



Llywodraeth Cymru
Welsh Government

CLOSED CONSULTATION, DOCUMENT

Sustainable Investment Principles

We are developing a new approach to sustainable finance for nature's recovery.

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Overview

Welsh Government is developing a new approach to sustainable finance for nature's recovery. This approach is intended to increase and diversify the funding available so that we can effectively tackle the nature emergency and the pressures that drive biodiversity loss – including climate change, pollution, and unsustainable management of natural resources.

Recognising the concerns that exist about sustainable finance Welsh Government is consulting on a set of principles. These principles are intended to ensure any funding is high integrity, benefits and engages local communities and avoids inappropriate land use change and green washing. They are designed to be part of a wider approach by Welsh Government to create an enabling environment for high quality ecosystem services markets tailored to Wales' specific needs and social, cultural and environmental context.

How to respond

Please respond by completing the online form or completing the questionnaire and sending it to: sustainable.finance@gov.wales
(<https://www.gov.walesmailto:sustainable.finance@gov.wales>)

If you intend to respond in writing, please send completed forms to:

Marine and Biodiversity Division
Welsh Government
Cathays Park
Cardiff
CF10 3NQ

Further information and related documents

Large print, Braille and alternative language versions of this document are available on request.

Contact details

For further information:

Marine and Biodiversity Division
Welsh Government
Cathays Park
Cardiff
CF10 3NQ

Email: sustainable.finance@gov.wales

(<https://www.gov.walesmailto:sustainable.finance@gov.wales>)

This document is also available in Welsh: [Ymgynghoriad ar Egwyddorion Buddsoddi Cynaliadwy drafft](https://www.llyw.cymru/egwyddorion-buddsoddi-cynaliadwy-drafft) (<https://www.llyw.cymru/egwyddorion-buddsoddi-cynaliadwy-drafft>).

Summary

Nature is declining globally at rates unprecedented in human history and the rate of species extinctions is accelerating. Meeting both the Global Biodiversity Framework targets and those targets due to be set at the national level will require sustained and transformative action.

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Scaling up delivery for nature recovery will require significantly increased levels of funding. Currently delivery is typically financed through public funding, including grant schemes and through organisations such as eNGOs / land managers using donative / earned income. Increasing and diversifying the funding available is essential if we are to effectively tackle the nature and climate emergencies. This includes philanthropic giving, community funding and private investment.

Background

Increasing the scale and pace of action to tackle biodiversity loss and meet global goals by 2030 will require both increasing and diversifying the funding available. This will include funding from the private sector, community-led initiatives and philanthropic giving. The **Finance Gap for UK Nature Report (on hive.greenfinanceinstitute.com)** (<https://hive.greenfinanceinstitute.com/gfihive/insights/finance-gap-for-uk-nature-report/>) concluded that Wales faces a £5-7 billion finance gap for nature-related targets over the next 10 years. This includes the funding needed to address biodiversity loss, in addition to other areas such as improving water quality and climate mitigation. The UN Environment Programme identifies Nature-based solutions as critical to addressing the climate and nature emergencies.

Markets for nature and the environmental services nature provides, have the potential to harness the capabilities and resources of the private sector to efficiently deploy capital and encourage the innovation needed. But environmental markets must be well-designed and governed to prevent 'greenwash' and ensure they are high integrity, deliver real environmental improvement and both engage and benefit local communities.

Finance Earth, Eunomia and RSPB Cymru produced a report for the Welsh Government to support the development of a sustainable delivery model for

nature recovery in Wales. The report contains a number of recommendations to:

- support investment pathways through the provision of “bottom up” investment readiness support and “top down” first loss/concessionary repayable investment capital
- establish principles for high integrity ecosystem services market engagement and a “Best-In-Class” code in Wales
- clarify the role of the public sector in supporting private markets through the reform and redesign of environmental subsidy schemes.

The key ecosystem services and associated markets identified as a priority for nature recovery in Wales are:

- carbon dioxide emissions reduction and removal, from woodland creation and peatland restoration, based on the sale of carbon credits in the UK voluntary market
- farm-based ecosystem services, based on the sale of environmental outcomes generated from more regenerative and nature-friendly farming practices, such as soil and hedgerow carbon sequestration
- natural flood management, based on the sale of flood risk reduction outcomes arising from Nature-based Solutions such as managed realignment schemes and wetlands
- water quality, based on the sale of nutrient credits
- biodiversity, based on the sale of biodiversity units or credits generated from habitat creation and restoration projects both on-land and in the marine environment, and
- recreation, based on income generated from nature-based activities and tourism.

