

Understanding the potential for private sector investment in natural capital – lessons from the Spey catchment

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The Valuing Nature Programme, funded by the Natural Environment Research Council, aims to better understand and represent the complexities of the natural environment in decision making. This report summarises the findings of a short research placement between November 2017 and March 2018 awarded to The University of Edinburgh and hosted by the Scottish Environment Protection Agency with support from the Scottish Forum on Natural Capital.

Executive summary

There is a growing recognition amongst policy-makers, conservation NGOs and the private sector that funding for land management needs to be increased and diversified to protect and restore biodiversity and natural capital in Scotland. However, effective mechanisms for enabling private investment by companies who do not manage land themselves are poorly understood. A better understanding of business motivations and challenges is required to effectively increase and diversify private investment in natural capital. This study reviewed existing case-studies and interviewed business in the Spey catchment to understand how private sector investments could be increased or diversified.

Main findings were:

1. Businesses recognise the importance of natural capital to their business success, but this does not currently translate into significant investment
2. Businesses are interested in diversifying and increasing their investments in the environment, but find it difficult to identify tangible returns on investment
3. There is broad support for increasing coordination of investment through an independent business-led intermediary
4. Two potential business models for coordinated business investment were identified: a levy model and a project-based model
5. Government and public sector support are essential to increase investment

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Background

Natural capital can be defined as the stocks of natural assets which include geology, soil, air, water and all living things. It is from this natural capital that humans derive a wide range of benefits, often called ecosystem services, which make human life possible⁴. The value of Scotland's natural capital to sectors like tourism and food & drink is huge. The Scottish Government is committed to protecting and enhancing Scotland's natural capital, which was identified as an investment priority in Scotland's Economic Strategy⁵. Furthermore, natural capital assets form a National Indicator in the government's performance framework⁶.

Many Scottish businesses are dependent on natural capital but investment in sustainable land management that protects or enhances natural capital remains rare due to several challenges. For example, businesses are reluctant to invest in land management on their own, because competitors may also benefit from the investment. Also, businesses may compete for a positive environmental profile, which can deter investing in initiatives that their direct competitors are already financing. There are nevertheless several successful examples where novel business models were able to stimulate investment in natural capital, often involving intermediaries who broker the investment (Table 1).

Table 1. Examples of business investment in natural capital

| Case study | Intermediary | What? |
|---|--------------------------------|--|
| Upstream thinking, SW England⁷ | West Country Rivers Trust | A spatially targeted Payment for Ecosystem Services scheme with South West Water (buyer) to incentivise farmers to improve 'raw water quality' and other ecosystem services using 10 or 25-year covenants and contracts for land management measures |
| Pumlumon Project, Wales⁸ | Montgomeryshire Wildlife Trust | Scheme to improve upland economy in the Cambrian mountains, including Payment for Ecosystem Services. Contracts consist of direct intervention and on-going management over the funding period. The intermediary demonstrates impact to funders. |
| Tweed Catchment, Scotland⁹ | Tweed Forum | The Forum acts as a trusted and neutral land management broker for its 25 member organisations. Buyers pay separately for different benefits including woodland creation, landscape restoration and carbon sequestration. |
| Eden River Catchment in Cumbria¹⁰ | Nestle | Nestle is working with 99 farmers in their dairy supply chain to enhance landscape assets in Cumbria and Ayrshire. Farmers are paid above-average rates based on production and environmental measures. |

The Spey catchment – one of Scottish Highlands' iconic cultural landscapes that also has an important natural heritage – was identified as a region where many businesses rely on natural capital, but where there is also a need for further investment in sustainable land management. The catchment is home to over 50 whisky distilleries, as well as food producers, woollen mills, sawmills, hydro-schemes, salmon fishing, and tourism businesses

⁴ <http://naturalcapitalscotland.com>

⁵ <http://www.gov.scot/Publications/2015/03/5984>

⁶ <http://www.gov.scot/About/Performance/scotPerforms/indicator/naturalcapital>

⁷ <https://www.gov.uk/government/publications/payments-for-ecosystem-services-pes-best-practice-guide>

⁸ http://randd.defra.gov.uk/Document.aspx?Document=12298_DefraPESpilotEvaluationReportFINAL.PDF

⁹ <http://www.tweedforum.org>

¹⁰ <http://www.3keel.com/wp-content/uploads/2018/01/healthy-ecosystems-cumbria-lens.pdf>

all of whom rely on the catchment's natural capital (landscape, water, wood, fish etc.). The Spey Catchment Initiative helps public and third sector organisations coordinate and deliver environmental land management goals in the catchment but so far only a limited number of private sectors are engaged in its activities. As such it provides an interesting setting for exploring the potential to increase private sector investment in natural capital.

