

THE ROLE OF NATURAL CAPITAL IN THE GREEN ECONOMY

EIC Response



ABOUT EIC

The Environmental Industries Commission (EIC) represents the companies, large and small, working in the environmental services and technologies sector to deliver a more sustainable society. Comprised of technical specialists, dedicated professionals, and cutting-edge innovations, EIC members have the knowledge and expertise to advise, guide, and facilitate the delivery of green growth within the U.K. economy.

Our **vision** is grounded in the principles of innovation, social value, excellence, and people, to ultimately drive positive change across environmental industries.

Our **mission** is to advocate, anticipate, and educate on behalf of our members. That means proactively engaging with government and stakeholders about challenges and opportunities, ensuring members of all sizes have a voice.

Our **drive** is to provide long-lasting, sustainable solutions to some of our biggest challenges - whether it be around waste management, water conservation, air quality, nature and biodiversity, contaminated land, or environmental laboratories, the EIC promotes a multifaceted approach that engages experts and stakeholders from across different sectors.

INTRODUCTION

We welcome the opportunity to contribute to the consultation on the role of natural capital in the green economy. EIC members have a deep commitment to environmental stewardship and sustainable development and recognise the critical importance of designing robust frameworks that align private capital investments with measurable and meaningful environmental outcomes. The establishment of high-integrity markets for ecosystem services and the implementation of a UK Green Taxonomy offer promising avenues for achieving nature recovery targets and advancing the broader goals of a sustainable green economy.

In our response, we draw upon the expertise of EIC members to address key issues on the operation of natural capital markets and the potential of the UK Green Taxonomy to drive high-quality investments that deliver tangible benefits to nature. EIC and its members are committed to contributing technical knowledge to shape policies and mechanisms that not only promote nature recovery but also safeguard against risks such as greenwashing and offsetting of environmental degradation.

Our insights are drawn from the extensive experience of our members in collaborating with diverse stakeholders, designing ecologically sensitive projects, and integrating environmental considerations into decision-making processes.

EIC looks forward to contributing our expertise and insights to the ongoing dialogue on natural capital markets and the UK Green Taxonomy. Through collaborative efforts, we believe we can shape a future where private capital investments play a transformative role in safeguarding and enhancing our natural capital, leading to a sustainable, thriving, and resilient environment.

EIC SUBMISSION

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

From the perspective of EIC members, the potential contributions that private capital investment can make to measures to secure nature recovery are substantial. EIC members play a critical role in designing, planning, and implementing infrastructure projects that are ecologically sensitive and contribute to nature recovery. Our members seek to outline the multifaceted role that private capital can play across a range of vital areas, aligning with the EIC's commitment to green growth, skills, and prosperity.

- Biodiversity Restoration** - Private capital investment stands as a transformative force when it comes to funding and executing large-scale ecosystem restoration and biodiversity projects, harnessing the expertise of EIC members and the private sector as a whole to address complex environmental challenges. These projects encompass critical endeavors such as wetland rehabilitation, where private capital catalyses restoration efforts, capitalising on EIC member firms' engineering and ecological proficiency. Additionally, private capital's impact extends to afforestation and reforestation initiatives, tapping into the knowledge of EIC members. With the UK government's goal to plant 30 million trees by 2025, private investment channeled through industry leaders could drive restorative actions, enhance air quality, and fortify climate change mitigation efforts. Habitat restoration, led by EIC members, is another area where private capital shines. By rehabilitating degraded habitats and reintroducing native species, private funding rejuvenates ecosystems, supporting biodiversity and vital ecosystem services like pollination and water purification. This harmony between private investment and ecological expertise underscores habitat restoration's potential to nurture healthier and more resilient natural environments. EIC members, with their multidiscipline approach, can design and oversee these projects to ensure they are ecologically sound, meet regulatory requirements, and deliver the desired outcomes for nature recovery.
- Water Security** - Harnessing the potential of private capital investment, water security projects, encompassing flood management and efficient water resource utilisation, can experience significant enhancements. In flood management, the integration of natural infrastructure with engineered solutions gains momentum through private funding. EIC members adeptly leverage their technical expertise to deploy nature-based solutions like peatlands, wetlands, and forests effectively mitigating flood risk. In water resource management, private investment acts as a catalyst for innovation in water purification, desalination, and optimal usage. EIC members drive transformative projects in collaboration with research institutions and stakeholders, yielding technologies that monitor water consumption and identify conservation opportunities. By strategically directing private investment, EIC members exemplify how partnerships between private and public entities can drive impactful change, reinforcing water security while alleviating ecological stress.
- Innovation and Collaboration** - Elevating innovation and research within the realm of environmental technology, private capital investment assumes a pivotal role, becoming a catalyst for driving groundbreaking solutions to the complex challenges facing nature and the environment. By strategically directing private capital into innovation and research initiatives, transformative breakthroughs can be realised across key nature recovery domains. Directing private capital investment towards innovation and research for nature recovery significantly contributes to driving transformative progress, pushing the boundaries of innovation and paving the way for a more sustainable economy.