The executive summary of this report is available in **Annex 2**

(https://www.gov.wales/sites/default/files/consultations/2024-09/annex-2-development-sustainable-delivery-model-nature-recovery-wales-executive-summary_0.pdf).

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Nature based solutions

In developing a new approach to sustainable finance Welsh Government is particularly interested in:

- nature based solutions
the **UN Environmental Programme defines nature based solution (on [wedocs.unep.org](https://wedocs.unep.org/xmlui/bitstream/handle/20.500.11822/37318/NBSCCM.pdf))** (<https://wedocs.unep.org/xmlui/bitstream/handle/20.500.11822/37318/NBSCCM.pdf>) as “actions to protect, sustainably manage and restore natural or modified ecosystems, that address societal challenges effectively and adaptively, simultaneously providing human well-being and biodiversity benefits” adopted by the IUCN at the 2016 World Conservation Congress, and
- the ecosystems services
the **UN Environmental Programme (on [leap.unep.org](https://leap.unep.org/sites/default/files/2020-09/undb-factsheet-ecoserv-en.pdf))** (<https://leap.unep.org/sites/default/files/2020-09/undb-factsheet-ecoserv-en.pdf>) uses the Millenium Ecosystem Assessment definition for ecosystems services which states that ecosystem services are the direct and indirect benefits from ecosystems. These services are divided into four categories; provisioning, regulating, cultural and supporting services .

that these generate. The UN Environment Programme identifies nature based solutions as critical to reversing the devastating effects of biodiversity loss, climate change and land degradation globally. Nature-based solutions need to be at the heart of climate change adaptation, especially given the role peatlands, soils, forestry, saltmarsh and blue carbon can play in achieving net zero.

Examples of nature based solutions and the ecosystems services they provide include:

- woodland creation and peatland restoration which sequester carbon dioxide (CO₂) emissions

- wetlands restoration which act as natural flood management, reducing flood risk and improving water quality
- seagrass, saltmarsh and other coastal habitats restoration which can sequester carbon, improve water quality and benefit biodiversity
- regenerative and nature-friendly farming practices, benefits soil condition, and habitats such as hedgerow which increase biodiversity and sequester carbon.

In developing this new approach Welsh Government will build on the work that has already been done on sustainable finance and nature based solutions. This includes:

- provided funding through the Nature Networks Fund to support capacity building with a focus on investment readiness
- through the Coast and Seas Partnership Blue Investment group worked with partners including WCVA, RSPB and Marine Conservation Society to develop a marine environmental enhancement fund (MARINE fund Cymru)
- exploring the feasibility of a nutrient trading platform.

Current position

Work to date on sustainable finance has been limited, largely due to concerns about the involvement of the private sector in nature recovery. The focus has been on developing a foundation for this work including seeking the technical advice referred to above, and engaging where we have capacity with developments occurring at the UK level (see section below). We have:

- provided funding through the Nature Networks Fund to support capacity building with a focus on investment readiness
- established a sustainable finance task and finish group which have co-produced draft responsible investment principles

- through the Coast and Seas Partnership Blue Investment group worked with partners including WCVA, RSPB and Marine Conservation Society to develop a marine environmental enhancement fund (MARINE fund Cymru) learning from **a model developed in Scotland (on smeef.scot)** (<https://smeef.scot/>)
- developed potential pilot initiatives (to be submitted as part of a forthcoming MA) .

A report on the feasibility of a nutrient trading platform for water quality has also been produced in response to the actions supporting the SAC Rivers Phosphate challenges.

Private sector investment in nature recovery is already happening in Wales. Most of our environmental stakeholders are actively involved in sustainable finance and they are looking to the Welsh Government to provide direction and to:

- identify the barriers to large scale private investment in nature recovery and how these barriers can be overcome
- establish a framework to ensure the high integrity of environment markets
- provide support for the development of investment readiness projects, standards and risk for environmental markets
- develop a nature finance strategy, and
- clarification on the position for Wales in the context of UK principles and markets.

UK developments

UK and Scottish Government are progressing at pace, and there are already a plethora of initiatives being developed on sustainable finance and ecosystems markets more broadly. This includes the Nature Investment Standards

Programme is led by the British Standards Institution and supported by Defra. The programme is designed to overcome barriers to investing in nature and the services it provides. Ultimately, this will help to accelerate progress on environmental goals such as reversing biodiversity loss and achieving net zero.

