LINK Consultation Response

Developing an ecosystem restoration code for Scotland

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Introduction to Scottish Environment LINK

Scottish Environment LINK is the forum for Scotland's voluntary environment community, with over 40 member bodies representing a broad spectrum of environmental interests with the common goal of contributing to a more environmentally sustainable society.

Its member bodies represent a wide community of environmental interest, sharing the common goal of contributing to a more sustainable society. LINK provides a forum for these organisations, enabling informed debate, assisting co-operation within the voluntary sector, and acting as a strong voice for the environment. Acting at local, national and international levels, LINK aims to ensure that the environmental community participates in the development of policy and legislation affecting Scotland.

LINK works mainly through groups of members working together on topics of mutual interest, exploring the issues and developing advocacy to promote sustainable development, respecting environmental limits.

Response:

LINK is grateful for the level of engagement thus far. We do not believe that the current direction of travel can result in a mechanism that will lead to high integrity outcomes for nature, and so recommend that ministers do not proceed further along these lines. We believe that they should reconsider the best ways of securing the finance required to meet the SBS objectives. LINK would be happy to engage further with such an exercise.

1. What principles, actions or steps should be followed to ensure a high-integrity Ecosystem Restoration Code (ERC)?

LINK's view is that choice of metric will have a significant impact on all the themes in the engagement paper, and particularly integrity and policy alignment. We welcome the commitment made by Scottish Government during the engagement workshops to have an additional session focused on the NARIA framework, and to publish 'a much fuller technical document that meets the requirements of BSI 701 and 702 as a minimum in terms of principles on measurement transparency.' It will be impossible to assess the ability of the code to ensure high-integrity outcomes without a fuller understanding on how the underlying metric will operate.

We note the BSI requirement for metrics to be published and independently tested by organisations different from its developers.

Transparency - What level of public disclosure of outcomes is required to maintain accountability and support the development of trusted ecosystem service markets? A list of material information is included in 4.1 of Flex 701.

Buyer screening - How to ensure buyers are aligned with the transition to net zero and demonstrate support for the conservation and protection of the natural environment. This is covered under 8.1 of Flex 701.

This work should also align with the Nature Market Principles alongside the BSI, ScotGov, IAPB ones. Note this might focus a bit more on priority projects + strengthen the buyer-side expectations

Stacking is problematic and should be minimised - there are inevitable overlaps, so it's almost impossible to achieve high integrity. Bundling is a much better route.

We would caution against lifting the shifting components of the Biodiversity Net Gain metric into any Scottish content – e.g. 30 years isn't appropriate for many Scottish habitats.

Technology is unproven – it might be in the coming years it can be incorporated, but to be high integrity the code should start with a basic level of surveying and ground truthing. Where field-based measurements and assessments are necessary to support high-integrity approaches, these should be costed in.

Scale is an important consideration in applying the ERC - currently the project scale is restricted to >200ha due to the underlying metric and data resolution within the NARIA framework. In the engagement meeting, SG noted that this scale was necessary to encompass a 'whole' ecosystem and deliver uplift via the Credit Nature metrics. However, this implies that a large landscape scale is needed to support an 'ecosystem approach'. This is a much narrower interpretation of the ecosystem approach than is proposed by the Convention on Biological Diversity, which notes that there is no specified spatial scale for defining an ecosystem or functional unit. Specifically, they note that the definition of ecosystem "*does not specify any particular spatial unit or scale.... Thus, the term "ecosystem" does not, necessarily, correspond to the terms "biome" or "ecological zone", but can refer to any functioning unit at any scale. Indeed, the scale of analysis and action should be determined by the problem being addressed. It could, for example, be a grain of soil, a pond, a forest, a biome or the entire biosphere.*" Natural processes, which support ecosystem condition, occur at multiple spatial scales, and it's important to focus on the relevant functional scale to address particular objectives and detect change, as opposed to simply encompassing a large landscape unit. For example, a river re-meandering project may reflect a valuable investment in restoration of reach-scale geomorphic and hydraulic processes which supports improved floodplain connectivity, water quality, local habitat and food web interactions; assessment at a reach-scale would be appropriate to evaluate objectives as it reflect the relevant 'functional unit'.

By restricting the scale of projects to those >200ha and applying the limited measures within the EII to inform gains and credit value, an ERC will potentially be of limited relevance to the types of interventions commonly applied to address pressures and impacts at other spatial scales, as well as within some of the use cases proposed in the engagement paper, e.g., related to the types of interventions common to creating supply chain resilience. Using the re-meandering example above, it was noted in the engagement discussions that this type of action would likely not be captured by the NARIA framework due to the types of metrics and the scale of analysis. It is likely that other smaller-scale yet strategic actions would also not be captured or incentivized under the proposed code, including smaller, yet connected actions to support nature networks or on-farm biodiversity

improvements like hedgerow planting, riparian tree planting, etc. SG should consider whether other metrics, as well as a broader interpretation of 'ecosystem approach' and 'functional unit,' may be needed to address the types of pressures and impacts currently affecting ecosystems in Scotland and incentivize the types of interventions relevant to creating market demand. It's important that the ERC incentivizes interventions and approaches relevant to the outlined use cases and at the appropriate and relevant scale.

