sustainable Development Plus (EFSD+) is the key financial instrument under the Global Gateway initiative, designed to promote sustainable investments across the EU's partner countries where sovereign and other public sectors are significant bottlenecks. This financial mechanism, funded through NDICI – Global Europe budget lines and IPA III in specific regions, leverages innovative risk-sharing instruments, blending facilities and guarantees to stimulate investments in sectors like clean energy, green infrastructure and health.

The introduction of EFSD was driven by the evolution of the EU from grant-making institution to one that facilitates other 'innovative' forms of financing that involve Development Finance Institutions (DFIs), IFIs and the private sector. One of the key shifts introduced with EFSD+ is the adoption of a 'Policy First approach, emphasising alignment with international frameworks and structured investment themes that mainstream climate and biodiversity. The transition also extends the geographic reach of EFSD+, moving beyond Africa and the EU Neighbourhood to adopt a global scope.

As an evolution of its predecessor, the EFSD, the EFSD+ aligns with the EU's strategic priorities, such as the European Green Deal and the Paris Agreement, by embedding a stronger focus on climate and biodiversity goals through the requirement for enhanced mainstreaming, the signalling role of targets and the monitoring role of markers.

Despite these advancements, challenges remain in aligning EFSD+ operations with the EU's climate and biodiversity commitments. While targets for climate action and biodiversity conservation have been integrated into the framework, difficulties in monitoring and measuring impacts across diverse geographies persist. Limited local presence and a risk-averse business model further complicate investments in these areas, and efforts to strengthen dialogue and link different forms of support have been limited[72]. Furthermore, the focus on traditional sectors, such as Micro, Small and Medium Enterprises (MSMEs) and infrastructure, may not adequately address funding and infrastructure

[72] European Commission, Directorate-General for International Partnerships, MacKellar, L., Massey, C., Smaïl, T. et al., European Union's external financing instruments (2014–2020 and 2021–2027). Volume I, Synthesis report, Publications Office of the European Union, 2024, https://data.europa.eu/doi/10.2841/05549

gaps in less-developed countries (LDCs) or support non-bankable investments in social and environmental sectors.

The analysis of EFSD+ in terms of climate and biodiversity mainstreaming aims to evaluate its effectiveness in delivering on these priorities in partner countries, while also identifying ways to enhance its impact. This includes assessing the measures in place to ensure that EFSD+ operations, including those involving financial intermediaries, are aligned with international commitments such as the Paris Agreement and the Global Biodiversity Framework. Additionally, the analysis seeks to determine the extent to which EFSD+ has mobilised private sector finance for the green transition, particularly in areas related to climate and biodiversity, by examining the types of financial instruments used. It also explores the potential of EFSD+ mechanisms to accurately track and identify the volume of private and green finance mobilised.

2.4.2 Identification of financial instruments in EFSD+

The European Fund for Sustainable Development Plus (EFSD+) operates through three main types of financial risk-sharing instruments: **EIB guarantees**, **open architecture guarantees**, and **blended finance**. Each of these has distinct mechanisms and purposes.

It is important to note that the EFSD+ does not technically have its own money. Instead, the money comes from different pre-allocated regional budget lines. In terms of guarantees, a certain percentage of the guaranteed amount is blocked.

Table 3 Identification of financial instruments in EFSD+

EIB guarantees	The European Investment Bank (EIB) has a significant role under EFSD+. In terms of numbers, the EFSD+ guarantee capacity originally[73] amounted to a maximum of around EUR 40 billion, of which almost EUR 27 billion was allocated to the EIB[74]. This allows the EIB to leverage EU guarantees to finance projects through multiple stages: • **Stage One:** Preliminary due diligence and project selection. • **Stage Two:** Formal review (Article 19 procedure), where multiple Directorates (DG ECFIN, DG CLIMA, DG MENA, DG ENEST, DG INTPA) review projects based on criteria like climate adaptation, gender impact and safeguards. • **Stage Three:** Legal and compliance checks before final approval and signature. These guarantees are mainly geared towards public-sector lending with some indirect private sector involvement, as the primary recipients are sovereign states or public bodies.
Open Architecture Guarantees	Unlike the EIB guarantees which are already negotiated, **open architecture guarantees** involve agreements with other Development Financial Institutions (DFIs) like Agence Française de Développement (France), KfW (Germany) and MDBs such as the African Development Bank. These guarantees are negotiated at the portfolio level rather than for individual projects. Open-access guarantees have a more flexible structure and aim to support private sector involvement in development finance, but they remain complicated due to the indirect nature of their impacts and their limited amount of information provided at portfolio level. Eligibility and compliance for these DFIs must undergo pre-assessments and audits.

[73] Given the Commission's risk assessment concerning the expected additional exposure to Ukraine, the EIB has agreed to reduce its planned utilisation of the 'EFSD+ dedicated Investment Windows limit' set out in the EFSD+ Guarantee Agreement for Window 1 from EUR 26.725 billion to EUR 26.036 billion until further notice.

[74] European Commission (2024) Draft General Budget of the European Union for the Financial Year 2025 Working document Part XI Budgetary Guarantees, Common Provisioning Fund and Contingent Liabilities (link)

	Example: Portfolio lending means that guarantees are provided to leverage loans to e.g. 'build bridges in Sub-Saharan Africa' and not on the specific project level, e.g. 'build this bridge in Uganda'. One of the key differences is the ability of DFIs to bring in private investors. However, biodiversity-related projects still face difficulties, as there is often no strong market case for private sector investment.
Blended Finance	Blended finance is another significant part of EFSD+. Unlike the guarantees, which cover broad investment portfolios, blended finance allocates specific regional budget lines to projects on a year-by-year basis. While DG NEAR operated with a centralised unit for blending, DG INTPA has three facilities, one for each sub-region: Latin America and the Caribbean, Sub-Saharan Africa and Asia-Pacific. Geographic teams work alongside thematic experts (such as those specialising in climate or biodiversity) to identify specific projects. Grants or other funds from the regional budget lines are combined with private or public investments to create more bankable projects. This method is often more project-focused and allows for direct contribution to climate adaptation, mitigation or biodiversity.

2.4.3 Workshop key results

The workshop on mainstreaming climate and biodiversity alignment within the European Fund for Sustainable Development Plus (EFSD+) underscored several critical challenges and areas for improvement, with a focus on expertise gaps among intermediaries, the applicability of green mainstreaming tools and the limitations of existing tracking methodologies. These results highlight the potential to enhance the impact of EFSD+ in meeting its climate and biodiversity goals.

One key challenge is the **insufficient availability of expertise** to properly apply green mainstreaming tools among intermediary financial institutions. Stakeholders pointed out that there is often a lack of clarity regarding which environmental safeguards are applied, as these safeguards are not part of the EFSD+ pillar assessment process. This gap indicates a need for comprehensive reforms and clearer guidelines to ensure that high-quality environmental safeguards are in place and uniformly and effectively enforced. Compounding this issue, the workshop revealed knowledge gaps among those involved in EFSD+ operations. While some experts are familiar with private sector investment processes, they often lack a deep understanding of climate and environmental policies, and vice versa. This fragmented expertise impedes the effective integration of green considerations and calls for cross-training and stronger collaboration among specialists.

A related issue is the absence of robust due diligence mechanisms. Intermediary Financial Institutions (IFIs) involved in EFSD+ projects frequently lack the capacity to conduct thorough Environmental and Social Impact Assessments (ESIAs) or implement effective due diligence measures. Moreover, they may not even have environmental safeguards in place. And even if an ESIA is conducted, concerns on the quality of such reports can remain. Additionally, lead financial institutions (FIs) also face limitations when it comes to ensuring the implementation of environmental management plans. This results in substandard assessments and inconsistent adherence to environmental standards. Given the variable levels of expertise among intermediary financial institutions, the EFSD+ must establish consistent guidance, strengthen monitoring practices, and build capacities to ensure that green mainstreaming objectives are met across all funding activities.

In addition, the workshop highlighted the limited applicability of existing EU tools for green mainstreaming in international contexts. While the EU Taxonomy was developed primarily for use within the EU and could face challenges when applied externally, tools such as Strategic Environmental Assessments (SEAs) and Environmental Impact Assessments (EIAs) have been

around for a long time. Therefore, the vast majority of countries have EIA regulations in place, and a growing number of countries also have SEA frameworks. As the EFSD+ does not include a robust environmental due diligence system, the EFSD+ must tailor and adapt these tools or develop new frameworks suited to local contexts and sustainable development needs even beyond ESIAs and SEAs. It is essential to establish clear criteria for the Do No Harm (DNH) principle, ensuring consistent transparency and alignment between internal and external funding standards.

The tracking of climate and biodiversity contributions within EFSD+ operations also faces significant limitations. Current methodologies, based on the Rio Markers, tend to focus on intended rather than actual outcomes, which can lead to an over or underestimation of contributions. More specifically, on the decision level (when the Rio Markers are allocated) only the provisioning to the EFSD+ Common Provision Fund is specified. This happens without any insight into the specific projects that will end up being financed. This is also the case for contributions to the blending facilities. This over-reliance on intentions rather than measurable impacts undermines transparency and could inflate or underestimate the perceived effectiveness of EFSD+ funding. For example, a current, more granular analysis conducted by DG NEAR on EFSD+ guarantees shows higher alignment figures than currently reported. There is a pressing need to improve tracking mechanisms to accurately reflect downstream impacts, with an emphasis on aligning with international targets such as the Global Biodiversity Framework. Enhanced granularity and precision in defining and categorising initiatives will help avoid over- or under reporting and ensure a more accurate representation of contributions.

Stakeholders further noted challenges related to the use of DG BUDG coefficients for external actions, which can widen the gap between reported and actual climate contributions. The lack of specificity and clarity in EFSD+ tracking mechanisms, particularly the broad application of the Rio Markers to large-scale commitments without considering project insights, exacerbates this issue. A more detailed and transparent tracking system is needed to enhance accountability and demonstrate the real impact of EFSD+ investments.

In conclusion, the workshop identified several key areas where the EFSD+ has potential to improve its approach to mainstreaming climate and biodiversity. Addressing expertise gaps, strengthening due diligence mechanisms, adapting assessment tools for external contexts and refining tracking methodologies are essential steps. By making these changes, EFSD+ can more effectively align its operations with global climate and biodiversity objectives, enhancing its impact and fulfilling its commitments to sustainable development.

2.4.4 Alignment approaches

The following literature has been reviewed to assess the implications for climate and biodiversity alignment measures. For this task, relevant examples have been selected such as the World Bank's 'Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New operations' and EBRD's Methodology to determine the Paris Agreement alignment of EBRD investment. Recognising that public funds alone are insufficient, the EU employs de-risking mechanisms such as blending and guarantees through EFSD+ to attract private investments. This approach is integral to the Global Gateway Strategy, which aims to enhance global connectivity and sustainable development.

World Bank: Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations

Multilateral Development Banks (MDBs) developed an approach for aligning activities with the Paris goals consisting of six building blocks:

- alignment with mitigation goals (BB1)
- adaptation and climate-resilient operations (BB2)
- accelerated contribution to the transition through climate finance (BB3)
- engagement and policy development support (BB4)
- reporting (BB5)
- alignment of internal activities (BB6)

The joint MDB methodological principles for assessment of Paris Agreement alignment provide a common technical approach for a range of financial instruments and financing types which MDBs may use. The MDB Methodological Principles are creating a framework for Assessment of Paris Alignment of Intermediated Financing. The approach assesses compliance by intermediary financial institutions which is a concern under EFSD+ where many funds are implemented through intermediary financial institutions. The Framework provides two options to assess the PA of intermediate finance: (1) Transaction-based alignment, (2) Counterparty-based alignment.

(1) Transaction-based alignment approach

The approach is based on goals BB1 and BB2, which list activities that are considered compliant or non-compliant with the objectives of the Paris Agreement.