BSI have recently sought views on an overarching principles and framework to:

- create the conditions for consistency and high integrity across all nature markets
- support nature markets to deliver positive environmental, economic and social outcomes
- protect against the risks of activity in nature markets leading to negative unintended consequences, and
- support the provision of information from nature markets that deters, and/or helps detect, greenwashing.

In 2022, the Scottish Government issued **responsible investment principles (on gov.scot)** (<https://www.gov.scot/news/promoting-responsible-investment-in-scotlands-natural-assets/>) and have developed various work streams to progress and support sustainable finance.

Principles

Welsh Government is seeking views on a set of responsible investment principles to frame our approach and ensure investment complements existing commitments and legal requirements including:

(<https://www.gov.walesnull>)

- The Well-being of Future Generations Act 2015 – Supporting nature to recover will contribute to achieving several of the well-being goals defined under the Act, particularly 'A Resilient Wales'

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- The Environment (Wales) Act 2016 which sets out the legislative framework to ensure natural resources and ecosystems are resilient and able to provide benefits (ecosystem services) now, and for the future, through the ‘sustainable management of natural resources’
- the forthcoming Environmental Governance and Biodiversity Targets Bill which will set statutory domestic biodiversity targets
- the Global Biodiversity Framework, particularly target 19 on mobilising finance, including stimulating innovative schemes such as payment for ecosystem services, green bonds, biodiversity offsets and credits, and benefit-sharing mechanisms, with environmental and social safeguards
- the Biodiversity Deep Dive recommendations which recognised the need to unlock public and private finance to deliver for nature at far greater scale and pace. Equally the Trees and Timber deep dive also identified the need to consider models to secure more private investment into woodland creation
- our Sustainable Land Use obligation introduced by the Agriculture (Wales) Act 2023.

The proposed principles are set out below:

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

- investment in and use of Wales’ natural resources should create benefits that are shared between public, private and community interests in an equitable way and that support local priorities and economies
- investment in natural resources for carbon management should be integrated with delivery of wider environmental, social and economic outcomes, such as biodiversity improvements, resilience to food supply, natural flood management, carbon sequestration and to reduce emissions
- if seeking to secure carbon units or investment in natural resources, investors should consider whether ownership of land is necessary. Where

possible they should consider opportunities for management agreements and collaboration/partnerships with communities that can deliver wider social and economic benefit.

2. Deliver public, private, community and cultural well-being benefits

- investment and management decisions should recognise and respond to local circumstances and the suitability of land, freshwater or sea for particular uses and seek to protect and enhance existing natural capital and cultural well-being
- investment and management decisions should demonstrate consideration of positive and negative impacts across all four capitals (natural, social, economic, cultural well-being).

3. Demonstrate best practice engagement and collaboration

- investment should demonstrate engagement and collaboration with local communities in decisions about freshwater, sea and land use change. Engagement needs to be meaningful, at an early stage and involve a diverse range of stakeholders
- investors and land managers should collaborate openly with other landowners, public bodies and other interested parties to contribute to a coherent approach to delivering benefits

4. Demonstrate values-led and high integrity

- investment in natural resources should be both measurable and verifiable.

Credits or units sold should be based on the robust assessment of the benefit to be delivered (for example the amount of carbon captured or nutrient pollution reduced). After implementation, projects should be verified by a qualified body for assurance that the environmental outcomes have been achieved

- when considering investment or trades, stakeholders should seek professional advice and use approved methodologies defined in established codes and standards, which are reviewed regularly
- no double counting - quantified credits/units of the same ecosystem service must not be sold twice or used as the basis for two claims. For example, a landowner selling carbon credits generated from peatland restoration but then also claiming those carbon credits to mitigate their own carbon emissions. Landowners and managers considering the sale of carbon credits should consider their own current and future carbon management needs before doing so
- transparency – there should be recognised, credible, publicly accessible registries to register, track and permanently retire verified rights or credits to avoid double counting, double issuing or double selling. Registries should provide sufficient data to allow market participants to conduct appropriate due diligence of projects, and data should be recorded in standardised ways for monitoring and oversight purposes
- additionality - any credits or units issued must be based on new environmental improvements, not cover existing legal obligations or environmental improvements would have been likely to happen regardless of additional investment
- delivery of lasting benefits to ensure that contracted environmental outcomes are achieved. This is likely to be variable depending on the market, reflecting how different benefits from nature are derived. These must also recognise delivery risks and mitigations, for example the risk of fire or disease.

