

Written evidence from the Institute of Environmental Management and Assessment (IEMA) on the Environmental Audit Committee Call for Evidence: Role of Natural Capital in the Green Economy

About IEMA

IEMA are the global professional body for over 21,000 individuals and 300 organisations working, studying or interested in the environment and sustainability.

We are the professional organisation at the centre of the sustainability agenda, connecting business and individuals across industries, sectors and borders.

We also help and support public and private sector organisations, governments and regulators to do the right thing when it comes to environment and sustainability related initiatives, challenges and opportunities. We work to influence public policy on environment and sustainability matters. We do this by drawing on the insights and experience of our members to ensure that what happens in practice influences the development of government policy, legislation, regulations and standards.

Executive summary

To inform our response to this consultation, IEMA hosted a workshop for members and other relevant experts outside of the membership, across sectors and professions. A summary of our recommendations are as follows:

- Government should create an appropriate regulatory environment for nature markets.
- Government should invest in nature markets to create proof of concept, case studies, demonstrate how nature can provide return on investment, and create capacity especially in the financial sector.
- Government must support good practice principles for activities in nature markets including using the mitigation hierarchy, creating additionality, following the Lawton principles of right thing in the right place and an approach that is more, bigger, better and joined-up.
- Government must mandate transparent reporting of double materiality impacts using a recognised framework such as, for example, the Taskforce for Nature-based Financial Disclosure (TNFD) Risk Management Framework.
- There must be robust and standardised monitoring and measuring over long periods.
- All new 'standards' whether the Green Taxonomy or BSI standards must align as much as possible with frameworks and regulations already in place and being used by business to reduce capacity building and accelerate use.

Questions and responses

1. What potential contribution can private capital investment make to measures to secure nature recovery?

Natural capital can be used by private organisations including financial institutions to better understand the benefits of investment in nature recovery. It can provide evidence to mitigate against direct and indirect risks (for example, operational, legal, regulatory, reputational, financial etc.) as well as address challenges such as climate change and disaster risk reduction. Risks as well as pressures to natural capital assets should be understood by business. Actions can be taken using nature-based Solutions (NbS). The use of private capital investment is a key way to help to secure nature recovery.

Private capital investment offers:

- The opportunity to mitigate biodiversity/nature impacts and to create nature recovery by going further and creating net gain. This must be captured in the narrative around, and the securing of, private capital investment.
- The opportunity for seed funding for new ideas and ways of doing things, and funding for scaling up nature recovery activities.
- The potential to create greater income than public investment, noting that it essential to ensure that private investment compliments public investment.
- The potential to scale up nature recovery much faster than by traditional / charitable donation approaches.
- The potential to help fund the 'infrastructure' around nature recovery such as funding training, and creating jobs for those involved in management and monitoring of NbS.

As nature markets evolve, there must be care in how they are set up and how they are regulated. Negative results can create a lack of confidence in such markets, bringing investments and reputation into question. It is important to ensure that private investment in nature does not detract from the primary principles for organisations of the mitigation hierarchy¹ to avoid and reduce impacts.

Investment in nature must be recognised as only one piece of the jigsaw to enable nature recovery and facilitate nature markets, alongside public sector investment, business action on biodiversity impacts, and increasing capacity and understanding of nature markets.

Nature should be integrated into macro-economic policy, capital allocations, and budgetary decisions and included in GDP.

2. How can investment best be aligned with environmental benefits, so as to achieve or surpass the Government's targets for nature recovery?

Good spatial planning is key to achieving or surpassing the Government's targets for nature recovery. Investments should consider whether the capital being invested in 'fits' into local requirements (by understanding the local nature recovery strategy or similar local biodiversity

¹ [UKGBC-The-Mitigation-Hierarchy-Factsheet-v0.5.pdf](#)

plans), and follows the Lawton principles² of ‘the right thing in the right place’ and ‘more, bigger, better and joined’. Investment should ensure that the mitigation hierarchy is considered.

Investment needs to take a holistic view and avoid investment in one type of capital impacting negatively on another type of capital so, considering bundling, investment over and above carbon or biodiversity, the linkages across the natural capitals and, where possible, considering public benefit. Additionality must be demonstrated. Investment must go to where it can have the biggest benefit. Investment must include risks to, as well as pressures on, nature and the environment.

Improving biodiversity means improving water quality and air quality and so these activities need to be done hand-in-hand.

Natural capital measurement and reporting must be aligned with other frameworks including, for example, Task force for Nature-based Financial Disclosure (TNFD) Risk Management Framework, Science Based Targets Network (SBTN) guidance, and the Kunming-Montreal UN Global Framework for Biodiversity and Environmental Improvement Plan indicators and metrics. There should be laws and legislation to support collection and use of nature indicators.