There is a three-stage assessment process for BB1 (a), which assesses the alignment of the investments with the climate protection goals of the Paris Agreement, and a three-stage process for BB2 (b), which assesses the alignment with the climate adaptation and resilience goals of the Paris Agreement. The approach allows a simplified look to be taken at each financial activity:

- **(a): BB1 – Assessment**
- **Exclusion of Non-Compliant Activities**: Ensure funds do not support universal non-compliant activities.
- **Check for BB1-Aligned Activities**: Verify that compliant activities do not significantly impact climate change or establish carbon-intensive patterns.
- **Risk Management Measures**: Address or manage any carbon sequestration and transition risks associated with non-compliant investments, with commitments from counterparties for verifiable management practices.
- **(b): BB2 – Assessment**
- **MDB Financial Flow Risk Characteristics**: If most MDB financial flows do not reach sub-projects or borrowers facing significant physical climate risks, BB2 targeting applies automatically.
- **Risk Expectations Assessment**: The MDB will collaborate with the counterparty to gather information on potential risk exposure and evaluate if financial flows reach at-risk subprojects or borrowers.
- **Risk Management of the MDB Financing Flows**: If financial flows target sub-projects in high-risk sectors or locations, the counterparty must commit to implementing verifiable physical climate risk management practices for those sectors.

(2) Counterparty-based alignment approach

This approach is used when the Transaction-based approach (1) is not applicable or if there are insufficient counterparty capabilities. Instead of analysing individual transactions, the focus is on the counterparty's overall strategy and internal management systems. The process is as follows:

- **Regulatory Framework Assessmen**t: Check if regulations require managing physical and transition risks related to climate change.
- **Counterparty Operations Analysis**: If regulatory requirements are insufficient, evaluate whether the counterparty's new operations focus on financing activities aligned with the Paris Agreement, considering any misalignment risks as immaterial. If so, all Multilateral Development Bank (MDB) financing for the counterparty is deemed aligned.
- **Paris Alignment Path Assessment**: If neither of the above applies, alignment can still be achieved if the counterparty commits to a credible pathway toward Paris alignment.
- **Gradual Portfolio Adjustment**: Throughout the MDB investment period, the counterparty should progressively replace non-aligned activities with aligned ones.
- **Management of Physical Climate Risks**: Financial intermediaries exposed to physical climate risks must work toward improving their alignment with the Paris Agreement.
- **Transparency and Reporting**: Counterparties should commit to annual reporting on their progress in implementing their Paris alignment pathway, unless prohibited by regulations.

In some cases, it may be necessary to combine the Counterparty-Based Approach with the Transaction-Based Approach to assess the Paris Alignment. As counterparties gain experience and their capabilities improve, the counterparty-based approach may replace the transaction-based approach over time.

EBRD: Methodology to determine the Paris Agreement alignment of EBRD investment

The EBRD high-level framework (or methodology) determines whether an investment or technical cooperation activity project the Bank might finance is 'aligned' or 'not aligned' with the mitigation and adaptation goals of the Paris Agreement. The framework consists of three parts:

- directly financed investments (1)
- indirectly financed investments with partner financial intermediaries (2)
- financial instruments used by the EBRD (3) which are not otherwise covered by (1) and (2)

The EBRD's approach to determine the alignment of its investment projects with the Paris Agreement is methodologically grounded in the joint MDB alignment framework.

(1): directly financed investments

Conditions for Projects:

- Consistency with Long-Term Low-Carbon Development: Projects must align with the goals of the Paris Agreement.
- Low Likelihood of Carbon Sequestration: Projects should not allow emissions-intensive assets to continue operating when lower-carbon alternatives are available.

EBRD Two-Stage Filtering Process:

- General Screening: Compare projects against 'compliant' and 'non-compliant' lists created by multilateral development banks (MDBs). Projects on the 'compliant' list are deemed compliant; those on the 'non-compliant' list are classified as non-compliant. Consider criteria from the EU

taxonomy for sustainable activities that significantly contribute to climate change mitigation. Projects with financing of EUR 5 million or less are considered compliant if they are not in emissions-intensive sectors.

- Specific Assessment: For projects that do not meet compliance in the general review: Evaluate based on nationally determined contributions (NDCs), long-term strategies (LTSs), and other policy frameworks. Review low-carbon development pathways (LCPs), including relevant benchmarks and criteria. Apply carbon sequestration tests. For projects with significant greenhouse gas emissions, conduct an economic test using a shadow price for carbon.

(2): indirectly financed investments with partner financial intermediaries

Unlike directly funded investments, where the EBRD has control over the use of the funds and can evaluate specific investments, indirect funding requires an approach that considers both the nature of the sub-transactions and the broader activities of the Participating Financial Institution (PFI). The strategy aims to promote systemic change in the PFIs with which the EBRD works and to ensure that their financial flows are progressively aligned with the objectives of the Paris Agreement. The definitions of the four pillars are as follows:

- **Pillar 1: Counterparty Commitment to the Paris Agreement**
- EBRD counterparties, known as PFIs (Participating Financial Institutions), must commit to aligning their financial flows with the Paris Agreement's goals.
- **Pillar 2: Sub-Transactions Filter**
- PFIs must meet minimum requirements to ensure that projects financed by EBRD proceeds are structured to align with Paris goals. This includes adherence to the Bank's Environmental and Social Policy and fossil fuel exclusions as specified in its Energy Sector Strategy.
- **Pillar 3: Counterparty Assessment**
- PFIs will be evaluated on their climate-related business practices in comparison to leading market and regulatory standards, assessing how well their financial flows align with the Paris Agreement.
- **Pillar 4: Transition Plan**
- PFIs are required to develop and implement transition plans that demonstrate progress toward aligning their practices with advanced climate-related standards. This progress will be monitored against specific, time-bound milestones.

(3): financial instruments used by the EBRD not otherwise covered by (1) and (2)

For a minority of investment types, however, Paris alignment determination is not possible using the approaches set out in sections (1) and (2).

These investment types include:

- Non-specific Investments: Investments not tied to specific capital expenditures or identifiable economic activities.
- Unclear Use of Proceeds: Financing where the use of funds cannot be clearly defined at the approval stage.
- Multiple Activities: Financial flows linked to several investment activities, making individual assessments impractical.
- Equity Stakes: When EBRD takes an equity stake in a corporate counterparty.
- Debt/Equity Funds: Investments in funds where EBRD has direct exposure to underlying sub-transactions.
- Donor Financing: Financing managed by EBRD to support investments, including grants or concessional financing for projects.

In general, if the EBRD's funding is not linked to specific capital expenditures, economic activities or assets (or if it is not possible to assess them), the determination of Paris-compliance will be based on an assessment of the counterparty's activities. The assessment is carried out in a two-step process:

- **Step 1: Assess Non-Compliant Activity Risk**
- Evaluate the counterparty's potential to finance non-compliant activities. If primarily engaged in low-risk activities, classify the investment as compliant; otherwise, proceed to Step 2.
- **Step 2: Alignment with the Paris Agreement**
- Check if the counterparty has measures to align financial flows with the Paris Agreement (based on pillars 1, 3 and 4). If compliant, classify the investment as compliant; if not, the counterparty must commit to alignment measures, with progress assessed against time-bound milestones.

Conclusion and key challenges

Climate and biodiversity are major thematic areas within EFSD+, however, aligning them with financial instruments currently remains a challenge. Biodiversity projects are especially difficult to support due to the lack of market incentives and the lack of clear and enforceable biodiversity targets. Guarantees, in particular, have limited impact here, as biodiversity often lacks the short-term financial return to attract private sector interest. For adaptation, private sector is sometimes unable to capture the environmental and social benefits that result from their investment which generate unfavourable risk return profiles. The structure of EFSD+ is better suited for areas like infrastructure, where there is a clearer business case.

Climate-related projects benefit more than biodiversity-related projects, especially under blended finance, where direct contributions can be tracked. For instance, if a project is 100 % dedicated to climate mitigation, it can be counted in full towards the EU's climate targets. However, guarantees are more challenging because the financial contributions from the EU are indirect.

A main implication for EFSD+ from the October expert workshop is the need for more effective integration of climate and biodiversity goals within geographically oriented funding. This requires balancing local ownership with environmental priorities, improving investment attractiveness and adopting flexible geographic approaches. Furthermore, the link to the implementation of the National Biodiversity and Action Plans (NBSAPs) should be strengthened through implementation support. This can also happen in the form of technical assistance in less developed countries and is a way to ensure ownership and alignment with the Kunming Montreal Global Biodiversity Framework (KMGBF). Expertise gaps in green mainstreaming tools among intermediaries highlight the need for better training, clear guidance and due diligence mechanisms. EFSD+ should also recognise the limits of EU-centric tools like the Taxonomy and adapt assessment processes to fit international contexts, focusing on tailored tools and the Do No Harm principle. Finally, EFSD+ must enhance tracking methodologies to accurately measure real impacts, ensuring transparent and effective reporting aligned with evolving international targets.

The Paris alignment methodologies employed by the World Bank and the European Bank for Reconstruction and Development (EBRD) highlight potential implications for further aligning the European Fund for Sustainable Development Plus (EFSD+) with the goals of the Paris Agreement. Both institutions utilise detailed frameworks to ensure that their financial flows contribute to climate mitigation and adaptation objectives, emphasising both direct and indirect investments.

For EFSD+, adopting a structured approach like the World Bank's and EBRD's methodologies can enhance its ability to deliver on Paris alignment. The use of transaction-based and counterparty-based assessments can ensure that EFSD+ investments align with mitigation goals, avoid supporting carbon-intensive or non-compliant activities, and include mechanisms for risk management in high-risk sectors. By setting clear requirements for IFIs to manage and report on

climate risks, EFSD+ could better ensure that funds are directed toward resilient and low-carbon development pathways.

Additionally, aligning with the EBRD's framework, EFSD+ could further encourage counterparties, especially financial intermediaries, to commit to transition plans and undergo regular assessments of their practices in relation to climate goals. This could involve screening projects against compliance criteria, ensuring adherence to fossil fuel exclusions, and requiring transition plans with specific milestones for climate alignment. Transparency in reporting and progressive adaptation of financial flows to align with the Paris Agreement can further bolster accountability and impact.

Overall, the key implications for EFSD+ are the need for comprehensive, multi-layered assessment processes, clear exclusion criteria for non-compliant activities, capacity-building among financial intermediaries and consistent monitoring to ensure ongoing alignment with global climate goals. These implications can potentially add to the already existing alignment measures. Based on the analysis conducted so far, the following challenges and implications for EFSD+ were identified:

- **Market Gaps for Biodiversity:** Identifying a market or business case for biodiversity often remains difficult, and guarantees do not effectively address this issue. Guarantees typically cover specific risks or events within a defined timeframe. The unpredictable nature and long-term horizons of biodiversity projects make it difficult to define specific risks and timeframes for guarantees. Blended finance can offer more flexibility, but grant-based financing remains crucial for biodiversity projects that lack (initial) bankability.
- **Complex Reporting:** For guarantees, only a fraction of the leveraged funds can be counted towards climate or biodiversity targets, which complicates reporting to international bodies like the OECD.
- **Market Demand and Bankability**: Private sector investment requires a clear business case. Many areas, particularly **biodiversity**, often lack this. Without revenue-generating potential or a market mechanism (e.g. for carbon sinks), private investors are less inclined to participate. To increase the bankability of particularly smaller projects, such projects could be pooled **–** e.g. based on region, thematic grouping, sector, type of ecosystem service provided – to increase bankability, de-risk and increase the return of such projects.
- **Indirect Involvement**: In **EIB guarantees**, the lending is primarily sovereign, meaning direct private sector involvement is minimal. While private finance can be indirectly mobilised through infrastructure investments or public sector projects, tracking and reporting this indirect mobilisation is difficult.
- **Blended Finance Complexity**: Blended finance is more project-focused and can involve the private sector directly. However, the annual budgeting and project-specific allocations make it complex and less predictable for private investors, who prefer stable, long-term frameworks.
- **Risk and Return Mismatch**: The **risk profile** of many development projects, particularly in low-income regions, may not align with the return expectations of private investors. Guarantees and blended finance help mitigate risks, but they are not always sufficient to attract large-scale private sector involvement.
- **Limited Scale for Guarantees**: The EUR 40 billion mobilised under EFSD+ through guarantees is mostly **public sector** lending. Although open-access guarantees involve Development Financial Institutions (DFIs) that can partner with the private sector, the overall volume of private sector finance mobilised is still limited compared to public sector commitments.

3 ANALYSIS AND PROPOSALS FOR GREEN EXCLUSIONS

The objective is to map and assess current exclusions for international actions and develop concrete recommendations for future exclusions. To this end, first, the study team have developed a typology for exclusions and assessed the strengths and weaknesses of each and for certain types of investments. Furthermore, the team have analysed the effectiveness of current exclusions for EU external funding, and proposed recommendations for the future MFF based on maximising coherence, effectiveness and efficiency, guided by a general international framework for setting green exclusions.