Consultation questions

Welsh Government would welcome any views on the proposed principles, in particular on the following questions. Please provide evidence to support your answer.

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

You may wish to consider:

- how effectively the principles will influence decision making
- how useful are these principles to different organisations
- how organisations might use or apply these principles
- whether the principles have any gaps or omissions
- the link between the principles and the Well-Being of Future Generations Act 2015.

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

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

You may wish to consider these examples:

- **BSI's Nature Investment Programme (on [bsigroup.com](https://www.bsigroup.com))**
(<https://www.bsigroup.com/en-GB/capabilities/standards-services/the-nature-investment-standards-programme/>)
- **UK Woodland Carbon Code (on [woodlandcarboncode.org.uk](https://www.woodlandcarboncode.org.uk))**
(<https://www.woodlandcarboncode.org.uk/standard-and-guidance>)
- **The Peatland Code (on [iucn-uk-peatlandprogramme.org](https://www.iucn-uk-peatlandprogramme.org))**
(<https://www.iucn-uk-peatlandprogramme.org/peatland-code-0>)

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- **Voluntary Nature Markets Principles (on [wildlifetrusts.org](https://www.wildlifetrusts.org))**
(<https://www.wildlifetrusts.org/sites/default/files/2023-10/Full%20-%20Nature%20Markets%20Principles%20-%20October%202023.pdf>)
- **Biodiversity Credit Alliance guidance (on [undp.org](https://www.undp.org))** (<https://www.undp.org/nature/our-flagship-initiatives/biodiversity-credit-alliance>)

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

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

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.

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?

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?

Responses to consultations are likely to be made public, on the internet or in a report. If you would prefer your response to remain anonymous, please tick here.

UK General Data Protection Regulation (UK GDPR)

The Welsh Government will be data controller for Welsh Government consultations and for any personal data you provide as part of your response to the consultation.

Welsh Ministers have statutory powers they will rely on to process this personal data which will enable them to make informed decisions about how they exercise their public functions. The lawful basis for processing information in this data collection exercise is our public task; that is, exercising our official authority to undertake the core role and functions of the Welsh Government. (Art 6(1)(e))

Any response you send us will be seen in full by Welsh Government staff dealing with the issues which this consultation is about or planning future consultations. In the case of joint consultations this may also include other public authorities. Where the Welsh Government undertakes further analysis of consultation responses then this work may be commissioned to be carried out by an accredited third party (e.g. a research organisation or a consultancy company). Any such work will only be undertaken under contract. Welsh Government's standard terms and conditions for such contracts set out strict requirements for the processing and safekeeping of personal data.

In order to show that the consultation was carried out properly, the Welsh Government intends to publish a summary of the responses to this document. We may also publish responses in full. Normally, the name and address (or part of the address) of the person or organisation who sent the response are

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published with the response. If you do not want your name or address published, please tell us this in writing when you send your response. We will then redact them before publishing.

You should also be aware of our responsibilities under Freedom of Information legislation and that the Welsh Government may be under a legal obligation to disclose some information.

If your details are published as part of the consultation response then these published reports will be retained indefinitely. Any of your data held otherwise by Welsh Government will be kept for no more than three years.

Your rights

Under the data protection legislation, you have the right:

- to be informed of the personal data held about you and to access it
- to require us to rectify inaccuracies in that data
- to (in certain circumstances) object to or restrict processing
- for (in certain circumstances) your data to be 'erased'
- to (in certain circumstances) data portability
- to lodge a complaint with the Information Commissioner's Office (ICO) who is our independent regulator for data protection.

For further details about the information the Welsh Government holds and its use, or if you want to exercise your rights under the UK GDPR, please see contact details below:

Data Protection Officer:
Welsh Government
Cathays Park
Cardiff
CF10 3NQ

e-mail: dataprotectionofficer@gov.wales

(<https://www.gov.walesmailto:dataprotectionofficer@gov.wales>)

The contact details for the Information Commissioner's Office are:

Wycliffe House

Water Lane

Wilmslow

Cheshire

SK9 5AF

Tel: 0303 123 1113

Website: <https://ico.org.uk/> (<https://ico.org.uk/>)

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