Robust and standardised monitoring and measuring over long periods must be undertaken to give confidence to investors and demonstrate the positive impacts on biodiversity. There should be monetary insurance for investors.

There is an opportunity for local authorities to attract private investors and although this has already started, there must be a way to create links across the two sets of organisations to maximise opportunities.

3. What measures are necessary to (a) establish and (b) maintain the high-integrity markets in ecosystem services which are expected to attract private investment? What confidence do investors currently have in the UK’s arrangements for these markets?

Buyers and suppliers of nature markets have different drivers with similar challenges, for example, lack of recognised robust frameworks.

In an IEMA/Defra workshop on the UN Global Biodiversity Framework, including business and government representatives, business identified the need for ‘standard’ metrics to use or standard ways of reporting, that are recognised by the Government, to provide confidence to investors. Business must have confidence to invest time and resources into a scheme. Business must be able to see what ‘return on investment’ might look like and examples of investments and how they work to give confidence. Business wants to invest in a scheme where they can feel assured that they will not be burned and/or be accused of greenwash.

A consistent methodology for the assessment and disclosure of risks and opportunities related to ecosystem services is critically important, for example, the steps proposed by the TNFD. This should

2

<https://webarchive.nationalarchives.gov.uk/ukgwa/20130402170324mp/http://archive.defra.gov.uk/environment/biodiversity/documents/201009space-for-nature.pdf>

sit alongside legislation to ensure clarity and good practice. Good examples already include the Woodland Carbon Code market.

Public money, similar to the Investment Readiness Fund³, should be used to drive proof of concept, identify key principles (see the UK Government's Nature Markets paper⁴), ecological and economic evidence, and case studies and business models that can be communicated to business. The solutions being funded have to be credible and measurable. There needs to be measurement on the Return on Investment (ROI) in both economic terms and environmental benefits and this needs to be demonstrated effectively to promote investment.

Investment in nature is long term and a new market and, due to the nature of biodiversity, professionals are finding it hard to create a firm ROI, for example, a forecast over 30 years can bring up a range of ROIs. Having a single answer is not possible and this can make investors nervous. For the financial sector, there needs to be an awareness of this, through engagement and education.

Government could work with private institutions and finance companies to put safeguards in place to ensure integrity, based on already recognised principles, and supported by robust governance, such as a body that endorses codes and standards internationally or in the UK.

Investment will not come into a policy vacuum and should blend with other environmental structures already in place. To support interventions and mitigate risk, regulation can ensure assessments compliance with proposed standards/guidelines methods, including for measurement and valuation of benefits. In supply chains, this needs to be written into contracts to ensure that expected benefits are delivered.

Investment up-front will be needed to build capacity.

Additional research into the needs and requirements of investors and early adopters could be useful.

Projects must have robust, transparent and traceable design, implementation and monitoring, and measurable targets. Natural capital assessment and accounting methodological approaches for this that are presently available. See also question two in terms of the need for spatial planning, additionality, consideration of the mitigation hierarchy, Lawton principles, etc.

There needs to be a focus on long-term value over short-term monetary gains – this is less relevant to investment organisations than to commercial organisations.

Reducing unexpected changes in policy is essential (a recent example, being the proposed change to the need for developers to mitigate nutrients resulting from projects would have (or will if it is approved in the future) impacted significantly on nutrient nature markets.

Natural and financial capitals should be integrated.

4. What contribution will data from the Natural Capital and Ecosystem Assessment (NCEA) programme make to the objective measurement of changes in environmental outcomes?

³ <https://www.gov.uk/government/publications/apply-for-a-grant-from-the-natural-environment-investment-readiness-fund/how-to-apply-for-a-natural-environment-investment-readiness-fund-grant>

⁴ <https://www.gov.uk/government/publications/nature-markets>

The NCEA – and in particular the marine NCEA – can make a significant contribution to improving environmental outcomes and improve investor confidence. Data gathered by the NCEA (earth observation, field-based, etc.) can help to provide a robust, integrated picture of the extent, condition, and biodiversity of England’s terrestrial, freshwater, and marine habitats over a long period of time. Similarly if it is able to refine existing spatially explicit data (such as species distribution), measure ecosystem benefits (such as biocarbon stocks), and improve monitoring of the condition of ecosystems of terrestrial and marine habitats. A type of ‘look-up table’ would be useful.

The NCEA programme is aligning with other frameworks which is positive and will improve investor confidence.

Continued public investment for this type of project in the long term will be essential to support the continued availability of up-to-date information into the future.

