

Commission of Inquiry on Peatlands Update: Funding for peatland restoration and management

Summary

- 1. The report offers an update on the economic rationale and funding opportunities for peatland restoration and management across the UK, focusing primarily on upland sites under extensive grazing or sporting land uses.
- 2. Functioning peatlands provide a wide range of ecosystem services, notably climate and water regulation, and provide an important habitat and landscape underpinning both biodiversity and cultural heritage. Unfortunately, commodity production (e.g. food, timber, energy) has often been associated with management practices (e.g. draining, cutting, over-grazing) leading to degraded peatlands and a reduction in the level of these wider ecosystem services. Peatland restoration seeks to redress this imbalance, to recover the capacity to deliver a wider range of services.
- 3. However, restoration is not a costless exercise, involving expenditure on administration and coordination, capital investment, and on-going management activities plus (typically) forgoing some income from commodity production. The latter can discourage private land managers from enrolling in restoration activities and requires further research, perhaps via more short case studies (e.g. changes in output, eligibility for other support payments, landlord-tenant relationships etc.).
- 4. Many ecosystem service benefits associated with peatlands take the form of public goods and are not valued appropriately by markets. Indeed, this is the main reason why they have been neglected in favour marketed commodities. Nevertheless, public goods have economic value and restoration of peatlands (or of any Natural Capital) is merited if these benefits outweigh the costs of restoration.

Material adapted from the technical report by Moxey and Morling (2018) Commission of Inquiry on Peatlands Update: Funding for peatland restoration and management

This review was commissioned by the IUCN UK Peatland Programme's Commission of Inquiry on Peatlands. The IUCN UK Peatland Programme is not responsible for the content of this review and does not necessarily endorse the views contained within.

5. Estimates of the economic value of peatland restoration are now emerging, derived via various techniques. Although subject to some caveats and not always directly comparable, indicative estimates lie in the range of £130/ha/year to £415/ha/year if a broad range of recovered ecosystem services are considered, slightly less (£90 to £210) if only climate benefits are considered. These benefits extend into the future, but need to be compared with the costs of restoration which are typically front-loaded in the form of capital works. For example, to revegetate bare peat and block drainage. These are highly site-specific and can be expensive, but £250/ha to £1000/ha is not uncommon. On-going management and monitoring may also be required.



Summary comparison of costs and benefits of restoration under low and high emissions climate change scenarios (Source Adaptation Sub-committee report (2013)⁴)

Each vertical blue bar represents the difference between the present value¹ of estimated on-going benefits and on-going costs of restoration under a given climate change scenario. The height of the bar reflects possible variation in the net present value of benefits according to whether high or low unit costs and high or low unit benefits are assumed. In all cases, the net on-going benefits are positive, but increase with the assumed severity of climate change. However, upfront capital costs also need to be considered and are shown by the pink horizontal bar. Where the pink bar overlaps with the base of a blue bar, total costs exceed benefits and restoration is not economically cost-effective but where the blue bar extends above the pink bar, restoration is merited. This indicates that restoration, which may desirable on ecological grounds, may not be merited economically for all sites. It also, however, highlight how climate change increases the economic rationale for restoration across all sites.

- 6. Cost-Benefit Analysis (CBA) suggests that, although there is some sensitivity to assumed unit values and to the length of time over which costs and benefits are considered, restoration is generally socially worthwhile. That is, the benefits to society outweigh the costs in most (but not all) cases. This result is strengthened if more ecosystem services are considered and if predicted climate change effects are included. Although estimates could be refined through data improvements, published CBA ratios range between 1.3:1 and 12:1, confirming the rationale for allocating public funding to peatland restoration activities.
- 7. Public expenditure on peatland management and restoration is currently dominated by the Common Agricultural Policy (CAP). Within this, despite representing the bulk of CAP expenditure, Pillar I funding is of little direct relevance – except in terms of land managers' perceived risks of losing such support through enrolling in restoration. Pillar II funding via agri-environment schemes is of more direct relevance, supporting capital works and on-going management.

Material adapted from the technical report by Moxey and Morling (2018) Commission of Inquiry on Peatlands Update: Funding for peatland restoration and management

This review was commissioned by the IUCN UK Peatland Programme's Commission of Inquiry on Peatlands. The IUCN UK Peatland Programme is not responsible for the content of this review and does not necessarily endorse the views contained within.

- 8. Reflecting the Devolved nature of agricultural policy, support measures and payments rates vary slightly across the four parts of the UK. Additional, peatland-specific funding programmes (e.g. Peatland Action in Scotland) have also emerged. The future of funding post-Brexit is highly uncertain, but political commitments to ambitious restoration targets and to "public money for public goods" offer some comfort that public funding will continue.
- 9. However, recognition of the overall funding levels needed to achieve ambitious restoration targets and of competing pressures on public budgets has prompted interest in developing ways in which private funding might be attracted to restoration projects. In particular, active consideration has been given to 'Payments for Ecosystem Services' (PES) and 'Green Bonds'.
- 10. A PES is an attempt to overcome market failure, to establish a financial linkage connecting beneficiaries and service providers. In the UK, the Woodland Carbon Code (WCC) is an example of a PES, with the Peatland Code (PC) also aiming to be established as one. Launched by the IUCN in 2015, the PC is a voluntary standard for UK projects seeking to market the climate benefit of peatland restoration. Climate benefits were chosen as the primary focus because carbon emissions already have a market value.
- 11. Marketing of a PES to potential investors entails considerable effort in identifying suitable projects and suitable investors and then negotiating mutually-acceptable terms and conditions, typically through an independent broker. Nevertheless, the concept of Environmental, Governance and Social (ESG) investment is well understood and investor appetite is growing: the UK impact investing market is currently worth £150 billion. Together with its collaborating partners, the Natural Capital Finance Alliance has already developed a number of tools and resources to aid different types of financial institutions to incorporate natural capital considerations within their business decision-making.
- 12. Although the Peatland Code has received significant publicity as a PES, it is actually pre-dated by a few local examples within the UK focused on water management. Whereas the climate regulation benefits targeted by the Peatland Code are global in nature, the benefits arising from water management are typically contained more locally within a river catchment. This makes it easier to identify who benefits from improvements and to devise payment mechanisms (e.g. water rates) to charge for them. Economists refer to such examples as 'club goods' and several UK water companies are already engaging with land managers. For example, South West Water's plans to its award-winning 'Upstream Thinking' programme.
- 13. A bond is a financial security issued by companies or governments as a means of raising finance, usually for longer-term investment projects. In an effort to explicitly attract investors wishing to better balance their need for financial returns with concerns about wider societal issues, efforts have been made over the last 10-20 years to adjust the traditional bond concept. Internationally, government and corporate "green" bonds have been issued for a variety of environmental projects, including climate change mitigation and adaptation, and have some potential as a source of private funding for peatland restoration. Part of the attraction of green bonds is their potential to tap into existing capital markets rather than using new instruments such as a PES, and to cater for varying scales of investment. As with a PES, the effort required to design and market a restoration bond-funded package may be considerable. Consequently, the scope for using green bonds for funding peatland restoration would require further research before implementation could be considered.

Material adapted from the technical report by Moxey and Morling (2018) Commission of Inquiry on Peatlands Update: Funding for peatland restoration and management