3.1 Introduction to the chapter

Box 3 Definitions

Green exclusions are understood as specific elements directly listed in a fund's legal and official documentation that are ineligible to receive funding because they are deemed harmful to the environment and to climate change.

Exceptions can be established for exclusions in a fund's scope, indicating specific circumstances or conditions under which excluded activities or 'parts' of these activities could be eligible for funding. Similarly, **exemptions** are legal derogations of the obligation of complying with the exclusion system established under a specific fund for specific actions and investments. These exemptions can prevent unwanted derived effects.

Exclusions are a 'soft' economic policy tool, reflecting a preference by the European Commission but not legally binding for other funders. Therefore, while these investments may not be eligible for EU funding, they remain legal activities.

Exclusions are also a **mainstreaming tool** that interacts with other such tools, ideally in a complementary way. The effectiveness of exclusions depends on how they fit within the broader mainstreaming framework of a given fund. When used effectively, exclusions can:

- Reduce administrative costs by eliminating the need for further assessments, particularly if they are consistently applied across all relevant funding schemes.
- Prevent unexpected rejections of funding proposals, as exclusions provide clarity from the outset, unlike other tools that require case-by-case assessments.
- Serve as 'soft' policy tools that can raise ambitions by excluding investments that do not meet certain standards or performance thresholds.

3.2 Typology for exclusions

Exclusions can be implemented in various ways. For example, some exclusions are straightforward, meaning that the nature and conditions for the exclusion and exemption are spelled out and do not require extensive interpretation. For example, a straightforward exclusion could be 'investments in disposal of waste in landfills', but not 'investments in disposal of waste in landfills which can be expected to harm the environment'. In the second case, the conditions for categorisation may be ambiguous and unclear given that negative climate and environmental impacts of investments are often context-dependent, especially at for EU external funding.

Table 4 shows a classification system for exclusions and exceptions that has been developed for this study, including existing and/or hypothetical examples for each that would be relevant to EU external funding.

Table 4 Classification of exclusions and exemptions

Name	Definition	Examples
Exclusions		
Nature of the activity	Excludes investments in any activity, sector or technology based on its inherent nature, when it poses harm to the climate and environment, or would withhold the achievement of EU objectives or targets. This could be seen as the most cost-effective form of ensuring responsible funding but can be difficult to implement in practice.	Exclusion of measures that promote investments in fossil fuels, as is provided in the NDICI regulation. Another example would be excluding financing support to illegal, unreported and unregulated fishing.
Performance-based	Exclusions based on defined thresholds for the impact on the climate or environment of the activity (e.g. greenhouse gas emissions per unit).	Excluding funding for investments into electricity generation from natural gas with emissions higher than 250 gCO_2/kWh
Benchmark-based	Based on comparison with similar activities, excluding those which are not considered to be among the best-in-class from an environment and/or climate perspective.	Excluding funding for Large Combustion Plants which are not considered to be best available technologies[75].
Relative improvement of the activity	Excluding activities which do not lead to a set minimum improvement threshold.	Excluding funding for building renovation that does not lead to at least a 30 % reduction of primary energy demand.
Practice-based	Excluding activities which do not follow a set of practices which are considered best practice (e.g. qualitative criteria, a code of conduct, certification by an EU scheme).	Excluding funding for investments in afforestation which are not in line with sustainable forest management principles and the Guidelines on Closer-to-Nature Forest Management or the Guidance on payment schemes for forest ecosystem services, depending on the type of support.
Process-based	Excluding funding for activities which do not have a set of actions or points in place that need to be addressed.	Excluding funding for investments in 'anaerobic digestion of bio-waste' if no leakage monitoring plan is in place. Other examples could be excluding funding for waste-to-energy systems if waste avoidance protocols are not in place or excluding funding for desalination unless non-revenue water issues are addressed.
Location-based	Excluding funding for activities based on their location.	Excluding funding for activities in or near sites of the Alliance for Zero Extinction (AZE), natural and mixed sites on the UNESCO World Heritage List and legally protected areas (IUCN categories), unless they are specifically aimed at enhancing biodiversity in those regions.
Mainstreaming tool based ***Out of scope for this task.***	*Excluding funding for activities which have been considered harmful from an environment and/or climate perspective following a specific assessment.*	*Excluding funding for activities which are considered to do harm after a specific DNH assessment was conducted.*

[75] See here for an overview of sectors and activities for which 'best available technologies' (BAT) are defined: https://eippcb.jrc.ec.europa.eu/reference

Name	Definition	Examples
Exceptions or exemptions to the exclusions		
Location-based	An exception for an exclusion which is granted based on the location of the activity.	Excluding finding for investments in airport construction except for in outermost regions.
Potential future developments of the activity	An exception from a broad exclusion which is granted under a 'moderate contribution' heading, even if the activity is not contributing to climate and biodiversity targets immediately but is expected to do so in the long term.	Exception granted to building new roads which in principle do not contribute to climate and biodiversity targets immediately but can contribute in the long term if they are designed to support sustainable transportation systems to be introduced in the future via dedicated lanes for electric buses and bicycles.

Assessment of types of exclusions

Appendix 2 – Annex 5 discusses advantages and disadvantages for each of the identified types of exclusions, with the aim to provide insights on which types may work well, or not, for international action. Building on these results, Table 5 presents an analysis of the performance level of each type of exclusion for the different criteria selected, and proposes suitable types of investments, measures or actions for which each exclusion type can be used.

Table 5 Overview of performance of types of exclusions and description of relevant investments

Type	Context-dependency/universality	Administrative costs	Clarity for applications	Raising ambitions	Main features of investments, measures or actions that could best be excluded per type of exclusion
Nature of the activity					• For investments where there is universal agreement on negative environmental/climate impacts, no matter the context. • For investments where even the setting of conditions (e.g. minimum performance thresholds) would still lead to negative impacts.
Performance-based **Benchmark-based**					• For investments where there is strong certainty that if they do not meet certain thresholds this would have negative environmental/climate impacts, no matter the context. • For investments where clear performance targets or parameters are defined and for which there are operable monitoring systems.
Relative improvement of the activity					• For large-scale investments with high context-dependency (aiming for proportionality of administrative burden). • For investments/contexts where it is challenging to define a fixed performance target across all partner countries.
Practice-based **Process-based**	Uncertain	Uncertain	Uncertain		• For investments where high-quality, clear practices/processes exist, which also take case-by-case contexts of investments into account. • Potentially this can be linked to trusted labels/certification schemes.
Location-based					• For exclusions based on environmental location considerations: for investments where there is strong certainty that a potential environmental/climate negative impact would only arise if they are performed in specific locations. • For exclusions based on socio-economic location considerations: for investments where the level of ambition may be considered too high in specific contexts.

Legend: Red/amber/green: Low/medium/high positive relevance with the criterion

3.3 Current exclusions in EU international funding

Table 6 below lists existing green exclusions and exceptions in Article 29 of the NDICI regulation. The legal documentation of IPA III, EFSD+, Humanitarian Aid and the OCT-DOAG do not include fund-specific provisions for green exclusions. However, the provisions of Art. 19 of the NDICI Regulation are meant to act horizontally, so are also appliable to EFSD+ and IPA III[76]. Interviews also showed that NDICI exclusions guide funding from Humanitarian Aid or OCT-DOAG, although no legal provisions are included.

Table 6 Exclusions under the NDICI regulation (Article 29)

Exclusion	Type of exclusion	Topical cluster	Exception/Exemption to the exclusion
Actions or measures which are incompatible with the recipient country's Nationally Determined Contribution (NDC) under the Paris Agreement	Practice-based	Climate change mitigation and adaptation	Unless such actions or measures are strictly necessary to achieve the objectives of the Instrument and they are accompanied with appropriate measures to avoid, prevent or reduce and, if possible, off-set these effects, including support to phase out environmentally harmful fossil fuel subsidies.
Actions or measures that promote investments in fossil fuels	Nature of the activity	Climate change mitigation	
Actions or measures that, according to the environmental screening and impact assessment, cause significant adverse effects on the environment or the climate	Practice-based	Other	

The exemption outlined in the last column of Table 6 responds to the DG's different focus areas, which make it difficult to find common ground for a unified approach. Each DG has certain fields and activities that they would still want to finance under a 'moderate contribution' heading. The exception can be categorised under 'Potential future developments of the activity', based on the typology explained above, as it may include activities that do not contribute to climate or biodiversity targets immediately but will potentially in the long term.

The findings of this study suggest that the current exclusions do not reach their objective effectively, namely avoiding funding of interventions with harmful environment and climate impacts. This is due to a lack of clear guidelines and/or criteria on how to implement these exclusions and their derogations, leading to ambiguity in interpretation and exclusions. Exclusions, therefore, act more as 'guiding principles' which can be circumvented without having to provide specific reasons.

Moreover, when investments are implemented through different intermediaries and/or financing institutions, these are under very indirect scrutiny by the EC, and it is particularly difficult to ensure positive (or at least not negative) environmental and climate effects from the funding.

Finally, many interviews suggest that there is a high number of instances where the obligatory Environmental Impact Assessments (EIA) are of poor quality. This further renders the current exclusions – namely the third exclusion (see Table 6) – less effective since only well-conducted EIAs can unveil potential 'significant adverse effects on the environment or the climate' which

[76] Art. 16 of the Annex to the Commission Decision of 31.3.2022 establishing a model for a financial framework partnership agreement between the Commission and the government of an IPA III beneficiary indicates that 'IPA III assistance shall be implemented in accordance with Art. 9 of the IPA III Regulation and Chapter III of Title II of the NDICI Regulation' (C(2022)1857 final).

then could be avoided. Similarly, Environmental and Social Management Plans (ESMPs) are often not well implemented and no adequate follow-up is provided by the financial institutions.

Evidence from other actors

Appendix 2 – Annex 6 illustrates the current lists of green exclusions and exceptions of three other key international financing institutions (AFD, the EIB and the International Finance Corporation of the World Bank Group) based on ethical or regulatory criteria and arising from the application of normative requirements as well as their strategic choices. The comparison of excluded items between the three institutions showcases that, although most items are equal or similar for both, there are some differences in what activities are considered detrimental to the extent of being banned from eligible funding (e.g. projects in the mining sector). These differences bring up the question of whether coherence should be prioritised by setting a universal exclusion list applicable to all IFIs, MDBs or any type of ODA.

Among other international development organisations, the UN Environment Programme (UNEP) is actively engaged in multilateral efforts for subsidies reform, focusing on phasing out subsidies for fossil fuels and unsustainable fisheries, both of which strongly feature on the WTO Doha agenda. For energy subsidies, UNEP aims to align fiscal incentives with sustainable development and collaborates with the International Energy Agency. Regarding fisheries subsidies, UNEP addresses the declining sustainability of global fishery resources, supporting countries in meeting trade-related targets under SDG 14, which includes regulating illegal fishing and eliminating harmful subsidies. UNEP also promotes new market-based approaches, such as implementing sustainability certification schemes, to improve the sustainability of fisheries.

3.4 Recommendations for future green exclusions

Exclusions are a soft policy tool designed to reduce subsidies and investments deemed harmful, and they should be implemented in a coherent and efficient manner. The following are a series of suggestions to be considered in the future programming of green exclusions for EU external funding:

- **Alignment with EU domestic policies**: Although intra-European exclusion lists cannot strictly apply to all partner countries with very different needs, circumstances and legal frameworks[77], the EU should still strive for applying domestic Union green policies and strategies, including general principles and approach for green exclusions, in external investments. This is important for coherence of the EU budget, for not 'undoing' through external investments the negative impacts avoided through internal investments, and to avoid contributing to locking in partner countries in unsustainable development pathways.
- **Specific considerations for Global Gateway investments**: Potential future exclusions should be guided by the foreseen outlook of the EU international action strategy. Specifically, the expected prevalence of the Global Gateway Strategy and its accompanying emphasis on investments, including large-scale investments, for infrastructure projects, as well as sectors such as critical raw materials, which entail significant environmental risks, thus have implications for exclusions. For EFSD+ and guarantee investments, clear guidelines for the application of exclusions and derogations, in particular directed to

[77] For example, while the EU domestic circular economy model for waste management is to be favoured, some form of investment in incineration or landfill related investments might lead to address short-term challenges of public health and methane emissions, particularly in new EU Member States or candidate countries who might not have fully aligned with EU standards.