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

Aligning investment with environmental benefits to achieve or surpass the Government's targets for nature recovery is a multifaceted challenge that requires careful planning, strategic decision-making, and collaboration among various stakeholders. EIC members play a crucial role in designing and implementing projects that maximise environmental benefits.

- **Holistic Project Design:** Aligning investment with environmental benefits necessitates a holistic approach, deftly weaving together natural and engineered solutions. This strategy involves meticulous project design that considers the intricate complexities of nature recovery. Integrated planning further refines this process by harmonising a range of strategies, ensuring that investments are not isolated endeavors but are part of a larger, cohesive plan. This comprehensive approach guarantees that investments transcend immediate outcomes, addressing the multi-dimensional challenges of nature recovery and setting the stage for sustained ecological enhancement. Many EIC members can support the development of comprehensive project designs that consider the entire ecosystem and its interdependencies. By taking a holistic approach, projects can address multiple environmental aspects simultaneously, leading to more effective and synergistic outcomes.
- **Innovative Finance Models:** Expertise in innovative financing models and thorough risk assessment ensures that investments are not only financially viable but also optimised for environmental benefits. This equilibrium between economic feasibility and environmental impact guarantees that investments channel resources into initiatives that foster biodiversity, restore ecosystems, and contribute to the overall health of natural environments.
- **Long-Term Vision:** Emphasising long-term planning in investment alignment ensures that environmental benefits extend beyond immediate achievements. By aiming for sustained progress, investments create a legacy of ecological restoration. This forward-looking perspective guarantees that investments not only meet short-term targets but also contribute to lasting environmental improvements.
- **Adaptive Management:** Investments aligned with adaptive management principles respond to changing circumstances, safeguarding against unforeseen challenges, and enhancing environmental benefits. This adaptability ensures that investments remain relevant and effective in producing positive ecological outcomes that exceed initial projections.
- **Policy Synergy:** Collaborations with diverse governmental departments and institutions ensure that private capital investments are in sync with broader policy goals, maximising environmental benefits. By integrating private investments into existing policy frameworks, investments become strategic tools for policy realisation. This alignment ensures that investments directly contribute to policy objectives, promoting actions that enhance environmental conditions beyond initial projections.
- **Quantifiable Metrics and Transparency:** The integration of quantifiable metrics and transparent reporting mechanisms ensures investment alignment results in demonstrable environmental benefits. Clear metrics enable stakeholders to measure progress, holding investments accountable for delivering the intended outcomes. Transparent reporting establishes a direct link between financial resources and environmental impacts, guaranteeing that investments are not just financial injections but measurable actions that positively affect the natural environment and surpass government targets.

- **Stakeholder Engagement:** Inclusive stakeholder engagement amplifies environmental benefits by garnering broader support for nature recovery projects. By engaging communities, environmental advocates, and relevant organisations, investments are more likely to be accepted, understood, and embraced. This inclusive approach extends the ripple effect of investments, fostering a groundswell of support that translates into enhanced environmental outcomes.
- **Nature-Based Solutions:** Positioning nature-based solutions as the cornerstone of climate investment strategies represents an imperative shift towards a sustainable future. These solutions ingeniously replicate nature's ingenious processes, rendering benefits for both ecosystems and human well-being. Their remarkable versatility finds relevance across an array of challenges, ranging from mitigating flooding and curtailing air pollution to addressing the profound impacts of climate change. By harmonising private capital investments with nature-based solutions, their strength is magnified, presenting a paradigm where sustainable advancements transcend preset benchmarks. This strategic integration ushers in an era of environmental stewardship where investments align inherently with ecosystem restoration and resilience. Nature based solutions are increasingly being mainstreamed in complement to grey infrastructure, but further efforts such as enabling actions and removal of barriers are needed to enable this to reach full potential.

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?

Establishing and maintaining high-integrity markets in ecosystem services to attract private investment involves a combination of regulatory, procedural, and informational measures. EIC members can contribute by providing technical expertise and designing robust systems.