5. How can the proposed UK Green Taxonomy support high-quality investments which deliver genuine benefits to nature? What financial disclosures should the taxonomy require

The UK Taxonomy must clearly set out information on nature and not completely focus on carbon. An investment that has benefits to nature should be recognised as a better investment because of the reduced risk.

There is already international guidance such as the EU taxonomy. There are indicators in, for example, the TNFD and SBTN, and the EU Corporate Sustainability Reporting Directive (CSRD). The UK taxonomy should align as much as possible to other taxonomies and reporting methods, and there is an opportunity to tailor information to specific situations. It could be helpful for the UK taxonomy to provide clarity where it’s been recognised that aspects of the EU taxonomy, for example, have been found to not be clear. Structuring itself around international regulation and initiatives already being used by business means that the UK taxonomy will minimize capacity building on publication.

Reporting must require transparency regarding any investment, purchase, or sale that impacts on nature quality or quantity.

Perhaps most importantly, there is a need to increase the pace of a release of the UK taxonomy.

6. How can the operation of natural capital markets ensure genuine net gains for nature? How do such markets address the risk of ‘greenwashing’ of investments and the offsetting of natural recovery in the UK against environmental degradation elsewhere?

Frameworks, rules, codes, and standards will all be vital to ensuring that there is no greenwashing. Greenwashing can be addressed by implementing a science-based, consistent assessment and disclosure of impacts and dependencies on nature.

Greenwashing can be avoided by regulation; that creates transparency, identification of consistent/recognised methodologies of measuring and reporting, reporting of assumptions, methodologies, data sources etc., guidance for ‘what good looks like’, case studies.

Much of what has been said above is relevant: using the mitigation hierarchy so the emphasis is not on mitigating but avoiding, the need for recognised standard ways of doing things, effective and

transparent land registries, monitoring and verification (including third party) over time, transparency, reporting, etc.

Also specific biodiversity impacts must be mitigated rather than another biodiversity-related activity – there should be like-for-like as much as possible. If not addressing the impact then an organisation should not state that it's achieved net gain. Reporting through, for example, TNFD, should demand the detail that determines where impacts have been made and mitigated. Double materiality should be used. This is reflected in the 'Locate' phase of the TNFD and by the multiplication of biodiversity credits under the Defra Metric in cases where onsite biodiversity net gain (BNG) cannot take place.

The Financial Conduct Authority and the Competitions and Markets Authority should strengthen their rules around greenwashing.⁵ Stronger statements around greenwashing in the UK Taxonomy will help support transparency. There is a need to ensure, as stated above, that companies report their impacts and offsets separately rather than being able to make 'net-gain' claims.

Adopt the IUCN⁶ criteria in defining NbS (or most relevant aspects), including (1) societal challenges; (2) design informed by scale; (3) biodiversity net-gain; (4) economic feasibility; (5) inclusive governance; (6) trade-offs; (7) adaptive management; (8) mainstream sustainable interventions.

There is a need for standards and within these a need to distinguish between the supply side and the demand side (where there might be an issue with integrity and greenwashing and making claims that aren't true).

7. What role can the UK's financial markets play in developing the flow of international capital into the development of the UK's natural capital?

In many cases it will be cheaper for investment to take place in less economically robust countries. Also countries might have a strong preference to invest in their own economy over others. Offering robust frameworks and methodologies and having capacity in financial markets around better understanding natural capital and what a nature market is could help attract international investment. The UK could become an exemplar of how nature markets can incorporate natural capital and what we've talked about above in terms of having good practice and guardrails in place. All the above could be linked to the requirements of the UN Global Biodiversity Framework, demonstrating good practice.

8. What role does the UK have in establishing international standards for natural capital investments, alongside other jurisdictions and financial centres?

There needs to be alignment in the creation of nature market standards nationally and internationally and avoidance of competing standards, frameworks, and taxonomies. Alignment helps uptake and limits bureaucracy. Regulation can be a driver until the market is up and running and it becomes self-regulating. Investment in nature markets is needed along with the resources to make it happen.

⁵ <https://planet-tracker.org/wp-content/uploads/2023/01/Greenwashing-Hydra-3.pdf>

⁶ <https://www.iucn.org/resources/publication/iucn-global-standard-nature-based-solutions-first-edition>

The BSI suite of nature market standards will be instrumental in this, especially if they go on to become taken up internationally or become international standards. There is already a UK-led standard on Natural Capital Accounting being written at ISO, based on a BSI standard that already exists.

The UK has an opportunity to build on its reputation as a financial hub alongside its world-first BNG legislation.

Lesley Wilson – policy@iema.net
Policy and Engagement Lead IEMA, Biodiversity and Natural Capital
Institute of Environmental Management and Assessment www.iema.net
September 2023