Cyswllt Amgylchedd Cymru | Wales Environment Link

# Sustainable Investment Principles
## December 2024

**Question 1: What are your views on the proposed principles?**

The four proposed principles are a good starting point for guiding private investment. They include many key aspects that are also detailed in the supply side Nature Market Principles co-developed by the Wildlife Trusts, National Trust, RSPB, Woodland Trust, Finance Earth and Federated Hermes. They are also very similar to Scotland's Sustainable Investment Principles. Private investors will need further guidance if investment is to be made in a variety of projects with multiple outcomes for climate and nature, or we may see lots of poorly conceived or single-outcome projects that may have limited value for nature.

Big corporations are not necessarily eco-literate and the demand side principles suggested in the Nature Markets Principles report are a means of guiding and mitigating the risk of poorly conceived projects. Of particular importance is the demand side principle of alignment with net zero and global biodiversity goals, with a commitment to the mitigation hierarchy to ensure that projects are not replacing action to reduce emissions, impact rivers or biodiversity loss from the activities of companies.

It is notable that the four principles are more generically worded than those in Scotland, and in particular nature/environment does not feature as prominently as it could, for example high-integrity is mentioned, but not high environmental integrity as the Scottish principles do. In particular, sustainable investment into Wales should be a key driver for achieving Wales' obligations under the Global Biodiversity Framework, enabling the restoration of nature from its current degraded state. We would like to see the language around restoration of nature strengthened within the principles.

**Support integrated land use and the equitable sharing of the benefits**

We are pleased to see importance placed on the integration of multiple benefits when making sustainable investment, particularly consideration of how this integrates with biodiversity benefits. Action that tackles climate change should not have negative impacts on nature where possible and there should be an overall net benefit to both climate and nature. It may be useful to insert an environmental and social safeguarding clause into this principle to ensure that investment in a project does not harm existing ecological systems, existing environmental designations are protected, and to ensure there is no 'leakage' in terms of displacing environmental impacts from the project area to other areas. Including this concept would bring the principles more into line with the existing voluntary codes (e.g. Woodland Carbon Code, Peatland Code, Woodland Water Code), which include leakage considerations in the calculation of ecosystem units.

Linked to this safeguarding point, we welcome the consideration of whether it is necessary for investments to require ownership of land. Sustainable investment should focus on support to landowners to deliver nature recovery on their land across all ecosystems and deter land purchase to deliver benefit in only one area, for example, concerns over land sale to investment companies - often for carbon credits. Supporting sustainable investment over a range of environmental improvements, and allowing investment to stack benefits, would encourage landowners to deliver multi-benefits across all ecosystems (so, biodiversity, water quality, flow, carbon etc).

**Deliver public, private, community and cultural well-being benefits**

We welcome the desire to recognise and respond to local circumstances, yet application of these principles needs to also consider the wider implications of investments/activities beyond the local. A prime example of this is freshwater, where the benefits of investments can be felt far beyond the locality. Landscape delivery and determination of benefit is currently hindered by self-imposed boundaries. We would encourage sustainable investment principles to consider catchment-based delivery to maximise the widest extent of benefit. For example, investments in natural flood management in the Brecon Beacons will make a material difference to flood risk in Cardiff. Those same schemes will also deliver water quality, biodiversity and carbon benefits and the principles need to ensure this can be accounted to encourage funding from a variety of beneficiaries. Such an approach will enable not only local circumstances to be recognised, but also the wider needs of communities

downstream – and often including the marine environment which can be heavily impacted by freshwater pollution sources.

We also welcome the recognition under this principle that investments should consider impacts across all four capitals (natural, social, economic, cultural well-being). However, as these principles aim primarily to increase investment into the protection and restoration of the environment, we feel it is appropriate to reflect the sustainability hierarchy and recognise that interventions to the natural environment have the greatest potential to delivery additional benefits across wider well-being considerations given that a healthy and resilient environment is the foundation of the wider economy and society.

**Demonstrate best practice engagement and collaboration**

In addition to reiterating the points above about the need for a catchment-based approach when considering collaboration, we strongly welcome the commitment to open collaboration between all interested parties. This will help to build trust with communities that will be affected by issues that will be tackled by these investments.

Another way to ensure a collaborative approach to directing investment would be to facilitate the establishment of cooperative structures or use of community banks such as Community Bank Cymru as the primary holding and distributing agents of funding. This would provide a mechanism to ensure that there is financial flow into organisations that are established and governed for community benefit. One example of this is the Environmental Farmers Group. This approach would require baselining and monitoring of natural capital variables across Wales' land and marine areas to ensure the meeting of consistent agreed national standards.