Aims

The aim of this research was to understand how private sector natural capital investments could be increased and diversified in the Spey catchment. The focus of the study was on businesses that do not primarily manage land, but nevertheless rely on the Spey landscape, e.g. for their supply chain or to attract customers. Specifically, the study tried to answer four questions:

1. How do businesses currently invest in natural capital?
2. What motivates and hinders businesses to invest in natural capital?
3. Is there potential for coordinated business investment in natural capital?
4. Can intermediaries help to mainstream private sector investment in natural capital?

Research methods

Semi-structured interviews with seventeen business stakeholders and seven members of the Spey Catchment Initiative were conducted between December 2017 and March 2018. Interviews lasted between 45 and 90 minutes. The term landscape assets was used instead of natural capital to explore the concept with businesses in the interviews, based on experience in Landscape Enterprise Networks projects in England. Detailed notes from the interview audio-recordings were analysed to identify common themes in the answers to the question listed above.

The private sector interviewees represented seven sectors: whisky distilling, beer brewing, food manufacturing, hydropower generation, tourism (including recreational fishing), hospitality and textile manufacturing. A mixture of small and medium sized enterprises and large businesses were interviewed. Two organisations with a role in coordinating business action in the area were also interviewed to further explore the potential for coordinated natural capital investments.

The Spey Catchment Initiative interviews represented the main government agencies with a regulatory remit for the Spey, the development, economic and conservation interests of the National Park Authority, local authority flood management officers, conservation organisation land managers and farming interests.

A four-hour stakeholder workshop was organised in end of March 2018 to explore local interest in trialling a landscape enterprise network in the Spey, based on the findings of the interviews. Altogether twelve business stakeholders, eight representatives of the Spey Catchment Initiative, one business advice organisation and six representatives of the Scottish Forum on Natural Capital took part in the workshop.

Main findings

1. Businesses recognise the importance of natural capital to their business success, but this does not currently translate into significant investment

Businesses recognise they are dependent on local landscape assets and most of them have place-based brands. Nevertheless, few businesses invest in natural capital because it remains difficult to determine tangible returns from investment. Furthermore, most businesses do not see how investment would lead to risk reduction, impact mitigation, or meeting global sustainability targets. Some businesses do make small-scale investments to promote sustainability-oriented brands or to demonstrate corporate social responsibility, e.g. to be part of the local community.

In contrast, businesses have made substantial broader environmental investments in bioenergy, water management, recycling of by-products and chemical management. Individual investments were in the order of hundreds of thousands to millions of pounds. These investments were often driven by a combination of regulatory requirements, cost reduction opportunities and sustainability goals.

2. Businesses are interested in diversifying and increasing their investments in the environment, but find it difficult to identify tangible returns on investment

There is general interest and willingness to invest in natural capital to support internal business considerations and the Spey community, especially through direct sponsorship arrangements with land managers. Public sector actions to encourage investment are deemed important to see a wider range of businesses contributing and quantify tangible returns on investment.

There is consensus that investments in sustainable land management need to:

- Benefit the businesses making the investment
- Achieve quantifiable targets and clearly defined impact
- Provide investors control over where funding goes
- Sit within an effective national framework with defined objectives, whilst also delivering to global targets

3. There is broad support for increasing coordination of investment through an independent business-led intermediary

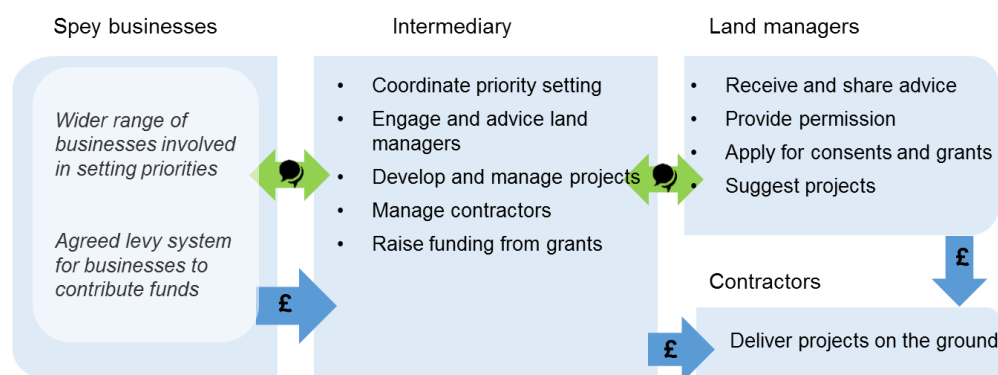
Coordination through a business-led intermediary is seen as particularly promising mechanism to support long term investment. Coordination could increase the effectiveness of investment and provide a trusted and knowledgeable local partner for both land managers and non-land based businesses to help build the business case for investment. This form of collaboration was seen as a promising mechanism to address long terms issues such as water resource management and the effects of climate change. Existing business or landscape partnerships could take on the intermediary role, but the intermediary would need be perceived as neutral and trusted to treat sensitive business information about risks and dependencies in confidence.