Another example to consider in new EU MS transition economies to join the framework of the next MFF is that these may have investment needs that are likely to lead to an increase of GHG emissions (e.g., greenfield investments or development of new economic activities as part of the accession). Hence, these would potentially not be in line with EU domestic exclusions based on relevant DNSH criteria. Moreover, these additional GHG could not be always compensated if projects are to remain bankable.

intermediary financing institutions that implement these, would increase effectiveness and transparency. In addition, this study recommends a simple environmental screening and due diligence system on investment pipelines (see Chapter 4). Lastly, mandatory training for all staff in Delegations to ensure there is enough technical understanding and capacity to support (and push for) the adequate implementation of such exclusions and procedures.

- **Fund-agnostic exclusions**: As mentioned above, Art. 29 of the NDICI regulations is applicable and/or guides investments from other external financing instruments. DGs have expressed interest in a taxonomy or an exclusion list of eligible activities to make assessments and reporting easier. This approach would bring coherence to the EU budget, allowing for specific derogations for each instrument due to varying scopes and priorities. For instance, if human lives are at immediate risk, exception rules may be needed to facilitate short-and mid-term aid without adhering to stricter spending restrictions that take climate and biodiversity targets into account.
- **Granularity of exclusions**: Future exclusions could be tied to specific thresholds, benchmark criteria, a code of conduct or certification by an EU or international framework scheme where possible and applicable. In particular, the lack of guidance to implement NDICI derogations can be addressed in the next MFF by defining clear criteria for the exemptions or by including a protocol through which derogations need to be justified. This could draw inspiration from the application of the Guidance document on Article 6(4) of the 'Habitats Directive' 92/43/EEC[78], for which there is guidance and jurisprudence for justifying claims to Imperative Reasons of Overriding Public Interest (IROPI). Box 4 below explores a potential approach to enhancing the granularity of exclusions.

Box 4 Process-based exclusions or 'last-resort solutions'

Our analysis on types of exclusions (see Table 5) shows that process-based exclusions (also referred to as 'last-resort solutions') could be most effective for EU international investments with notable environmental risks where clear 'improvement' processes already exist and take case-by-case contexts of investments into account. Clear criteria and examples of such exclusions could be included in the fund legal documents, and where possible linked to trusted labels/certification schemes. Some propositions are:

- **New Mining projects** – Should only be funded if sustainable alternative materials have been fully explored, reducing dependence on newly mined resources. Moreover, these projects should not be funded unless circular economy measures have been maximised (e.g. material recovery, recycling and urban mining), responsible sourcing and traceability mechanisms as well as stringent environmental and social safeguards are in place, including free, prior and informed consent of Indigenous and local communities.
- **Flood protection via Hard Infrastructure** (e.g. dams, levees) – Should only be funded if nature-based solutions (e.g. wetland restoration, floodplain reconnection) have been explored and implemented where feasible.
- **Large-Scale Hydropower plants** – Should not be funded unless environmental flow requirements and alternative renewable energy sources (e.g. wind, solar) have been considered and integrated to minimise ecosystem disruption.
- **Carbon Capture and Storage (CCS) for fossil fuel plants** – Should not be funded unless energy-efficiency measures and renewable energy alternatives have been fully explored and implemented to reduce emissions at the source.
- **Waste-to-Energy (WTE) Plants** – Should not be funded unless waste prevention, reuse, and recycling measures have been maximised, and it is demonstrated that the WTE facility will not undermine circular economy goals.
- **Desalination plants** – Should only be funded if non-revenue water (NRW) reduction, water conservation and efficiency measures (such as leak detection and repair programmes) have been effectively implemented.

[78] European Commission (2007). Guidance document on Article 6(4) of the 'Habitats Directive' 92/43/EEC. Clarification of the concepts of: Alternative solutions, imperative reasons of overriding public interest, compensatory measures, overall coherence, Opinion of the Commission. [Link]

- **New landfills** – Should only receive funding if waste prevention, separate collection and recycling infrastructure have been effectively implemented to minimise landfill dependence.
- **Airport expansions –** Should only be considered if rail and low-carbon transport alternatives have been fully explored and supported to reduce short-haul flights.

- **Alignment with multilateral environmental frameworks (MEAs)**: Another important yardstick for proposing future exclusions is the extent to which certain EU investments will be detrimental to objectives of international frameworks ratified by the EU. To this end, this study has assessed the most relevant provisions related to eliminating or repurposing harmful incentives (see Appendix 2 – Annex 7). For instance, Goal D of the KMGBF states that financial resources aimed at closing the biodiversity finance gap should be aligned with the KMGBF, its 2030 targets and 2050 Vision. Most notably:
  - Target 18 of the post-2020 Global Biodiversity Framework (GBF) proposes to eliminate and/or repurpose **incentives harmful for biodiversity**, reducing them by at least USD 500 billion per year, while ensuring that incentives, including public and private economic and regulatory, are either positive or neutral for biodiversity. Organisations such as IUCN[79] and the OECD[80] are working towards the implementation of such target.
  - Target 19 calls for mobilising USD 200 billion per year for biodiversity from all sources, including USD 30 billion per year by 2030 through international finance from developed countries.
- **Synergies and coherence with transition finance**: In areas or actions for which substantial finance was being allocated beforehand (e.g. fossil fuel support), simply eliminating or removing finance will likely not lead to the desired results. In such cases, exclusions should be visibly complemented by a **package of measures that ensure a gradual transition and mitigate the downside risks of reform**, such as fossil fuel phase out measures. Financing high-quality and tailored climate and biodiversity transition finance strategies in partner countries is key to ensure successful results and both public and institutions acceptance of exclusions. This includes compensatory measures to address distributional impacts of exclusions, especially in recipient countries with higher inequality.
- **Adjusting the internal use of the Rio Markers**: As outlined in Chapter 2.3, this approach together with including exceptions for certain DGs and actions would allow greater flexibility and support for transition finance in partner countries with different levels of development. Instead of relying on a one-size-fits-all solution, this approach could help prevent inconsistencies with the application of the OECD Rio Markers as prescribed, given that their coefficient approach may miss the long-term sustainable potential of some interventions.

Specific sectoral recommendations

The SDGs are directly undermined by approximately USD 1.25 trillion in annual explicit subsidies to the fossil fuel, agriculture and fishery sectors[81].

- **Fossil fuels**:

[79] See: Reforming subsidies to support the Post-2020 Global Biodiversity Framework - resource | IUCN

[80] Matthews, A. and K. Karousakis (2022), 'Identifying and assessing subsidies and other incentives harmful to biodiversity: A comparative review of existing national-level assessments and insights for good practice', *OECD Environment Working Papers*, No. 206, OECD Publishing, Paris, https://doi.org/10.1787/3e9118d3-en.

[81] Damania, Richard; Balseca, Esteban; de Fontaubert, Charlotte; Gill, Joshua; Kim, Kichan; Rentschler, Jun; Russ, Jason; Zaveri, Esha. 2023. Detox Development: Repurposing Environmentally Harmful Subsidies. © Washington, DC : World Bank. http://hdl.handle.net/10986/39423 License: CC BY 3.0 IGO

- Although evidence shows that eliminating fossil fuel subsidies is an imperative first step towards addressing pervasive environmental externalities[82], this might not significantly reduce their consumption if alternative options are unavailable or unfeasible (as is the case in several EU partner countries). Even without direct 'explicit' subsidies, fossil fuel prices fail to account for the extensive societal and environmental damage (externalities) they cause, and political reality imposes a limit on how far energy prices can be raised[83]. Thus, EU external investments should prioritise **complementary investments to ensure the availability and affordability of clean alternatives** for hard-to-abate sectors (e.g. public transportation), while considering carbon lock-in effects and addressing information and capacity constraints, as well as influencing behaviour.
- Nevertheless, strictly excluding the most emission-intensive energy sources from transition finance eligibility strengthens the credibility of transition finance frameworks. In all cases, distributional impacts of exclusions on lower socio-economic groups and vulnerable populations should be addressed, especially in recipient countries with higher inequality. The parallel domestic mainstreaming study proposes exclusions for the energy sector, which could also apply to or guide EU external investments.

- **Fisheries**: In June 2022, the EU ratified the Agreement on Fisheries Subsidies at the WTO 12th Ministerial Conference. The treaty prohibits subsidies to illegal, unreported and unregulated fishing and fishing on overfished stocks and in the unregulated high seas. Today, WTO members are aiming to implement more stringent rules on financing overfishing and overcapacity. However, reforming fisheries subsidies may have little impact given the prevailing quasi-open-access regimes with inadequate harvesting management[84]. Therefore, potential exclusions should be accompanied by **increased controlling access** and **proportionality measures** to avoid adverse distributional effects on small-scale fishers.
- In **agriculture**, eliminating or repurposing subsidies for unsustainable agricultural practices has been shown to lead to significant improvements in terms of freeing up land for restoration to natural habitat and decreasing agricultural emissions[85]. Investments should be redirected to technologies that enhance productivity while reducing emissions and improving biodiversity and climate resilience.

[82] By one estimate, removing explicit fuel subsidies globally would result in an up to 4 percent net reduction in global greenhouse gases by 2030 (Jewell et al. 2018). The high implicit subsidy associated with the use of fossil fuels provides strong evidence in support of eliminating the subsidy (IUCN Policy Brief, 2022). Another supporting argument is that fossil fuel subsidy reforms are pro-poor since richer households consume significantly more energy than poorer ones.

[83] The International Monetary Fund (IMF) calls this failure to price externalities 'implicit subsidies' to fossil fuels (Parry, Black, and Vernon 2021). The IMF estimates the cost of these implicit fossil fuel subsidies at USD 5.4 trillion in 2020, with local air pollution and global climate change impacts constituting more than 75 percent of the total.

[84] Damania, Richard; Balseca, Esteban; de Fontaubert, Charlotte; Gill, Joshua; Kim, Kichan; Rentschler, Jun; Russ, Jason; Zaveri, Esha. 2023. Detox Development: Repurposing Environmentally Harmful Subsidies. © Washington, DC : World Bank. http://hdl.handle.net/10986/39423 License: CC BY 3.0 IGO

[85] Madhur Gautam et al., 'Repurposing Agricultural Policies and Support: Options to Transform Agriculture and Food Systems to Better Serve the Health of People, Economies, and the Planet', 2022, https://openknowledge.worldbank.org/handle/10986/36875

4 TOOLS TO MAINSTREAM CLIMATE AND BIODIVERSITY CONSIDERATIONS INTO EU INTERNATIONAL FUNDING INSTRUMENTS AND PROGRAMMES

The objective of this chapter is to identify the relevant mainstreaming tools for climate and biodiversity in EU international funding, challenges in their design or deployment and possible solutions to overcome these challenges. Special attention is paid to the Do No Harm (DNH) principle, how it is currently being applied in EU external funding and how the deployment of this principle may be improved in the context of the next MFF.

4.1 Introduction to the chapter

This chapter looks into the set of tools that is available for policymakers to mainstream climate and biodiversity objectives into EU external funds. The tools we focus on here are related to **greening the activities that are being funded and their impacts**. Some of the topics covered in this report could also be considered as a mainstreaming tool, such as setting priorities, formulating spending targets and defining exclusions. These tools are more 'upstream' as they precede the activities and are not part of the analysis of this chapter. **Special attention is given to the DNH principle** and its relationship to the Do No Significant Harm (DNSH) principle that is being applied in EU domestic funds. Whether DNH is a tool by itself or more of a principle that is being deployed through other tools is actually a matter of discussion, to which we revert in this chapter as well.

For both the tools within scope and the DNH principle, we assess the **experiences of stakeholders in using them in practice**. In doing so, we identify the **main challenges** that arise in their deployment. These challenges can be related to the design and working principles of the tools themselves, but also to the context in which they are used, or the processes in which they are embedded. Based on extensive stakeholder consultations, we discuss **possible options to address the identified challenges and formulate concrete recommendations** on strengthening the EU's green mainstreaming framework for external funds in this respect. In this chapter, we focus on climate and biodiversity mainstreaming of geographical programmes funded in line with the NDICI regulation, as the challenges are more outspoken here than in the pre-accession context.