**Demonstrate values-led and high integrity**

This principle is particularly important when bringing in private finance to tackle environmental degradation and invest in projects that restore nature. At the forefront, private finance should not hinder sites meeting their required environmental obligations and should require a national minimum standard to be met. Delivered in the right way, sustainable investment should support rural communities to become more economically robust, delivering a range of ecosystem benefits which could deliver wider benefits to the communities in addition to nature recovery. When projects are poorly conceived, and benefits are not locked in for the long term, this is viewed by communities and other stakeholders as greenwashing.

The requirements under this principle for additionality, transparency, locking in benefits for the long term and using recognised codes and methodologies to verify the benefits and outcomes of private investment are very welcome. We also feel that, as recommended by the Nature Market Principles report, it is important to direct investment away from ex ante units such as Pending Issuance Units and prioritise the sale of ex post units so that projects are not relying on outcomes that will be delivered in future, instead of outcomes that have already been delivered. This is one way of reducing the risk of projects not delivering as intended.

A variety of different environmental calculators are being developed to help measure environmental outcomes, credits or units, for example nutrient neutrality calculators. This area could become confusing and guidance towards the most reliable tools (and how to use them) will be required. In relation to carbon calculators, we recognise that there are different calculators that can be used. We suggest that whichever approach is taken, it must match international best practice in the form of ISO standards and the GHG Protocol Land Sector & Removals (LSRG) guidance. In addition, the Government must reflect upon the ongoing debates around the differences between GWP100 and GWP[1] when looking at year to year emissions, and caution against a focus on calculators which exploit GWP* at this stage.

It is critical that the principles recognise that sustainable investment accounting should never be allowed to permit inaction on reducing impact at source. We should always be striving to achieve minimal environmental impact across a wide range of metrics, than allowing sustainable investment to offset that impact. For example, this has the potential to create the perverse consequence where emissions are allowed to rise in some sectors as we find new ways of accounting for existing sequestration. Consequently, we are pleased to see the inclusion of the statement that "Landowners and managers considering the sale of carbon credits should consider their own current and future carbon management needs before doing so". This should also apply to private businesses looking to buy carbon credits to offset emissions. We should also ensure that water abstraction and discharges are managed to ensure sustainable use of rivers before investing in schemes to offset impact. A positive example of this is the work undertaken on the River Wye

[1] Meinshausen, M and Nicholls, Z. 2022. GWP* is a model, not a metric. Environmental Research Letters 17(4). https://iopscience.iop.org/article/10.1088/1748-9326/ac5930

sustainable abstraction principles which delivered benefits over and above the statutory obligations at no additional costs to the abstractors.

**Question 2: What are your views on how the principles can be applied to delivering nature-based solutions and ecosystems services?**

The need to restore nature and reduce environmental impact is urgent and there are many areas that need investment. However, investment needs guidance and leadership from the Welsh Government to ensure that there is investment in a diversity of projects, activity and habitats and that large private investors do not focus solely on buying up land. The principles should help ensure that projects have high environmental integrity and deliver for the long term, but further guidance, strategic direction and regulation will be required to ensure that investment is going into the most beneficial projects for the environment and is not a replacement for public investment in our environment.

One area that could benefit from more clarity is how the Sustainable Farming Scheme (SFS) for Wales can lever in additional private investment to boost the funds available for nature and climate friendly farming. Without careful thought there is a risk that private investment could simply end up subsidising food production. WEL is concerned that that budgetary pressures will mean that the collaborative layer of the SFS is inadequately resourced, and that this is where there would be particular opportunities for landscape scale projects that could restore biodiversity and provide multiple benefits across a larger area. In this space, private investment is vital to achieve our legal commitments and support farmers to transition to more sustainable practices.

It will also be important to understand how payments could be stacked so that public money for actions under the universal layer of SFS can be applied to land with green investment overlaid on part or all of the holding, as long as there is no double funding. The success of green investment is dependent on clarity in this area and the uptake and scaling up of green investment and positive interaction with public funds is vital for the collaborative landscape tier.

Private investors need advice on the most important interventions that can be supported that will have multiple benefits for the environment, as well as providing the return that investors require. Investment also needs to be prioritised to ensure

we deliver measured outcomes. Different sorts of private investment may be suited to different projects, whether this is buying carbon credits, ecosystem units or other types of environmental credits, or whether there are opportunities for more traditional types of financial support such as low-cost loans or green bonds. Another consideration is how public seed funding could be used to lever in further investment.

Government has a responsibility for providing strategic direction as nature restoration does not lend itself easily to a completely market-led approach. One of the main barriers to the widespread adoption of nature-based solutions is a lack of governance structures that balance the legitimate interests of dominant stakeholders (e.g. landowners, water companies) against those of the many other beneficiaries and stakeholders who use and benefit from any area of land or water. There should be a process for balancing the interests of different users and beneficiaries, rather than just allowing monopoly by the dominant users or indeed by the largest investors, whose interests may not be aligned with those of the environment or local people. To achieve this, sustainable investment needs to be governed to deliver benefits at catchment-scale and to ensure outcomes are delivered and monitored.