The choice of metric or metrics and measurement approaches will create market-based incentives for the types of actions that generate the greatest gains under that particular set of measures for the least cost - this has been demonstrated repeatedly within established nature markets. Prior to adopting a particular metric or credit approach, it would be useful to have a greater understanding of the purpose of the code, including the types of outcomes SG hopes to achieve with this code, the types of interventions and actions that may be used to deliver these outcomes, and what potential metrics and approaches would be most appropriate to detect change over time and deliver these outcomes without overly incentivising particular interventions or actions. It is important that the code incentivises good projects, so it is particularly important to consider the potential for unintended or perverse outcomes driven by market efficiency. This exercise would help to ensure that any metric has the granularity to detect change for the types of outcomes SG is aiming to deliver within the code and also applicability across a range of habitats, landholdings and types of interventions. This is particularly relevant given the limited compatibility the proposed metric may have for delivering uplift within water ecosystems and other dispersed or linear features such as nature networks or other smaller, yet strategically-linked opportunities.

Governance is a key factor to consider with high integrity - whose role is it to ensure appropriate implementation of the code, delivery of programmatic outcomes under such code, as well as the performance of individual projects generating credits? Who will have the authority to enforce contracts or other formalised agreements at both the project and programmatic level?

2. What actions and design features should the Ecosystem Restoration Code (ERC) adopt to enable land managers to participate in these markets?

Any metrics that sit under the code must be published in full. This includes the scientific and technical documentation supporting the forecasting of uplift, and the underpinnings for the theoretical or attainable maximum that informs scoring within the metric. This documentation should clearly illustrate how these values were determined, their geographic relevance (e.g., how they address natural variability across different habitats or regions), and any other known or potential limitations in their applicability or use.

Accessibility, from a scale, cost and knowledge perspective: Larger projects require greater upfront investment, and this means absorbing greater risks - smaller projects have the potential to increase market engagement as they may be less risky and costly to deliver. Additionally, from a cost perspective, it will be necessary to engage experienced professionals in restoration planning and design, and these costs along with baselining and post-project monitoring and validation need to be factored into full-cost project accounting. The more complex the crediting methodology, the more costly consultant fees, data collection, analysis, reporting and validation will be. Consideration needs to be given as to whether the costs of generating credits could be prohibitive to adoption. Further, a

costly, technocratic and proprietary methodology for generating nature credits can restrict market participation, both on the part of landowners and investors, and the initiative would benefit from efforts to improve the transparency, understandability and accessibility for market participants. Reducing this complexity, while still maintaining high-integrity approaches to deliver outcomes, would make the market more accessible for a wider range of landowners.

3. How can the Ecosystem Restoration Code (ERC) be designed to ensure that it best meets the requirements of high-integrity investors and users of nature/biodiversity credits?

It is LINK's strong view that trying to develop a code which attempts to address multiple use cases whilst maintaining high integrity is not possible. Developing a novel code which is suitable for just one of the use cases will be complex enough, without trying to factor in the requirements of vastly different funding domains.

We agree that voluntary demand is uncertain, and would likely require the instigation of additional policy / regulatory regimes from SG. But this should trigger a discussion on whether a code is the right approach for the biodiversity outcomes we want to see, not a pivot to compliance funding arising from NPF4 policy 3 - a completely different funding mechanism and policy domain.

Minimum duration is an example of a rule which might be difficult to have for a code that is both voluntary and compliant. For a compliance function, we would have thought the Code would need a consistent and demanding duration (to ensure the project adequately off-sets the damage) - say 30 years (the minimum for BNG in England). However, for a voluntary code, we would have thought there is a case for more flexibility - as long as buyers are clear what biodiversity benefits they are buying. At a minimum, the durability of outcomes should be as long-lasting as the intended lifetime of the credit.

Adherence to the mitigation hierarchy should be a key element that is integrated into any proposed use-case. This includes adequate documentation of measures to avoid and minimize/mitigate any impacts prior to offsets or claims of nature-positive action. When deciding on a crediting approach, it’s always useful to consider whether and how it would be applied from the impact perspective. This supports equivalency, both from a functional perspective, but also for characterising the magnitude of uplift and/or impact. Methods and approaches for assessing uplift and credits should mirror approaches used to assess impacts, and thus it’s important to consider upfront the relevance and applicability of metrics and credit approaches in also characterising impacts.

Was the Minister's decision to move forward with the ERC based on the evidence in 4.1.1 and 4.2 alone? Has there been specific engagement with Scottish corporates?