(a) Establish:

- **Clear regulatory frameworks** - Clear and consistent regulatory frameworks are essential for establishing high-integrity markets in ecosystem services. These frameworks should define the rights and responsibilities of all stakeholders and should provide for effective enforcement. EIC members can contribute to clear regulatory frameworks by ensuring that technical aspects are aligned with environmental science and best practices.
- **Market infrastructure** - Well-functioning market infrastructure is also essential for attracting private investment. This includes mechanisms for trading ecosystem services, as well as systems for measuring, monitoring, and verifying the provision of these services. EIC members who are also members of the Association of Consultancy and Engineering can design and develop the digital and physical infrastructure required for transactions and data management.
- **Standardisation** - is important for ensuring the quality and comparability of data on ecosystem services. This can help to reduce risk and uncertainty for investors and can make it easier to trade ecosystem services.
- **Incentives** - can be used to encourage investment in ecosystem services. These incentives could include tax breaks, subsidies, or other forms of financial support.
- **Transparency and information** - are essential for building trust and confidence in high-integrity markets in ecosystem services. This includes providing clear and accessible information about the benefits of ecosystem services, as well as the risks and opportunities associated with investing in these services.

(b) Maintain:

- **Effective monitoring** - is essential for ensuring that high-integrity markets in ecosystem services are maintained. This includes monitoring the provision of ecosystem services, as well as the performance of markets.
- **Adaptive management** - is important for ensuring that high-integrity markets in ecosystem services are responsive to change. This includes adjusting regulations, market infrastructure, and incentives in response to new information and changing circumstances.
- **Enforcement and compliance** - are essential for ensuring that the rules and regulations governing high-integrity markets in ecosystem services are adhered to. This includes taking action against those who violate the rules.
- **Regular auditing** - is important for ensuring that high-integrity markets in ecosystem services are operating effectively. This includes auditing the performance of markets, as well as the performance of those responsible for managing these markets.
- **Stakeholder engagement** - is important for ensuring that high-integrity markets in ecosystem services are responsive to the needs of all stakeholders. This includes engaging with governments, businesses, civil society organisations, and other interested parties.

Investor Confidence and UK's Arrangements:

- **Policy and Regulatory clarity** - There needs to be strong and consistent policy background – which has not always been the case in the UK – to ensure confidence from investors to develop these markets. Plus, clear and consistent regulations that define the rights and responsibilities of all stakeholders, and that provide for effective enforcement.
- **Demonstrated success** - A track record of success in delivering the benefits of ecosystem services, and in attracting private investment.
- **Transparency and accountability** - Robust systems for monitoring, reporting, and verifying the provision of ecosystem services, as well as the performance of markets.
- **Risk management** - Effective mechanisms for managing the risks associated with investing in ecosystem services.
- **Collaborative approach** - A collaborative approach to the design and management of markets, which engages with all stakeholders.

The UK has made some progress in establishing high-integrity markets in ecosystem services. However, there is still more that can be done to build investor confidence in these markets. By taking the steps outlined above, the UK can create a more attractive environment for private investment in ecosystem services. EIC members can contribute to the establishment and maintenance of high-integrity markets in ecosystem services by providing technical expertise and designing robust systems. EIC members can also help to build investor confidence by engaging with investors and other stakeholders, and by promoting the benefits of investing in ecosystem services. Lastly, EIC members are innovating around new technologies to help deliver monitoring more cost effectively, which feeds into the robust measurable impact data required for investment in markets.

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

The data from the Natural Capital and Ecosystem Assessment (NCEA) program can make a significant contribution to the objective measurement of changes in environmental outcomes.

- **Regular Reporting** - The Natural Capital and Ecosystem Assessment (NCEA) programme represents a cornerstone to objectively measure changes in environmental outcomes. EIC members recognise the pivotal contribution that NCEA data will bring to this endeavor. The programmes comprehensive data collection mechanisms not only allow for a holistic understanding of our ecosystems but also establish a baseline against which changes can be quantified. This **baseline establishment** forms a crucial anchor

for measuring progress, ensuring that our efforts are grounded in a clear understanding of where we stand.