This chapter starts with an **analysis of the relevant climate and biodiversity tools for EU external funds**. These tools are first identified and mapped, including their mutual relationships and their position within the budgeting cycle. We then proceed to identifying the main challenges. Here, we distinguish general challenges for green mainstreaming and challenges specifically related to mainstreaming biodiversity, as it turns out that the latter faces some particular complications. Next, we propose recommendations for addressing the challenges, again distinguishing green mainstreaming in general and mainstreaming biodiversity. The last part of this chapter looks into **the DNH principle**. We first describe the current use of this principle in EU external funding, and then discuss some perspectives for a more targeted deployment in the next MFF.

4.2 Analysis of climate and biodiversity mainstreaming tools for EU external funds

4.2.1 Identification and mapping of the relevant mainstreaming tools

For the international funds within scope, we identified relevant green mainstreaming tools from two categories. The first category consists of tools that are also applied in the context of the domestic EU funds or are very similar to these. The second category consists of tools that have been developed particularly for green mainstreaming in international funds and are not used in the domestic EU funds. The full list of tools for further analysis is presented below.

It is important to note that these tools are applicable mainly to programmes and projects funded by grants from the EU external funds, in particular NDICI and IPA-III. In case of blended finance or guarantees, covered by EFSD+, the environmental safeguards of the lead financial institution are applicable.

Tools also used in domestic funds or very similar

- Spending targets
- Rio Markers/climate coefficients
- DNH (similar to DNSH)
- Environmental Impact Assessment (EIA)
- Strategic Environmental Assessment (SEA)
- Environmental screening (as part of EIA/SEA)

Tools specifically designed for international cooperation

This concerns all tools described in Annex 1 of the Greening EU International Cooperation Toolbox (Greening Toolbox) that are not mentioned above:

- Country Environmental Profile (CEP)
- Climate risk screening (cf. Art. 25.5 of NDICI Regulation)
- Climate Risk Assessment (CRA)
- Environmental Management Plan (EMP)
- Climate Risk Management Plan (CRMP)
- Screening of project investment pipelines
- Ex-ante greenhouse gas accounting (under development)

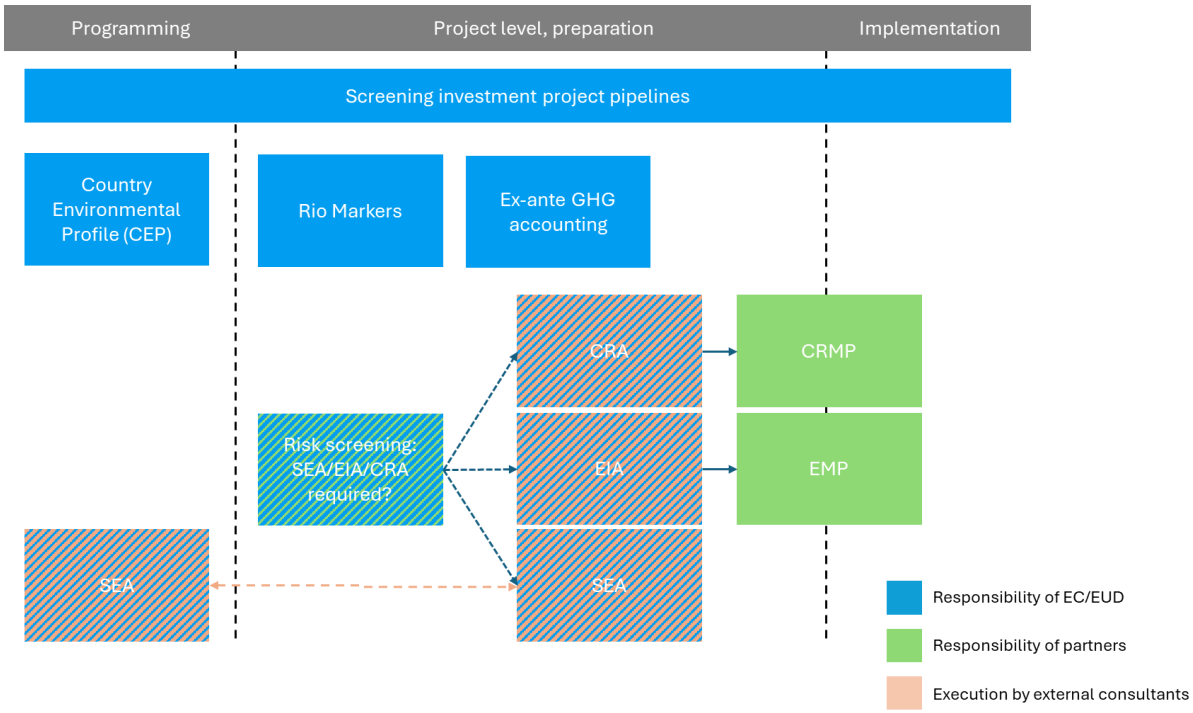
Direct reference to mainstreaming tools is mainly included in the NDICI Regulation (2021/947), in particular in Articles 8, 25 and 29. As the EFSD+ is subject to the regulations of NDICI and the horizontal provisions of the NDICI Regulation also apply to IPA-III assistance[86], all three funds are effectively subject to the same set of mainstreaming tools.

The Greening Toolbox[87] consists of a number of tools that are interconnected. The toolbox is designed in such a way that a consecutive implementation of the tools can be followed. The sequence of the tools is shown graphically in Figure 4.

[86] Art. 16 of the Annex to the Commission Decision of 31.3.2022 establishing a model for a financial framework partnership agreement between the Commission and the government of an IPA III beneficiary indicates that 'IPA III assistance shall be implemented in accordance with Art. 9 of the IPA III Regulation and Chapter III of Title II of the NDICI Regulation' (C(2022)1857 final).

[87] See https://wikis.ec.europa.eu/display/ExactExternalWiki/Greening+EU+Cooperation+Toolbox

Figure 4 Overview of tools in the Greening Toolbox



In this figure, the tools are divided across the various budgeting phases in the MFF. The colour legend indicates which party is responsible for the tools and their implementation[88]. Shaded areas indicate a division of responsibility and/or implementation.

The **Country Environmental Profile (CEP)** is performed at the programming stage[89]. This tool enables an overarching assessment of a country's key environment and climate-related challenges and opportunities, with the primary purpose of informing programming from an environmental and climate change perspective. The CEP is normally prepared by EU delegations with support of consultants. Moreover, a **Strategic Environmental Assessment (SEA)** can be performed at programme level, as is done for domestic funding in the EU as well. Ideally, the need for an SEA is identified as early in the process as possible. It is usually promoted by the EC or delegations, and then prepared by the government of the recipient country with EC support.

At project level, a sequence of tools has been designed. The first step, which is to be undertaken as soon as the main objective and scope of a project or action is defined, is an environment and climate risk screening. In this step, it is assessed whether either a Strategic Environmental Assessment (SEA), an **Environmental Impact Assessment (EIA)** and/or a **Climate Risk Assessment (CRA)** needs to be performed, or a combination of these assessments. The identification of the need for an SEA, EIA or CRA is the responsibility of the EC, but in some specific cases the implementing partners are responsible (when interventions are only identified e.g. under calls for proposals). In the context of EU development cooperation, SEAs are particularly relevant when providing sector budget support, as the SEA allows for the assessment of the sector strategy, as well as when providing support to the preparation or update of sector policies or strategies.

The next step is to assess an action's design in more detail as part of the SEA, EIA or CRA. If an EIA is performed, this should result in an **Environmental Management Plan (EMP)**.

[88] EC = European Commission, EUD = EU delegations in third countries

[89] Although in the last couple of MFFs, CEPs have not been prepared systematically, and seem to be an underutilised tool.

Similarly, if a CRA is done, a **Climate Risk Management Plan (CRMP)** should be drafted. In these plans, measures are formulated in the preparation phase to improve the impact of the project on climate and environment, which need to be implemented once the project starts. It should be noted that the CRA can be incorporated into the scope of the EIA, if an EIA is required for a project as well. In turn, the CRMP can be integrated into the EMP, providing a means of streamlining the process. The EC is responsible for drafting these plans, but they are usually prepared by external consultants. The implementing partners then have the obligation to implement the EMP or CRMP resulting from the EIA and CRA respectively.

Moreover, there are three tools in the Greening Toolbox that can be employed by the staff of the European Commission and the relevant EU delegations. Throughout the whole MFF, a **guideline for screening investment project pipelines** is available. This can be periodically applied to assess the investment project pipelines prepared by the EIB and other financial institutions, with respect to their potential to contribute to environmental sustainability, climate resilience and low-carbon development, identify key environment and climate risks and potential need for an SEA, EIA and/or CRA. At action or project level, **Rio Markers** and **greenhouse gas (GHG) ex-ante accounting** can be applied. Rio Markers are used to monitor financial flows in the policy areas under the Rio conventions. A marker is applied to each project, expressing a certain level of contribution to any of the climate or biodiversity targets (translated to a 0, 40 or 100 % financial contribution according to Commission conventions). The Rio markers are applied according to OECD rules and guidance. Lastly, ex-ante GHG accounting is a simplified tool to screen EU external actions early on for (significant) changes to GHG emissions, either positive or negative. This ex-ante GHG accounting tool is still in the making.

Overall, the Greening Toolbox provides a **comprehensive set of tools that are meant to be considered and deployed jointly**. The fact that a logical and coherent process has been developed creates a useful set of tools that EU policy officials and third-party implementers can apply one after the other. Moreover, some suggestions are given in terms of which tools can be integrated when applicable, such as a joint process for an Environmental Impact Assessment and a Climate Risk Assessment. All tools apply mainly to the preparation phase, in the stage where projects are first conceived and in their design phase. If executed, the Environmental Management Plan and the Climate Risk Management Plan provide a set of measures that carry over to the implementation phase. The toolbox does not contain specific tools beyond the fund allocation process. In other words, **the toolbox does not provide tools to assess compliance** with the EMP or CRMP or other measures formulated in the design phase, or to monitor their results against the objectives of the mainstreaming process.

4.2.2 Identification of the main challenges

From our assessment of the tools and consultation of stakeholders (through interviews and the project workshop), we identified a number of challenges related to the application in practice of the green mainstreaming tools in the context of EU external funding[90]. These challenges are elaborated below. We distinguish the use of mainstreaming tools under EC procedures (mainly grants, tools from the Greening Toolbox apply) and under the procedures of financial institutions (EFSD+, blending finance, financial institutions' own safeguards apply). For the latter, see also Section 2.4.

Furthermore, we distinguish overarching challenges relating to green mainstreaming in a broader sense and specific challenges for mainstreaming biodiversity. Green mainstreaming is often automatically associated with climate objectives which causes biodiversity to be

[90] Although Humanitarian Aid is technically within scope of this project, we do not take this type of external funding into account in this specific Task as no well-defined tools for mainstreaming climate and biodiversity objectives into humanitarian aid exist. As the EFSD+ is treated in a separate chapter and, as mentioned above in the main text, the challenges are more outspoken outside the pre-accession context, we focus on NDICI funding here.

overlooked in certain cases, which is a challenge in itself. Therefore, in this task, we devote specific attention to biodiversity in discussing both challenges and recommendations.

We based our assessment of the challenges and possible ways to address them for a large part on stakeholder consultations. Besides horizontal interviews with policy officers from several DGs on the funds within scope and the workshop that was organised for this study, we conducted some targeted interviews specifically for this task. These are presented in the table below.

Table 7 Overview of targeted interviews conducted to support the work on mainstreaming tools and DNH

Organisation	Person(s) interviewed
Greening Facility	Juan Palerm, Jennifer Keegan-Buckley
EU Del Bangkok	Michael Bucki
EU Del Maputo	Shaimin Vieira
EU Del San José	Nazareth Porras
EU Del Kigali	Amparo Gonzalez Diez
GIZ	1 person based in Algiers (Climate Mitigation & Adaptation), 1 person based in Berlin (nexus Biodiversity – Climate)
ADF	3 persons from Climate and Nature division (1 Agriculture, Rural Development & Biodiversity expert, 1 Climate Adaptation expert, 1 Biodiversity expert)

Overarching challenges to green mainstreaming in external funds

Legislative framework and compliance – EU tools

From a **comparative analysis of the green mainstreaming architecture in the context of domestic funds and EU external funds**, we find that the latter is less formal and binding than the first, and the governance structures present to enforce the (correct) application of the various tools are much more limited for EU external funding than for domestic funding. This is mainly because the way the tools have been legally enshrined is rather limited, through brief references in the NDICI regulation without considerable guidance or compliance mechanisms.