4. How should the Ecosystem Restoration Code (ERC) be designed to support delivery of Scottish Government policy whilst being sufficiently accessible and attractive to market actors?

This will be a really critical aspect to get right - the code should be designed to direct funding into conservation activities that have struggled to attract other types of investment, so we strongly support the suggestion to map out those funding gaps. The current framing - jumping immediately to the need to find a balance between supporting Scottish Government policy objectives and appealing to market participants feels a little premature. If the intention is for the code to help address gaps in

policy delivery, then its primary role should be to ensure market activity aligns with those policy aims - rather than shaping policy around what appeals to the market.

The code must be much more explicitly linked to Scotland's stated nature priorities (habitats, species, strategies etc.). Ideally this should be done through rules and standards and needs to be an integral part of what's considered high quality, not dealt with via the metric, as BNG has shown it is difficult to incentivise strategic delivery through metric design alone (basically the incentives aren't strong enough).

Clarification is needed on how the ERC aligns with existing and in-development codes and how it contributes to national goals like Biodiversity Net Gain and ecosystem health.

At present, the link between the ERC and wider Scottish policy objectives is weak. A parallel approach using Nature Networks and a national fund may deliver quicker and more reliable outcomes.

5. Do you have any other comments or suggestions at this stage for the team designing the Ecosystem Restoration Code (ERC)?

LINK is grateful for the level of engagement thus far. However, LINK sees two fundamental issues with the process that really need to be resolved, before the detail of how the code is designed can be engaged with fully.

We have provided some input with regard to the themes in the questions above, but so much of this detail will flow from the resolution of these two more fundamental points:

<u>Insufficient delineation between the different parts of the required architecture of a nature market</u>

The code development process so far continually conflates what's needed for the code itself versus what's needed for the metrics that would be used to calculate a type of credit under the code. This is understandable, given it draws so heavily from the Credit Nature approach, which does both. The whole architecture Credit Nature built was designed to apply the NARIA framework.

If the intention is to develop a code that can truly accommodate more than one metric /credit calculation approach, this will need to be disentangled and the Code will need to be framed from first principles.

The discussion around minimum project size is a good example of this. It is not clear to us what the rationale for incorporating this into the Code is, when it’s an intrinsic property of the NARIA Framework approach.

There are ways that SG can more clearly distinguish/disentangle the broader reach of the ERC from the metrics that are used to inform credits. Pulling from an example of an established ecosystem market in the US, a 'code' could be effectively represented in multiple parts: one part which creates consistent expectations for delivery of projects under the code, e.g., related to project planning, implementation, performance and MRV to inform credit releases along with a second part, which provides consistent expectations for approved metrics, assessment approaches and credit calculation

protocols. A key to this approach is the reliance on performance-based monitoring, which creates accountability for projects to deliver intended outcomes (which may or may not be captured within the value of a particular credit) and links credit release to the demonstrated delivery of these outcomes. This type of organization could allow for flexibility to accommodate different metrics, assessment approaches, and even multiple types of credits to be delivered under the same 'code.'

Purpose and targeting of the code

The 'supply side' (in terms of supply of private finance) rationale in SG's Biodiversity Investment Plan seems to be:

- We need more private investment in nature restoration and recovery in Scotland
- Codes represent the best way to achieve this
- Existing codes don't cover many of the important Scottish ecosystems covered by the SBS and the DP
- The development of a code which covers these ecosystems will stimulate private investment into them, and in doing so support the ambitions in SBS

It is LINK's view that this supply side approach can only lead to low integrity and inefficient outcomes for nature, with poor policy alignment.

Instead, the development of a code should follow a demand led approach, and identify which specific actions which have been identified as underpinning the SBS (in the DP and elsewhere) are most suited to funding through nature markets, and then design the code explicitly to target these actions.

This will then allow a much more informed conversation about which of the three use cases should be targeted.

PINC should undertake some analysis of the parts of SBS DP that have historically struggled to attract funding, and ensure the code is suitably designed to fit these gaps.

It is not sufficient to say that because the NARIA metric operates at an ecosystem level, a code using this metric is compatible with the SBS's integrated cross-ecosystem approach. Furthermore, it is not sufficient to assess the compatibility of the (very high level) ERC aims with the SBS outcomes (as Annex B does). Need to look at actual projects that support the SBS and its DP, and design the Code in such a way that maximises the potential for these projects to find funding.

There are lots of evolving policy areas being developed at present e.g. development of a biodiversity metric for use in the Scottish planning system to support delivery of NPF4 Policy 3b, nature networks, 30 x 30 and the wider Scottish Biodiversity Strategy and associated delivery plans. There is also work underway to change how protected areas in Scotland are monitored, building on Site Condition Monitoring but trying to refocus the approach to better inform site-level and wider landscape pressure management. It is crucial that all the evolving areas of policy are joined up otherwise we will be left with a confusing nature finance/biodiversity landscape.

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