- Furthermore, the NCEA programme's commitment to monitoring long-term trends is instrumental. It provides us with the ability to capture the evolving dynamics of our environment, thus aiding in the identification of shifts, trends, and anomalies. The integration of **spatial analysis** within the programme augments our comprehension by enabling us to view environmental changes within their geographical context. This spatial perspective is particularly valuable for pinpointing localised variations, thus enabling targeted interventions where they are most needed.
- One of the most significant contributions of the NCEA programme is its capacity for **quantitative assessment**. The rigorous scientific approach taken by the programme ensures that the data collected is not only comprehensive but also reliable. The scientific rigor applied in data collection, analysis, and interpretation enhances the credibility of the measurements, reinforcing the value of the information gathered.
- **Real-time monitoring** is another notable feature of the NCEA programme. This aspect ushers in a new dimension of environmental assessment, allowing us to respond swiftly to emergent changes and trends. The **accessibility and visualisation** of data generated by the programme facilitates easy interpretation and engagement, making the information more readily understandable for a wider audience. This accessibility empowers stakeholders with insights that can guide informed decision-making.
- **Stakeholder engagement** is a cornerstone of the NCEA programme, ensuring that data is not only collected but shared effectively. The regular reporting facilitated by the programme ensures that the insights generated are disseminated, promoting transparency and fostering a collaborative approach to environmental management.

In conclusion, EIC members view the Natural Capital and Ecosystem Assessment (NCEA) programme as a transformative tool that will significantly contribute to the objective measurement of changes in environmental outcomes. Through comprehensive data collection, baseline establishment, long-term trend monitoring, spatial analysis, quantitative assessment, scientific rigor, real-time monitoring, data accessibility and visualisation, stakeholder engagement, and regular reporting, the NCEA programme embodies a multifaceted approach that aligns seamlessly with our commitment to evidence-based environmental stewardship.

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 proposed UK Green Taxonomy can play a vital role in supporting high-quality investments that deliver genuine benefits to nature. EIC members can contribute by helping to shape the taxonomy's criteria, ensuring accuracy in financial disclosures, and guiding investors towards environmentally beneficial projects.

Supporting High-Quality Investments:

- **Clear Criteria for Nature Benefits** - The UK Green Taxonomy should establish unambiguous criteria for nature-related benefits. Clarity in defining the scope and scale of positive environmental impacts is essential to direct investments towards projects that genuinely enhance nature. EIC members are able to offer their expertise in environmental assessment and technology solutions can ensure the taxonomy's criteria align with practical project outcomes.

- **Differentiated Categories** - To cater to diverse environmental objectives, the taxonomy should encompass differentiated categories within the realm of nature benefits. This allows for investments to align with specific goals, such as biodiversity conservation, habitat restoration, or ecosystem resilience.
- **Alignment with Nature Goals** - The taxonomy must be meticulously aligned with overarching nature recovery goals and strategies, ensuring that investments contribute directly to the preservation and restoration of ecosystems.
- **Scientific Validation** - Criteria within the taxonomy should undergo rigorous scientific validation. This process would verify the effectiveness of investments in delivering nature benefits, bolstering investor confidence in the taxonomy's guidance.

Financial Disclosures:

- **Environmental Impact Metrics** - The taxonomy should mandate comprehensive environmental impact metrics in financial disclosures. These metrics should quantify the tangible benefits generated for nature, providing investors with quantifiable evidence of positive contributions. EIC members can develop and implement advanced environmental impact metrics, leveraging their technological expertise. They can help companies measure and report on the tangible benefits their investments provide to nature.
- **Project-Specific Data** - For utmost transparency and accountability, financial disclosures should include project-specific data detailing the nature benefits generated. This level of granularity empowers investors to make informed decisions.
- **Lifecycle Assessment** - Incorporating lifecycle assessments within financial disclosures is crucial. It allows investors to gauge the long-term sustainability and durability of nature benefits, ensuring that investments deliver lasting environmental impacts.
- **Transparency** - Transparency in financial disclosures is non-negotiable. Investors should have access to clear and comprehensible information regarding the environmental performance of their investments, fostering trust and accountability.
- **Third-Party Verification** - Independent third-party verification of financial disclosures can enhance their credibility. This step ensures that reported environmental benefits are accurate and reliable. EIC members can serve as third-party verifiers, offering independent assessments of financial disclosures to validate the reported environmental benefits.
- **Consistency with Reporting Standards** - To facilitate comparisons and benchmarking, the taxonomy should align with established environmental reporting standards, harmonizing the disclosure process and enhancing its usefulness.
- **Regular Updates** - The taxonomy should include provisions for regular updates to criteria and disclosure requirements. This dynamic approach ensures that the taxonomy remains current and reflective of evolving environmental priorities.
- **Scenario Analysis** - Financial disclosures should incorporate scenario analysis, allowing investors to assess the potential impact of different investment decisions on nature benefits. This foresight empowers investors to make environmentally responsible choices.