This tension is acknowledged in the first two principles, but we believe the Welsh Government has a role in guiding good practice involvement of more stakeholders in decision making. Such a process also needs to recognise all the co-benefits that are likely from investment, including non-market and intangible benefits. Implicit in this is that the governance mechanism must allow stakeholders a substantive role in making decisions collectively on priorities for expenditure.

While private finance and nature markets have a role to play in contributing to nature recovery, it is important that we do not become over reliant on market-based mechanisms to deliver vital public policy objectives which require concerted action and may be best pursued by public programmes and funding.

**Question 3: Do you agree or disagree that our proposed approach complements the values/standards of schemes and codes currently in use?**

There are lessons to be learned from the voluntary carbon market. The rapid scaling up of these markets has shown that, without proper governance, carbon credits of dubious quality are freely available to buy, sometimes repeatedly, and businesses

face little scrutiny about what environmental credentials they can claim in return for participating in the market. It is essential that other nature markets avoid similar mistakes which could undermine business, stakeholder and public confidence, and therefore market integrity and viability. We welcome the trials on Woodland Water Code and would urge Welsh Government to learn from potential pitfalls in nutrient neutrality schemes in England.

We further consider it is important that an independent body is established which audits the environmental activities, policies and initiatives of businesses to verify that the claims being made are valid and that they meet the industry standard. This independent body must be able to ensure that essential information is not hidden under the excuse of commercial confidentiality, as per the requirement in the principles for transparency. To aid this, a publicly accessible project registry is needed where projects are registered, tracked, and retired. Information should be shared and reported in a way that is accessible to all interested parties and ideally the wider market. This body could also act as a conduit to govern and direct prioritised delivery, potentially also acting as the receiver of sanction payments.

An ideal framework created by the Welsh Government will encompass existing initiatives and drive their gradual improvement towards fully meeting the principles. According to the Woodland Trust, this is what has gradually happened in the development of the Woodland Carbon Code.

Decisions on funding of Welsh projects need to be made in Wales, and this may be a challenge for private sector companies. This is why it is important for the Welsh Government to provide strategic oversight and guidance on areas where private investment is particularly needed and appropriate. We support there being common standards across the UK, with suitable 4 country governance. This should enable investors from outside Wales to understand what is required of them.

The Welsh Government needs to provide urgent clarity on Net Benefit for Biodiversity and how this will drive investment in nature restoration in Wales. The clear Biodiversity Net Gain metric that is being used in England is beginning to be used by default in Wales as it provides clarity for developers: we need similar clarity on how Net Benefit for Biodiversity will be used. It is also important to learn from poor examples of the use of Net Biodiversity Gain when developing metrics and guidance for Wales: there should be a primary focus on incorporating environmental

enhancement into development schemes with off-site provision of biodiversity benefit only in cases where this is not possible.

**Question 4: What are your views on our proposed approach to exploring sustainable finance in Wales?**

WEL supports the Welsh Government exploring ways to increase sustainable private finance. Pressures on public finances continue, so it is increasingly apparent that – while an increase in public investment is needed – they will be inadequate to meet the needs of the nature and climate emergency. Involving private investors in tackling the climate and nature emergency also provides an opportunity for businesses to understand their impact on the environment, and their dependencies upon the natural environment for the continuation of a thriving economy for them to operate in. The Welsh Government needs to move swiftly to put appropriate governance in place and provide a strategic direction to ensure that the right investment is in place and that investment doesn't take place without the necessary oversight.

The Welsh Government must be active in this space and willing to provide investors with the opportunity to integrate finance options within the 'guardrails' and democratic legitimacy provided by Government policy, regulation, and public accountability. However, we do not want Welsh Government investment in nature to be replaced by sustainable finance investors. That is why it is critical that investments under these principles are used only to provide additionality to Welsh Government's existing evidence-based priorities, and that Government's own budget for these areas is expanded, regardless of the investment opportunities developed.

Given the expectation to deliver on Government objectives it is important that the governance of these markets is properly regulated by the Government to ensure that they deliver on these objectives and that the intended outcomes are being realised. This will require oversight and regulation that is properly resourced. We need to see appropriate staff resourcing dedicated to this aspect of nature markets and we need to see this matched with the required skills and knowledge; learning from the challenges experienced by Local Authorities in effectively regulating Biodiversity Net Gain.