For domestic funding, in particular the structural funds under Cohesion Policy, the use of various tools is both legislated firmly, for instance through the Common Provisions Regulation, and deeply embedded in the governance around designing and assessing the proposed programmes and activities. This happens for instance through the Managing Authorities (MAs) in each Member State that take a central role in the management of these funds.

For the external funds, the use of the tools is legislated in the NDICI Regulation, where their application in EFSD+ and IPA III is derived from the relevant Articles in this Regulation. However, it is not explained in the legal text how tools that originate from the EU environmental acquis, for instance the EIA and SEA, **should be applied in the different context of third countries**, which do not necessarily have the same legal and governance standards in this field. For some principles that are mentioned, such as DNH (Art. 8.8) but also compatibility with the recipient countries' NDCs (Art. 29b), **no further guidance or operationalisation is provided**. Besides, there is **no dedicated actor to ensure compliance** with the tools that are thus legally enshrined, such as the Managing Authorities in the case of domestic structural funds; the application of the tools, including the follow-up of their outcomes, is in the hands of the various actors in the implementation chain of each programme and project. This can involve EC policy officers, EU delegation policy staff and third-party implementers. How responsibilities for the various tools are distributed among these actors differs, as was discussed in the previous section.

A special role is taken by the **Greening Facility**, which has supported DG NEAR and DG INTPA, as well as EU delegations, in the green mainstreaming process. It provides services such as raising awareness on the importance of green mainstreaming, building capacities and knowledge, tracking financial flows and reviewing actions for all programmes, investments and budget support operations, as well as developing and promoting guidance material and mainstreaming tools[91]. However, the Greening Facility **does not possess the power to enforce compliance with the green mainstreaming tools** or to block a certain action from being funded – it can only point at the importance of the green mainstreaming tools, raise awareness about their existence and proper use, and discuss cases where it finds that tools may not have been applied correctly or their outcomes have not sufficiently been taken into account. In doing so, the Greening Facility is dependent on the willingness of the various actors, for instance EU delegation staff, to engage with it and follow up on its recommendations.

Furthermore, most of the green mainstreaming tools of the Greening Toolbox that was developed for DG INTPA and DG NEAR (see previous section) do not have a specific legal basis, and as such cannot be enforced, in contrast to the ones legislated in the NDICI Regulation (DNH, exclusions, SEA, EIA and environment & climate risk screening). They mainly fulfil the role of a voluntary, supporting instrument that may or may not be applied. Some of the policy officers at EU delegations who provided input indicated that they were actually not aware of the existence of the Greening Toolbox.[92]

Legislative framework and compliance – blended finance

In light of the increasing focus on bigger infrastructure projects and the involvement of private investments in EU external funding, it was noted that compliance mechanisms are lacking in particular for private parties and financial institutions, including local banks. Since for blended finance and guarantees, covered by the EFSD+, the environmental safeguards of the financial institutions apply instead of the EU's mainstreaming tools, a clear due-diligence mechanism for DG INTPA, DG ENEST and DG MENA is currently lacking (see also the section on Quality of assessments and lack of due diligence below), which becomes more challenging now the focus of EU external funding is shifting towards these types of funding. More generally, the Global Gateway approach that has been adopted recently (see Section 2.2.2) states that it is in line with the European Green Deal and with the target of climate neutrality, and only allows for 'clean' solutions, but these objectives have not been operationalised yet in any way.

Knowledge and capacity – EU tools

Stakeholders were very much aligned on a related challenge, which is the **limited specific knowledge on climate and biodiversity-related issues** of actors that play a role in the programming and designing of actions under external funds. This may for instance apply to staff at EU delegations and staff of implementing parties such as development banks, local offices of international NGOs or local NGOs. Reasons for this limited knowledge may include the staff involved having to take into account many other aspects of a programme or action as well[93], since their position is not dedicated to green issues but is much broader, as well as staff rotating quickly, which is common for a diplomatic service such as the EEAS. Even if staff with the necessary knowledge and experience is available, a high workload and time pressure may prevent them from being involved in all programming activities as much as they would prefer. Assessments and checks may therefore become little more than box-ticking exercises. This way, knowledge and capacity challenges are closely interlinked.

[91] EU Greening Facility

[92] This is understandable as the Greening Toolbox in its new form was launched very recently. However, before this launch Guidelines for green mainstreaming were in place since 2016.

[93] Including mainstreaming other cross-cutting policy objectives, such as gender

At EU delegations, it could happen for instance that a member of staff with a background in climate or biodiversity is able to perform proper risk assessments for climate and biodiversity related projects, but not to support colleagues who work in adjacent sectors such as energy or transport. This becomes a risk, because while most staff may be aware of general issues in terms of climate mitigation, climate adaptation and biodiversity loss, the **particular knowledge and experience to coherently assess environmental risks of a specific project may be insufficient**. In the interviews, this risk was identified in particular for actions that have the primary goal to reduce greenhouse gas emissions, such as renewable energy projects, as these actions are often considered to be 'sustainable' by themselves and important negative environmental impacts of the same projects may be disregarded. An example of this, mentioned by one of the delegation staff, is the construction of hydropower dams. Although this activity contributes to renewable energy generation, without properly assessing environmental risks and taking mitigating measures it could lead to significant biodiversity risks and loss of valuable habitats.

Policy officers working at EU delegations indicated that mainstreaming green objectives into the EU-funded country programmes at the design phase is still reasonably ensured, because there are processes in place through which all relevant DGs are involved in establishing the programmes. **Knowledge and capacity risks are more outspoken in the actual implementation of the programmes**. The reasons behind this differ through the types of projects. In grant-funded projects in the 'classical' areas of development cooperation, such as agriculture, the main risk is the limited capacity of the local implementing party. In some cases, execution of mitigating measures and box-ticking of the various objectives **hinges on the expertise and capacities of a single person**. As such, the risk of important actions falling off the table is high. The capacity of EU delegations to monitor the implementation of all programmes and actions is, again, limited.

Knowledge and capacity – blended finance

In the case of blending operations, which are increasing in number following the focus of the Global Gateway approach on infrastructure projects, the main risk is slightly different. Here, partners are often banks or private partners, which are often **less familiar with climate- and biodiversity-related risks**. International financial institutions do usually have environmental safeguards in place, but a lack of expertise in this field may lead to challenges in their implementation and follow-up. Besides a lack of knowledge or capacity among their staff, they may also be less inclined to assess these types or risks in a thorough way as they perceive this as a misalignment with their own interests. Conversely, EU delegations indicated that they are not very familiar with the details of blending instruments, as this type of instrument is relatively new to their work. Besides, delegations are not strongly involved in the set-up of blending arrangements, as these are established by DG INTPA and the relevant IFIs.

Quality of assessments and lack of due diligence – EU tools

Some stakeholders expressed **their concern that even green mainstreaming tools that are enshrined legally are not always executed properly**. This relates in particular to Strategic Environmental Assessments (SEAs) and Environmental Impact Assessments (EIAs), which are mandatory for certain actions, in particular infrastructural projects (NDICI Art. 25.5). But also other tools from the Greening Toolbox, such as CEPs, EMPs and CRMPs, are not always carried out as intended. Even when the relevant assessment procedure has been carried out, this **does not guarantee a sufficient quality level of the resulting assessment**. This implies that certain environmental or climate-related risks may be overlooked or that follow-up, for instance by ensuring additional actions are taken that compensate for or mitigate certain adverse impacts, is not carried out. In particular, even if mitigating actions have been identified as a consequence of the environmental impact assessment, funds may not be available any more as the possibility of additional compensating actions was not taken into

account in the design phase of the project. Both EU delegations and NGOs indicate that project implementation often involves fierce negotiations with implementing parties as to what is practically possible in terms of assessments and monitoring, given the budget.

When looking at the explaining factors for the insufficient execution of certain tools, it is important to note that the **context in which they have to be carried out is very different from the European one.** EIAs and SEAs are long-established instruments in the EU environmental acquis, and these assessments are required for many types of plans, programmes and/or projects in the EU's Member States, irrespective of the source of funding. The respective Directives[94] have been implemented by the Member States and thus are transposed into national legislation. In third countries that are recipients of EU external funding, especially the ones not within the scope of IPA III, the robustness of the environmental legislative framework may be less of a given. Capacity, both at national governments or at local consultancy firms that may execute the environmental assessments, may be limited and specific required knowledge may not be available sufficiently. Still, the NDICI Regulation is explicitly referring to the EIA Directive, although this is in relation to environmental screening and not specifically in relation to the requirement of an environmental impact assessment itself. The Regulation does not make clear however, what standards exactly should apply for an EIA or SEA in the context of external funding.

Quality of assessments and lack of due diligence – blended finance

The issue of limited quality of assessments is especially concerning for infrastructural projects, which are often funded by blended finance. As the share of infrastructural projects under external funding is rising under the Global Gateway approach, this challenge is quickly becoming more relevant. In the case of blended finance, the Green & Clean principle of the Global Gateway indicates that SEAs should be prepared, but this is not being actively promoted, leading to SEAs not being executed systematically. For EIAs, concerns were expressed relating to the quality of the assessments. According to one estimate (shared by a stakeholder) up to 50 % of EIAs executed by financial institutions under blended finance has poor quality.

Third-party implementers, such as international financial institutions (IFIs), in some cases formally adhere to the requirement of carrying out environmental impact assessments, with standards that would guarantee a sufficient quality of the assessment in theory. Yet, in practice this **quality is not always achieved**. At the moment, there are few possibilities for the EU to enforce due diligence in this respect, partly because there is a lack of specific requirements on green mainstreaming tools in the so-called Pillar Assessment that is in place for third-party implementers (see also the section on recommendations below).

Challenges related specifically to mainstreaming biodiversity

Overall, protecting and restoring biodiversity and its sustainable use is becoming an ever-more urgent concern, requiring large amounts of investment. The urgency around **biodiversity finance** has recently been highlighted in the Kunming Montreal Global Biodiversity Framework and during COP16 in Cali, Colombia, where the EU announced several actions to reiterate its commitment to halting and reversing biodiversity loss.

In terms of the EU's mainstreaming tools for external funding, a number of particular challenges for biodiversity arose from our consultation of stakeholders (see also Section 2.4 on challenges related to biodiversity mainstreaming in the EFSD+).

In the first place, **lack of specific knowledge** needed to properly assess risks and design mitigating measures (as discussed in the previous section) seems to be even more prominent for biodiversity than for climate. While climate has, as a policy area, gained general recognition

[94] EIA: Directive 2011/92/EU; SEA: Directive 2001/42/EC

over the last decade, biodiversity attracts less awareness and is often still regarded as a niche within environmental policies. This translates into a limited number of dedicated experts working on biodiversity as well as a **generally lower priority level** as compared to climate. This practice ignores the essential role of biodiversity and the linkages between healthy ecosystems and economic welfare. It is a blind spot that endangers a deep understanding of how biodiversity is intrinsically linked to other aspects of sustainable development.

A second challenge is that **biodiversity needs do not seem to align well with the current Global Gateway approach**. While this approach involves a shift towards more blending and involvement of private partners, **attracting private investment for biodiversity is particularly difficult**. These investments are generally viewed as less appealing because of delayed visible and financial returns, limited profitability and higher perceived risks, particularly when compared to climate-focused initiatives. This perception is partly due to a lack of familiarity and understanding of biodiversity projects. Furthermore, projects focusing on nature-related targets are typically small-scale and complex, with long timeframes. Nature-based solutions (NbS) in particular are often site-specific, more difficult to replicate and require a high level of technical expertise. Related to this, in the Global Gateway approach, EU delegations are required to focus on 2–3 main priorities and stay away from a high number of smaller projects such as pilots, advocacy and capacity building, while these types of projects are actually key to an effective approach for improving biodiversity.

