

Restoring and Creating Space for Nature in the United Kingdom

Lucy Garrett
Nature-Based Solutions, Palladium



There has never been a more opportune moment to turn the tide on biodiversity loss and habitat destruction.

Introduction

The UK's nature is in peril.

Forty-one per cent of the UK's species have declined in abundance since 1971, and this trend is showing no signs of reversal. One quarter of native mammals are now at risk of extinction in Britain. This ranges from the critically endangered Scottish wildcat to the hedgehog, which is now classified as vulnerable. According to the Biodiversity Intactness Index, the UK is ranked 189th out of 218 countries, making it one of those most damaged ecosystems in the world.

The UK has amongst the lowest tree cover in Europe – just 13 per cent compared to a European average of 37 per cent. And of that 13 per cent, only 2 per cent is ancient woodland. An estimated 1.5 million hectares of woodland need to be planted by 2050 if the UK is to meet its carbon net-zero target.

Carbon rich peatlands cover 12 per cent of UK land offering a unique opportunity for carbon storage – ecologists estimate that while peatlands cover only 3 per cent of the Earth's land surface, they hold 30 per cent of the carbon stored on land. However, the UK's peatlands are mostly degraded; in fact, just one fifth remains in a near-natural state. Peatland degradation increases the risk of flooding, reduces agricultural productivity, and results in increased carbon emissions as carbon that would have been safely stored underground is released.

This loss is driven by humans.

According to a [recent report](#), the most significant pressures acting on land and freshwater nature in the UK include agricultural management, climate change, urbanisation, pollution, hydrological change, invasive / non-native species, pests and pathogens, and woodland management.

Of these, agriculture is the main driver of biodiversity change in the UK over the [past 45 years](#), with mostly negative impacts on nature. Right now, almost three quarters of the UK's land is used for agriculture – one third for growing crops, and two-thirds is grassland, moor, and heath for grazing livestock. Much of this land has been subject to environmentally damaging [agriculture practices](#) over the past 50 years; for example, increased use of chemicals, increased intensity of grazing and loss of nature-friendly features such as field margins, hedgerows, and wooded areas.

Of course, it's not all bad. There are examples such as the [Nature Friendly Farming Network](#) that show production and nature can go hand in hand. Successes for individual species are also evident. For example, the population of [corncrakes](#) more than doubled over a period of ten years due to targeted interventions.

However, it is more often the case that those leading on restoration and conservation cannot access the funding they need to deliver positive impact at scale. Natural England, the government's advisor for nature conservation and management, has been forced to dramatically scale back its conservation work due to a funding reduction of [45 per cent since 2014](#). Despite all this, achieving domestic biodiversity targets is relatively cheap – [a recent report](#) estimated that it would require funding equivalent to just 0.2 per cent of government spending, or just 0.1 per cent of UK GDP.



Nature's services are public goods with no markets and no prices."

Our markets are failing nature.

Though our health and well-being is dependent upon the continued flow of ecosystem services afforded to us by nature, these services are public goods with no markets and no prices, and so fall outside of our [current economic compass](#). This leads to the degradation of our ecosystems and biodiversity, with humans suffering the consequences.

Policy measures which could help to set this right have typically failed and often led to further degradation. An example of this is the [EU Common Agricultural Policy \(CAP\)](#), which has led to biodiversity loss by paying landowners to maintain agricultural land at the expense of nature. This has resulted in food surpluses and waste, soil degradation, habitat loss, and the reproduction of social inequality, particularly between the 1970s and 1990s. While policy reforms in recent years have led to some improvements, there is still a long way to go in overcoming the current market crisis, which financially incentivise landowners to exploit and destroy nature rather than conserve and restore it.

New Opportunities to Restore and Protect Nature

1. Harness new enabling policies

The [UK's Sixth Carbon Budget](#) sets out bold ambitions for land use change by 2050, including the restoration of 79 per cent of the UK's peatland and a 5 per cent increase in the proportion of land covered by woodland. These goals are complemented by policy and legislative enablers that have the potential to make the UK one of the best places in the world to pilot new approaches to restoration at scale and turn the tide on decades of degradation.

Similarly, the government's [25-year environment plan](#) published in 2018 represents an extraordinary statement of government ambition. Setting out goals for land, sea, and freshwater restoration alongside the preservation of natural heritage, the plan lays a roadmap for transforming how the UK manages its natural resources. This includes a new environmental land management system and [Biodiversity Net Gain](#) mechanism.



The UK could be one of the best places in the world to pilot new approaches to restoration at scale.”

A [national food strategy](#) review led by Leon co-founder Henry Dimbleby argues that the COVID-19 crisis has brought the flaws in the UK's food system into painful focus, especially their effect on the nation's physical and mental health. The strategy which will be presented in full in 2021 provides broad recommendations for changes to the way citizens consume and produce food, with recommendations focused on the need for all food, whether domestic or imported, to be held to the highest environmental and welfare standards.

Environmental Land Management (ELM) Systems: A Force for Change?