There is a growing assumption that trading in offsets – carbon, biodiversity, nutrients - is a major part of any green or blended finance approach. Such trading is inevitably complex, and risks being opaque and subject to manipulation, requiring robust governance oversight and monitoring, and proactive challenging of greenwashing. Other kinds of private investment must also be considered, including ways of encouraging direct investment in biodiversity restoration, and discouraging large acquisitions of land that may displace farm businesses or exclude local communities and other visitors from the land.

A related risk is that Government priorities become focused on areas more likely to be attractive to sustainable investment, rather than the action required to address the nature and climate crisis. A prime example of this is tree planting versus investment in areas (such as biodiversity connectivity) which have a less advanced accounting mechanism. While tree planting is an essential action which the Welsh Government must support to achieve its net zero obligations, it cannot be the only option available. Whilst the Welsh Government must support and require significant increases in our national tree cover, which we believe should focus on native trees and woodland, public policy must also drive investment in other areas with less mature market mechanisms. This cannot be achieved if the Government is instead following the market and focusing on where easy investments can be procured in the short term.

Regardless of these concerns the Welsh Government's approach must become one of action. Wales has established 2030 and 2050 targets and ambitions for the environment, alongside new requirements currently under development in the Environment (Principles, Governance, and Biodiversity Targets) (Wales) Bill 2025. These will not be achieved under existing budgets alone. Therefore, it is essential that Government transitions towards the use of alternative sustainable investment opportunities before it is too late to meet our 2030 requirements.

**Question 5: What do you think are the barriers to preventing the people and communities of Wales from becoming involved in nature recovery?**

As previously discussed in the answer to question 2, there needs to be improved mechanisms for people and communities that are not necessarily landowners to be involved in decision making about nature recovery projects in their area. Actions (or inaction) on private land have a huge impact on the areas where people live, which

can be particularly seen in relation to land use choices impacting downstream flooding of villages, towns and cities. The loss of habitats and resulting loss of species impact all citizens in Wales, but most people are not allowed to be involved in decisions relating to land beyond their own small garden.

Some landowners or land managers, such as farmers, need higher levels of funding and access to good ecological advice to change how they farm and how they mitigate the impacts of their farm businesses. There are multiple ways that private investors can supplement the support that the Welsh Government will provide for this, but without safeguards the sorts of activities that are driven forward may not be the right ones for the environment and local communities.

There is likely to be a lack of trust in the motives of certain types of private investors. For example, a large food retailer that wishes to invest in climate or nature projects, but which has traditionally driven down the price that farmers receive for their products, may be able to do more good by paying a fairer price that encompasses the full price of producing food sustainably (backed by production standards) than by continuing to pay low prices whilst simultaneously investing in offsets. Just as organisations should not be able to buy carbon credits without first reducing their own emissions, organisations should not be able to gain credit for providing investment in nature restoration whilst continuing to drive poor practice via other parts of their business.

Whilst Welsh legislation supports the development of nature-based solutions, the policies and processes underpinning nature recovery still hinder their delivery. By their very nature, some of this investment will not have clear evidenced outcomes from historical delivery, as nature-based projects like this are still new. Ways to accommodate this must be considered at policy level to ensure that regulatory obligations aren't used against innovative and previously untried outcomes. A level of risk will need to be absorbed, and the Welsh Government should work with NRW and other relevant public bodies to support this change.

**Question 6: We have asked a number of specific questions. If you have any related issues which we have not specifically addressed, please use this space to report them.**

No additional comments.

**Question 7: What, in your opinion, would be the likely effects of the Sustainable Investment Principles on the Welsh language? We are particularly interested in any likely effects on opportunities to use the Welsh language and on not treating the Welsh language less favourably than English.**
**Do you think that there are opportunities to promote any positive effects? Do you think that there are opportunities to mitigate any adverse effects?**

There is a risk of the perception of corporate colonialism which carries with it an ignorance of, and lack of support for Welsh culture and language. We suggest that principles 2 and 3 should include wording that addresses this.

Sustainable investment into rural communities, provides opportunities to boost Welsh-speaking communities if the principles outlined are adhered to and if there is sufficient guidance and direction from the Welsh Government to ensure that local communities see real benefits from private investment.

**Question 8: In your opinion, could the Sustainable Investment Principles be formulated or changed so as to: • have positive effects or more positive effects on using the Welsh language and on not treating the Welsh language less favourably than English; or • mitigate any negative effects on using the Welsh language and on not treating the Welsh language less favourably than English?**

See answer to question 7.

Wales Environment Link (WEL) is a network of environmental, countryside and heritage Non-Governmental Organisations in Wales. WEL is a respected intermediary body connecting the government and the environmental NGO sector. Our vision is a thriving Welsh environment for future generations.

This paper represents the consensus view of a group of WEL members working in this specialist area. Members may also produce information individually in order to raise more detailed issues that are important to their particular organisation.


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