Thirdly, **the timeline of EU-funded country programmes does not correspond well to the typically long implementation time of projects related to improving biodiversity and restoring nature**. A timeline of 2–5 years is often not sufficient to establish desired (nature-positive) results, as these may only be visible after longer time periods (partly requiring additional management). It is a challenge to maintain the same approach for biodiversity across several consecutive country programmes, risking discontinuities in projects that may seriously affect results. Moreover, green mainstreaming often favours climate mitigation over nature-focused projects because they are easier to implement[95]. Also, energy and transport objectives are often prioritised over biodiversity objectives, as is illustrated by the example of funding the construction of hydropower dams in the previous section. Reductions in greenhouse gas emissions can typically be realised much faster than restoration of nature and biodiversity.

Lastly, while stakeholders indicated that **spending targets** are an effective mainstreaming tool, these are **less prominent for biodiversity than for climate**. The spending target for biodiversity for the MFF as a whole is much lower than that for climate, and the EU external funds do not have fund-specific biodiversity targets, although they are supposed to contribute to the MFF-wide biodiversity spending target (see also Chapter 2.2). Also, some stakeholders indicated that the current system of three possible coefficients (0, 40 or 100 %) is disadvantageous for biodiversity, as projects often provide a relatively small contribution to biodiversity, which may not be taken into account at all in this system, as there is no coefficient for e.g. a 10 % or 20 % contribution.

4.2.3 Recommendations for addressing the identified challenges

Overarching recommendations on green mainstreaming in external funds

Based on stakeholder consultations and assessment of the current green mainstreaming tools, we have developed a number of recommendations addressing the challenges discussed above, which may strengthen the green mainstreaming architecture for EU external funding.

[95] European Commission Directorate-General for Environment, Institute for European Environmental Policy, Trinomics. 2022. Biodiversity financing and tracking – Final report

None of these recommendations is the silver bullet. We briefly note possible barriers to their implementation where applicable and further thinking on how to operationalise the recommendations is key. But, together, they can form a meaningful step forward towards a more effective and coherent green mainstreaming architecture for EU external funding in the next MFF.

Strengthening due diligence

As was discussed above, the governance of the green mainstreaming architecture for external funds is **less formal and less enforceable** than for EU domestic funds in several aspects, which can lead to mainstreaming tools not being applied at all or being applied at an insufficient quality level. This is partly caused by the fact that, in external funding outside the IPA scope, partner countries cannot be obliged to follow EU standards in their legislation and local ownership is a key component of these partnerships. However, the application of green mainstreaming tools by several actors involved in the process of external funding also seems to be less enforceable compared to domestic funding, partly because some of the tools do not have a legal basis or lack specific criteria. A third group where this issue plays a role consists of key third-party implementers, such as IFIs, banks and private partners.

In all these cases, **strengthening due diligence** may help to address this challenge: enforcing compliance with the existing arrangements and the actual application of the tools that should be applied, at a sufficient quality level. However, there are currently few clear mechanisms in place to do so. Possible ways forward are:

- As for the **recipient countries**, technical assistance could be directed specifically at governance in the field of climate and biodiversity, including the performance of environmental impact assessments. It was noted by one EU delegation that, in cases where the EU provides direct support, ministerial dialogues can actually play a major role in ensuring green mainstreaming in local policy making. Another delegation argued that bilateral trade between the EU and a third country, as well as EU standards that apply to imports to the EU, should be the main leverage instrument to forge compliance with green requirements. In this context, mainstreaming climate and biodiversity in Free Trade Agreements and future Clean Trade and Investment Partnerships is at least equally important as mainstreaming in external funds like NDICI. Moreover, implementation tools stemming from multilateral agreements, such as Nationally Determined Contributions (NDCs) and National Biodiversity Strategies and Action Plans (NBSAPs), do also help to guide actions in national programmes funded by the EU.
- As for the **EU actors** (EU delegations, DGs involved, Greening Facility), mechanisms could be developed for 'early warning' in case green mainstreaming tools are not properly applied, so this can be acted upon in time. Indications by policy officers at EU delegations that greening measures are under pressure in the implementation of certain programmes should be swiftly taken up by the responsible DGs, and delegations should play a larger role in targeted Monitoring & Reporting missions. However, at the same time, stakeholders indicated that capacity is limited at the Commission to expand due diligence activities, so a balance should be sought here taking into account other priorities as well. One possibility would be to extend the Greening Facility's mandate and task it with carrying out appropriate internal due diligence procedures, including quality assessments of EIAs and SEAs.
- As for the category of **third-party implementers**, for the subgroup that is currently pillar-assessed, adjusting the pillar assessment may contribute to a better due diligence: this option is elaborated on below. In any case, more transparency could be required from partners such as IFIs on what assessments were performed and what risks were identified. Similarly, the Greening Facility could also play a role for third-party implementers by carrying out a quality check on EIAs performed. For parties such as private companies or local banks, options to improve due diligence are more limited. Delegations should be

encouraged to reinforce their messages towards implementers on this topic and be properly backed when they do so. Local private sector partners could be screened more effectively for their 'green' record before engaging with them.

Holding both implementing partners and other stakeholders within the European institutions more accountable requires political will, and has to be in line with policy priorities to be carried out at a sufficiently high level to have the desired impact. Given the current shifting political priorities in the EU, keeping attention for climate and biodiversity interests in EU external funding at a high level, together with better operationalising and ensuring the 'Green and Clean' principles of the Global Gateway approach, should be the starting point for efforts in this direction.

Include climate and biodiversity in the pillar assessment

Pillar assessments are an integral part of the funding agreements between the EC and potential implementing partners of EU funds. They constitute **institutional compliance assessments** on various requirements per pillar, which must be passed before the partner organisations can enter into indirect management funding agreements with the EC. There are nine pillars, of which six are mandatory. These cover the organisation's internal procedures, related to internal control, accounting system, external audit, exclusion from access to funding, publication of information on recipients and protection of personal data. The optional pillars (financial pillars) are assessed based on relevance to the operations. Pillar assessments are prepared by an independent auditor in an assessment report. The pillar assessment is needed **to ensure that budget can be entrusted to an implementing partner**, such that sound implementation of the budget is ensured[96].

At the moment, **green mainstreaming on climate and biodiversity does not form a part of these pillar assessments**. In order to improve green mainstreaming across fund management by implementing partners, the pillar assessments could be used as a vehicle to this end. There are various conceivable avenues, such as:

- **Incorporating environmental criteria into existing pillars**. Requirements on alignment with environmental targets can be added to e.g. the internal control system. For instance, a requirement might be that the implementing party must carry out Environmental Impact Assessments.
- **Introducing an additional green mainstreaming pillar**. An additional, mandatory, pillar could be designed, including requirements on the implementing partners' policies and practices in terms of managing impacts on climate and biodiversity.

There are **both benefits and challenges** to this approach. The main advantage is that an inclusion of green mainstreaming in pillar assessments formally ensures that implementing partners are held accountable for taking into account environmental impacts in indirect funding management. Nonetheless, it also carries the risk of becoming a paper tiger. In many cases, major implementing partners, such as IFIs and UN agencies, already fulfil the relevant criteria on paper, but the quality of e.g. an EIA might be low in practice (see also the first recommendation). As such, the pillar assessment in this area would also require **a system of compliance checking**. Another challenge here is that the EC currently does not have a well-defined set of environmental standards or safeguards in place for development cooperation against which to assess partner organisations. So, although including climate and biodiversity into the pillar assessments would certainly strengthen their mainstreaming in a formal sense, it would also require that the EC first define a minimum set of standards, and the question remains whether it would solve the real issue of compliance by implementing partners.

[96] See: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019D0606%2801%29&qid=1732175781148

Increase capacity and knowledge among stakeholders

Strengthening specific knowledge on climate and biodiversity, including the application of the related mainstreaming tools, may be a relatively straightforward way to improve green mainstreaming effectiveness. For instance, **climate or biodiversity specialists** could be added to the policy team of EU delegations in more places, or policy officers who have to assess programme and project proposals could be required to undergo training on the use of green mainstreaming tools before being posted in recipient countries. A key component of such training could be to focus on **the need of a comprehensive approach, taking into account climate *and* biodiversity aspects of a project**, and preventing the sectoral division of labour at EU delegations from leading to partial risk assessments. Other capacity development options could include the appointment of green focal points within delegations, with a mandate to assess whether climate and biodiversity risks are being taken into account throughout the delegation's programme implementation, and increasing the role of the Greening Facility to support EU staff in implementing the tools in the Greening Toolbox, for instance the monitoring of EMPs and CRMPs. However, the feasibility of this kind of solution is dependent on the alignment of practical issues such as the availability of sufficient budget as well as political support.

A concrete suggestion for improvement of the Greening Toolbox from one of the EU delegations was to elaborate more on how the tools should be applied in the context of the various sectors (agriculture, health, transport, etc.)[97] . The current tools may ask the right questions for mainstreaming, but fail to fully explain how the answers to these questions could be found, which can differ significantly across sectors. Especially for policy officers not well-acquainted with the classical language of development cooperation, this may improve the usefulness and accessibility of the Greening Toolbox.

From the experiences of the implementing partners we consulted (GIZ and ADF), two best practices that may be looked into by the EU are worth mentioning. The first is **the appointment of topical experts by headquarters** who can be consulted by all policy officers in field offices to discuss climate and biodiversity during project identification and risk management. Although delegations are most aware of local circumstances, the knowledge of experts with vast experience on the topic (e.g. in climate adaptation in specific sectors or biodiversity risks in particular ecosystems) could be a valuable addition for risk identification and management[98] . The second is to **develop a specific tool on the climate-biodiversity nexus**, to ensure that both aspects are always assessed in a mutually coherent manner.

At the same time, the EU has limited ways of improving knowledge for third-party implementers, although this may be stimulated indirectly by including green mainstreaming explicitly in the pillar assessment (see above). For blending operations, it could help to give a bigger role to EU delegations in the establishment of agreements between DG INTPA, DG ENEST and DG MENA and financial institutions, who can provide key insights from the national context, and to increase capacities around blending and private investments at delegations.

Efforts to improve capacity and knowledge in the recipient countries may be focused on **the need for a high standard of environmental impact assessments**. For instance, technical assistance could be offered to train local private consultancy firms in the requirements of such assessments, including the need to apply a strategic approach and for local public consultation (see also the first recommendation on due diligence).

[97] It was noted that sector fiches existed before, but their current status is unclear

[98] Experts could either be identified within the Greening Facility or be from academia or knowledge institutions and contribute based on availability

Recommendations on mainstreaming biodiversity

Spending targets, performance indicators and coefficients

A first overarching recommendation would be to set **clear and enforceable biodiversity spending targets** at fund level and preferably also at country level. This would increase the visibility of biodiversity as a key policy area and raise awareness of the need to take it into account in the design of funding programmes.

Targets should be aligned with international biodiversity targets, such as the GBF Target 19[99] which requires a doubling of current biodiversity spending by 2025 and a tripling by 2030 for all parties collectively. This implies a significant increase of EU biodiversity spending in the next MFF. A higher level of public financing is key given the challenges in incentivising private funding for biodiversity. It was also noted by stakeholders, however, that targets are currently under pressure as an instrument to steer EU funding, and there is a risk of a proliferation of targets, which would render them less effective.

Also, **performance-based indicators** could be implemented to better track and ensure the quality of biodiversity projects. An example of such an indicator could be 'hectares of ecosystems conserved'. This could become an equivalent of a GHG-reductions-based indicator in relation to climate mitigation (such as in the ex-ante GHG accounting tool that is being developed). Having such a quantitative indicator available could help render biodiversity projects more attractive to policymakers, even though it would not solve the issue that restoring nature and biodiversity typically takes much longer than for instance GHG-emission reductions in the energy sector.

In recent years, the importance of other parameters beyond area measurements has been brought forward as well. This has taken place mainly in the context of the debate on the concept of Nature Positive. This concept evolved as a global goal to halt and reverse nature loss by 2030, with the ultimate objective of achieving full nature recovery by 2050. This approach moves beyond reducing environmental harm and emphasises active conservation, restoration and the sustainable use of nature to enhance biodiversity, ecosystem resilience and the overall health of natural systems[100] . In doing so, more nuanced indicators of ecosystem integrity, functionality and resilience have been proposed. For example, the development of the State of Nature metrics by the Nature Positive Initiative will support the ability to evaluate whether conservation efforts are contributing to nature's recovery[101] . It is key to include these recent insights in the design and implementation of performance-based indicators in EU funded biodiversity projects.