In 2020, the government has been consulting on the design of their post-Brexit [ELM system](#), which aims to be fully operational by 2025. The ELM system includes a new farm payment scheme to replace the EU CAP and is one of the key policy instruments for delivering on the ambition of the 25-year environment plan. ELMs will provide farmers, foresters, and other land managers with access to financial rewards in return for delivering environmental benefits, such as clean water, climate change mitigation and adaptation, and healthy plants and wildlife. As such, reversing the incentives to land managers and farmers to over-cultivate land, and to instead to protect and restore it.

2. Accelerate and mainstream the market for environmental services

Public money alone will be insufficient to meet the goals of the 25-year environment plan. The Government acknowledges this, calling for the establishment of a new blended finance vehicle which can leverage private investment and finance as part of their plan.

However, realising this private investment into nature is another matter. Alongside blended investment vehicles, the UK market for ecosystem services needs to mature. While policy enablers have the potential to stimulate demand, there is a need for further government intervention around standards, additionality and stacking of ecosystem services.

On the plus side, the UK has piloted a number of payment for ecosystem services projects over the years, which it can and should learn from to support the numerous project developers who have not yet been successful in selling environmental services to buyers. A recent study of 95 projects in the UK designed to restore the natural environment found that almost three quarters lack established revenues.

Accelerating and mainstreaming the UK payment for ecosystem services is a great opportunity for project developers to benefit from the current boom in demand on the voluntary carbon market and other burgeoning opportunities such as the UK's commitment to mandate climate related financial disclosures.

An Emerging Market?

In November 2020, the UK's Chancellor made a bold commitment for the UK to become the first country in the world to mandate economy wide disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD).

Transparency has always been a key factor in creating efficient capital markets and this represents a critical step towards reflecting the true cost of products and services, including 'externalities' such as carbon that are normally excluded. The purpose of measurement should not be to 'name and shame', but instead to incentivise a change in behaviour.

This behaviour change must start with cleaning up investment portfolios and business operations, but we can also anticipate an upwelling of demand from companies and financiers looking to offset their environmental liabilities via nature-based solutions – including those in the UK.

How Palladium's Nature-Based Solutions Team is Supporting Restoration in the UK

The scale of the challenge and opportunity to transform our natural environment in the UK is huge.

We envision a world where nature and ecosystems are transformed to a healthy state, and markets are reoriented to value natural capital and incentivise its long-term restoration. We think that the policy environment in the UK makes it one of the best places in the world right now to prove this concept.

That's why our nature-based solutions team is taking its extensive experience in incubating forest friendly business models in the tropics and applying it in the UK. The lessons that we have learnt and tools we have developed in the tropics are widely applicable to the UK context. However, we recognise that change on the ground requires an in-depth understanding and sensitivity to the local context, and there is no 'one size fits all' approach.

To deliver on our ambition we're taking a three-pronged approach.

1. We are setting up a facility to channel much-needed public, private, and philanthropic investment into inspiring restoration projects on the ground

The soon to be announced facility will act as a marketplace where we can connect project developers with the right investors and off-takers. The facility will be structured by [Palladium Impact Capital](#) (formerly Enclude), our capital advisory services arm. Palladium Impact Capital has mobilised in excess of USD 600 million for a range of impact themes. This experience includes the design, structuring, and capitalisation of investment vehicles, including in the areas of land use, resilience in agricultural value chains and access to renewable energy.

2. We are partnering with some of the UK's leading project developers to help them capture and market the ecosystem services they are delivering through conservation and restoration work

We are proud to be partnering with some of the UK's most ambitious conservation and restoration practitioners. We know that they are best placed to understand the opportunities for restoration in a landscape, but not always able to access the funding that they need. Under our flagship [Partnerships for Forests \(P4F\)](#) programme funded by UK government, we have incubated over 60 sustainable forest business models in the tropics and mobilised over GBP 250 million of private investment. Drawing on these successes, we are working with UK partners to turn their conservation ambitions into transformative business models which will generate sustainable revenues from natural capital. More information about our new partnerships coming soon.

3. We are seeking and securing collaboration with companies looking to support UK nature by investing in transformational restoration projects

UK markets need to be broadened to capture value from nature and incentivise its protection and restoration. Bold and ambitious off-takers and funders have a key role in helping us prove these new value streams, by creating demand for credits for carbon sequestration and storage, biodiversity net gain and flood risk reduction. Our approach will build upon our learnings from the tropics, such as our experience of building a premium [forest coffee](#) value chain in Ethiopia and a new value chain for [heart of palm](#) in Colombia.

A New Approach

Transforming our markets so that they recognise the value of nature is a complex issue. Harnessing the opportunity to restore our natural environment in the UK and beyond requires a new approach and a combination of partners across different disciplines. We want to hear from others who share our passion for protecting and restoring the UK's natural capital at scale.



Palladium is a global impact firm, working at the intersection of social impact and commercial growth. For over 50 years, we've been helping our clients to see the world as interconnected – by formulating strategies, mobilising capital, building partnerships, and implementing programs that have a lasting social and financial impact. We simply call this “positive impact”.

We work with corporations, governments, investors, communities, and civil society. With a global network operating in over 90 countries, Palladium is in the business of making the world a better place.

For more information, please contact: Lucy.Garrett@thepalladiumgroup.com

www.thepalladiumgroup.com