In conclusion, the proposed UK Green Taxonomy presents an exceptional framework to guide investments towards genuine benefits for nature. EIC members are committed to collaborating in its development to ensure that clear criteria, differentiated categories, alignment with nature goals, and scientific validation

facilitate high-quality investments. Financial disclosures, enriched with environmental impact metrics, project-specific data, lifecycle assessments, transparency, third-party verification, consistency with reporting standards, regular updates, and scenario analysis, will empower investors to make decisions that not only align with financial interests but also drive positive environmental outcomes.

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?

Ensuring genuine net gains for nature through the operation of natural capital markets is a complex challenge that requires careful design, effective oversight, and transparent mechanisms. EIC members can play a key role in the design and implementation of strategies that prevent greenwashing and uphold integrity in these markets.

Ensuring Genuine Net Gains for Nature:

- **Robust Criteria** - The establishment of stringent, transparent, and measurable criteria is fundamental. These criteria should prioritize projects that deliver substantial and quantifiable benefits to nature.
- **Biodiversity and Habitat Restoration** - Natural capital markets should prioritize projects that focus on biodiversity conservation and habitat restoration. These projects can help reverse environmental degradation and enhance ecosystem resilience. Drawing on their expertise in ecological consulting and engineering, EIC members can advocate for a strong emphasis on biodiversity and habitat restoration within natural capital market initiatives.
- **Scientific Evaluation** - To ensure genuine net gains, investments should undergo scientific evaluation. Robust methodologies, informed by experts in ecology and environmental science, can accurately assess the impact of projects on biodiversity and ecosystems. EIC members can contribute scientific rigor to the evaluation process of market investments. Their expertise can help design evaluation methodologies that are evidence-based and capable of assessing the true impact of projects on biodiversity and ecosystem health.
- **Outcome-Based Metrics** - Metrics that track tangible improvements in biodiversity, habitat quality, and ecosystem health should be developed. These metrics must be aligned with overarching nature recovery goals.
- **Long-Term Monitoring** - Implementing long-term monitoring systems is crucial to ensure the sustained benefits of investments. These systems should track the progress and effectiveness of projects over time.

Addressing ‘Greenwashing’ and Offsetting Risks:

- **Independent Verification** - Independent verifiers can conduct impartial assessments of investments to confirm compliance with natural capital market criteria. This verification process adds credibility and reduces the risk of greenwashing.
- **Transparency and Reporting** - Robust reporting practices should be enforced, requiring comprehensive and standardized disclosure of project details. Transparency ensures that investments are held accountable. can help design reporting frameworks that require comprehensive and standardized disclosure of project details, making it difficult for investments to hide behind misleading information.
- **Additionality Requirement** - Strict additionality requirements must be in place to ensure that investments lead to real and additional benefits for nature, beyond what would have occurred naturally.

- **Community Engagement** - Engaging local communities in project planning and implementation can help align projects with community interests. Local communities often have a vested interest in the long-term well-being of their environment. They can act as guardians of local-level interests, advocating for projects that genuinely benefit their ecosystems.
- **Continuous Monitoring and Enforcement** - Robust mechanisms for continuous monitoring and enforcement - such as regular auditing, performance bonds, and public reporting - should be established to ensure that investments remain in compliance with their commitments over time.

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

The UK plays a crucial role in establishing international standards for natural capital investments, collaborating with other jurisdictions. The UK is home to a number of world-leading environmental and financial institutions and has a strong track record of developing and implementing international standards. The UK can play a leading role in establishing international standards for natural capital investments by:

- **Providing leadership and support for international initiatives:** The UK can provide leadership and support for international initiatives to develop standards for natural capital investments. This could include working with other countries to develop common definitions and metrics for natural capital, and to create a framework for assessing the risks and opportunities of natural capital investments.
- **Sharing its expertise and experience:** The UK can share its expertise and experience in environmental and financial regulation with other countries. This could include providing technical assistance to other countries to develop their own natural capital investment standards, and to implement these standards in practice.
- **Promoting the benefits of natural capital investments:** The UK can promote the benefits of natural capital investments to investors and other stakeholders. This could include raising awareness of the economic, social, and environmental benefits of natural capital investments, and providing guidance on how to invest in natural capital.

By taking these steps, the UK can help to create a more robust and transparent market for natural capital investments. This will in turn help to promote sustainable development and protect the environment.