As mentioned above, stakeholders indicated that the current coefficients, based on the Rio Markers, may have a **disadvantageous impact on biodiversity**, as no coefficient exists for small contributions (such as 10 or 20 %), while such smaller contributions are typical for biodiversity-relevant projects that have their main objectives in another area. Developing such a new coefficient could strengthen the effectiveness of the EU's support to biodiversity, but starting a discussion on adjusting the established system based on the Rio Markers (0–40–100) would first require political support, which, as can be seen from recent OECD discussions, is not a given.

Making biodiversity projects more attractive for private investments

At COP16, the EU presented its work on the exploration of innovative financial instruments, including **biodiversity certification and nature credits**. These tools are designed to

[99] https://www.cbd.int/gbf/targets/19

[100] The Nature Positive Initiative (2023) provides a leading definition of Nature Positive: 'Halt and reverse nature loss by 2030 on a 2020 baseline and achieve full recovery by 2050'. See Nature Positive Initiative (2023) The Definition of Nature Positive. www.naturepositive.org/app/uploads/2024/02/The-Definition-of-Nature-Positive.pdf

[101] Measuring Nature Positive

diversify funding sources, assist companies in setting nature-positive goals and reward stakeholders – such as farmers, foresters, fishers, and Indigenous Peoples and Local Communities – who actively protect and restore natural ecosystems. Current pilot projects are intended to make a positive contribution to nature, **not to offset** or compensate for the destruction of biodiversity. Pilot projects could be replicated.

In response to the challenges associated with **often small scale and long timeframes** of delivering benefits from nature-related projects, the EU can take a lead to ensure the **bankability** of smaller projects. This can be done by pooling smaller projects to de-risk and increase return – e.g. pooling projects based on region, sector, type of ecosystem service provided to increase the bankability of such projects. Alternatively, a regional matchmaking platform to bring project promotors and potential investors together could be considered. Another option could be the targeted use of public funds as seed money in the early stages of projects, which may then attract other sources of funding when they grow more mature. EU-funded country programmes could specifically dedicate some biodiversity funding to support this aim.

At the same time, the low bankability of biodiversity projects also underlines the inherent need for public funding for biodiversity, so improving bankability should never be a reason to dilute public contributions.

Mainstreaming biodiversity also requires knowledge of application procedures and support for authorities and stakeholder/beneficiaries to mobilise funds. **Provisioning of advisory services and capacity building opportunities through the Commission's Technical Assistance channels** can help project developers[102] . Available guidance and tools should be prominently promoted and united on one platform. Moreover, it might also be beneficial to link to relevant EU domestic platforms such as the EU Business and Biodiversity platform that can provide further information and guidance and inspiration on project implementation and business opportunities.

4.3 Do No Harm (DNH)

4.3.1 Assessment of the current use of DNH in external funding and relation with DNSH

'Do No Harm' is introduced as a key principle in the NDICI Regulation (Art. 8), and by derivation also applies to EU external funding under EFSD+ and IPA III. It is based on the so-called 'Green Oath' of the European Green Deal. There are currently no specific criteria established on how the DNH principle should be operationalised in EU-funded programmes and projects, and there is no specific guidance available to do so. However, this does not mean that the DNH principle is not being applied. Its implementation mostly takes place through the available tools in external funding.

As the main objective of DNH is to avoid harm, a key tool through which it is implemented is the **exclusion** of funding of certain types of activities as legislated in Art. 29 of the NDICI Regulation (see also Chapter 3). In the green context, this relates to the exclusion of actions or measures:

- that are incompatible with the recipient country's Nationally Determined Contribution (NDC) under the Paris Agreement;
- or that promote investments in fossil fuels;

[102] As an example, the EU announced a EUR 69 million initiative at COP16 to enhance capacity and knowledge in Africa, Asia, Latin America, and the Caribbean. This support aims to strengthen governments, civil society, and Indigenous Peoples' ability to mobilise biodiversity financing through Biodiversity Financing Plans. Additionally, the EU will renew support for biodiversity observatories in the Pacific and Caribbean and collaborate with the Global Biodiversity Information Facility (GBIF) to improve biodiversity knowledge and management skills for policymakers and local stakeholders.

- or that, according to the environmental impact and screening assessment, cause significant adverse effects on the environment or the climate, unless these are strictly necessary to achieve the objectives of NDICI and measures to prevent or reduce the adverse effects are in place.

As indicated by the last category of excluded activities, the **environmental screening and environmental impact assessment** are examples of tools that play a role in the operationalisation of the DNH principle, as their results partly determine whether a certain activity risks causing major adverse environmental effects. This implies that the extent to which DNH can be applied effectively partly depends on the quality of the environmental screening and impact assessments.

The DNH principle in external funding is **strongly related, but not exactly equal** to the 'Do No Significant Harm' (DNSH) principle that needs to be applied to certain domestic EU funds. In contrast to DNH, DNSH is directly derived from the EU Taxonomy, which is meant to establish a framework to facilitate sustainable investment. This framework can inform stakeholders on which Technical Screening Criteria a specific economic activity has to fulfil to be considered sustainable or 'green'. Article 17 of the Taxonomy Regulation[103] explicates under what circumstances an activity is considered to harm one of its six environmental objectives[104]. Moreover, the Taxonomy Regulation has been complemented by several Delegated Acts to define the exact criteria and thresholds that an activity needs to fulfil in order to be considered sustainable in each of the Regulation's areas of application.

Although the EU Taxonomy was designed with a view to classify private investments, its **DNSH principle was given a key role in the current MFF**. For specific domestic funds, in particular the Recovery and Resilience Facility and the Social Climate Fund, dedicated guidance has been developed or is in the process of development on how to apply the DNSH principle in the context of these respective funds. Other funds, such as the structural funds governed by the Common Provisions Regulation, also have to apply the principle, at least at the level of type of activity, or will have to consider DNSH in the near future (e.g. Modernisation Fund and Innovation Fund).

The most recent version of the Financial Regulation[105] states that in the next MFF, **DNSH should in principle be applied throughout the EU budget**, where feasible and appropriate in accordance with the relevant sector-specific rules (Art. 33.2d). This suggests that the current (nominal) difference between DNH and DNSH will disappear as, from the next MFF, a single DNSH principle will apply for both domestic and external funds. In order to operationalise this, in particular for funds where no dedicated guidance yet exists, the European Commission is planning to develop general guidance for application of DNSH across the budget.

4.3.2 Challenges and recommendations on the future use of DNH in external funding

Challenges related to DNH and the achievement of positive impacts

From the discussion above, we can deduce **several, interlinked challenges**. In the first place, the current DNH principle in external funding is **not supported by a clear set of criteria**. Instead, it partly depends on the quality of environmental impact assessments, which, as we discussed earlier, is under pressure.

Secondly, if a future single DNSH principle is to be rolled out across the MFF, accompanied by general guidance on how to apply it, there is a risk that this guidance would not take into

[103] Regulation (EU) 2020/852

[104] Climate mitigation, climate adaptation, sustainable use and protection of water and marine resources, circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems

[105] Regulation 2024/2509

account sufficiently the **fundamental differences between domestic and external funding**. Indeed, the context of the recipient countries, especially those outside the scope of IPA III, is intrinsically different than the context of EU Member States that are bound by the EU environmental acquis. This applies both to governance in general and to environmental legislation. In particular, where the Delegated Acts of the Taxonomy Regulation can support Member States in operationalising DNSH in the design of EU-funded activities, the criteria and thresholds included in these Acts may not be realistic in an international context.

This view was supported by stakeholders participating in the project workshop, who unanimously stated that the EU Taxonomy is not suitable to be directly applied in third countries. Also, stakeholders from the Commission endorsed this viewpoint. One of the policy officers from the EU delegations was of the opinion that the EU should impose the same criteria to third countries as it imposes on Member States, but at the same time green criteria should only be linked to trade relationships of third countries with the EU in combination with policy instruments that apply to third countries, such as CBAM and Ecodesign. Apart from this, no green criteria should be imposed on third countries in this perspective. We concluded, though, that overall there is **almost a consensus that when applying criteria and thresholds to third countries in the context of DNSH, the particular circumstances and specificities of each country should be taken into account.**

A third challenge, more related to the mainstreaming architecture for external funds as a whole, is that actions should not only prevent harm, but also have a **significant positive impact** on climate and biodiversity. This is of course also true in EU Member States, but there the positive impact is much more guaranteed by an extensive framework of environmental, climate and energy-related legislation. For instance, the Renewable Energy Directive sets a target for renewable energy production to which all Member States have to contribute, and the ETS sets a price on carbon, forcing industry, electricity and other sectors to decarbonise.

In other words, existing policy objectives and instruments require EU Member States to achieve significant positive outcomes for climate and the environment. In the context of external funds, **this is not necessarily the case**. Although funding has to be in line with recipient country's NDCs, there is no obligation for countries to use the funds to achieve certain objectives with positive impact in the field of climate and biodiversity. Spending targets on climate mitigation, adaptation and biodiversity (see Chapter 2.2) guarantee that a certain share of the funds is spent in a climate or biodiversity *relevant* way, but this **cannot always directly be linked to measurable impact in these areas**. Although it is stipulated in the Greening Toolbox to apply a 'green lens approach' and actively look for opportunities to positively contribute to climate and biodiversity objectives, the availability of concrete instruments to do so, as well as to measure the impact of such contributions, is limited.

Aspects that also play a role here are the **principle of local ownership** as well as the **room for manoeuvre that is provided by the policy objectives** of the EU itself. Steering towards a greater impact of country programmes on climate and biodiversity objectives would require both the consent of the recipient countries themselves as well as sufficient political backing, as this would go beyond the typical role of mainstreaming (in the sense of bringing the funding of various activities in line with climate and biodiversity considerations) as it would affect the main objectives of the external funds as such. Even so, there is certainly room for developing programmes and actions that do have direct impact on climate and biodiversity objectives, as is shown for instance by the Just Energy Transition Partnerships (JETPs). Moreover, multilateral instruments such as NDCs and NBSAPs, even though they cannot enforce spending for climate and biodiversity impact, still play a valuable role in providing guidance for climate and biodiversity funding.

Recommendations for use of DNH in the next MFF

When looking for **directions to address the above challenges**, a few things have become clear.

Firstly, the quality of the application of DNH is, at least in the current setting, **dependent on the utilisation and quality of other green mainstreaming tools**, like environmental impact assessments, so it is important that this would be guaranteed. Therefore, the general recommendations on the green mainstreaming tools that were discussed earlier indirectly also apply to DNH: improving the quality of other mainstreaming tools and their outcomes could strengthen the deployment of the DNH principle.

Secondly, if DNH were to be replaced by an MFF-wide concept of DNSH, it is key that this principle-as-a-tool be **better defined than is currently the case**, including clear checklists and guiding questions, how and when it is to be applied as well as the responsible actors and due diligence mechanisms.

Also here, a link to the green mainstreaming tools discussed earlier in this chapter can be established. Indeed, a positive side effect of better defining and operationalising DN(S)H for external funding could be that **due diligence for third-party implementers may be strengthened**, especially for partners that are less familiar with mainstreaming green policy objectives themselves. Even if it is not possible to control in detail the way these partners take into account climate and biodiversity aspects, a clear and targeted DN(S)H principle being communicated by the EC may help to guarantee a basic level of ensuring climate and biodiversity interests into projects, including privately funded projects. In particular, as discussed earlier, the option to introduce environmental safeguards in the pillar assessment implies that the EU first has to clearly define its own (minimum) set of standards in this regard. Better defining DNSH would render it possible to strengthen DNSH compliance through an extended pillar assessment. In any case, it has become clear from the above analysis that **a strong DNH principle and strong green mainstreaming tools are mutually enforcing**.

Thirdly, it is essential that in the case of a next MFF with a better defined DNSH principle, the **distinct character of external funding be taken into account**, without resorting to the use of double standards. An **adjusted set of criteria** may be developed to operationalise DN(S)H in external funding, where the criteria are not less ambitious but adapted to local circumstances, both in terms of substance and in terms of implementing, assessing and monitoring. This should be accompanied by a significant level of knowledge dissemination and training for the actors involved, such as EU delegations, as we have seen before that the level of specific knowledge on the application of green mainstreaming tools may also be a challenge in itself.

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