4. Two potential business models for coordinated business investment were identified: a levy model and a project project-based model

Two promising approaches to coordination of business action and investments in natural capital were identified that contain aspects preferred by businesses and the agencies responsible for managing natural resources in the catchment. These build on the existing approach in the Spey and the strong relationship between the Spey Catchment Initiative and land managers, working together to deliver projects on the ground through contractors.

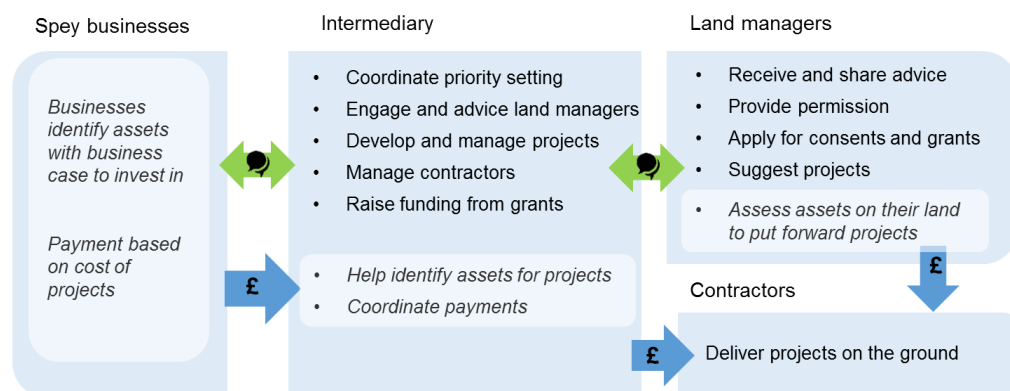
The **levy model** involves non-land managing businesses contributing to the whole catchment with projects delivering multiple benefits. Businesses help set the objectives of the programme and contribute to its costs through levies. Levies were seen as a fair system by allocating responsibility to all businesses benefiting from management of the landscape, although businesses that accrue more benefits from the investment could be asked for greater contributions.

Levies could be assigned through existing licensing systems such as Controlled Activity Regulations or Forestry Licensing, where a small proportion is assigned to the local area towards delivering environmental projects beyond compliance. Another option could be through visitor payback or a tourism business contribution.



The levy model: Businesses contributing a levy towards projects in the catchment

In the **project based** model, businesses are helped to identify specific assets in the landscape to invest in, businesses receive advice to help them do this and payments for specific projects are coordinated through the intermediary. This model had strong business support because it is clear who benefits and leads to tangible outcomes from investment.



The project model: Businesses investing in specific landscape assets through specific projects

5. Government and public sector support are essential to increase investment

Businesses expressed the view that Government should set a national framework, and businesses should lead the coordination of investments locally. The framework needs to consider a fair system for ensuring investment from all businesses that benefit within a particular landscape or catchment. The framework needs to consider that land-based businesses already invest directly in natural capital to provide long term security but may also run other businesses such as tourism activities. The public sector has a crucial role locally in facilitating business action and investments.

Specifically, the public sector has a role to:

- Provide a holistic and impartial approach to decide how funding should be allocated, and what the land management needs are in a local area, catchment or landscape
- Contribute funding towards maintaining natural capital where there are public benefits
- Facilitate and enable development of local solutions fit for local needs and aspirations
- Coordinate the work of agencies and work with groups coordinating the businesses
- Ensure the economic value of the river and other natural assets is built into public investment decisions in e.g. economic strategies

Recommendations for policy and further work

This research has helped improve understanding of business views and motivations to invest in natural capital. Businesses have expressed that in many cases they prefer to directly choose their partners for investment. However for long term investments in action to address long term issues in a catchment or landscape coordination of business investment would be helpful. Whilst businesses would wish to lead the coordination locally with the help of a neutral and safe intermediary, they seek help from Government to develop the framework to facilitate the coordination and manage the transfer of funds. If the Scottish Government wishes to develop this work further we make the following recommendations:

1. Further work is needed by Scottish Government to develop a clear national framework for businesses to invest in natural capital. The Scottish Government's Land Use Strategy could provide a policy vehicle for this framework.
2. The framework could consider the two business models developed through this research in terms of the role of the intermediary, and the flows of information and finance. The business models need further testing with businesses and landscape partnerships elsewhere in Scotland to check if there are similar views.
3. The framework could develop options for levies on businesses to fund investments in landscapes that take account of multiple benefits. The levies model would need to consider how it could work alongside existing payment systems to land managers, such as grant in aid.
4. The Scottish Government and Scottish Forum on Natural Capital Working Group may wish to consider trialling the new business models to invest in natural capital so that any unintended consequences of application are understood.

If businesses wish to develop this work further we make the following recommendation:

5. Businesses with a shared interest in investment in the landscape of the area hold a round table discussion on how to take collaboration forward, perhaps coordinated through the Chambers of Commerce, as suggested in the workshop, to enable a business led approach locally.