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Financing mechanisms in Europe for restoring peatlands

An overview of the different financing opportunities existing for peatland restoration

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INTRODUCTION

Re-establishing a functioning peatland hydrology and/or vegetation can be a costly project. A comparison of several dataset coming from capitalised restoration operations, across the U.K, Switzerland, and France, has brought into light that several expenditure items are quite independent from one another in such fieldwork. Each one can be related to ground variables through a cost-function and contribute for a certain part of the total cost of the related project.

Specifically, costs range from 5.000 to 150.000€/ha. In France, a more likely cost is of 10.000 to 40.000€/ha. Reported figures from Switzerland are closer to the upper bound of 150.000€/ha, and the information coming from the Peatland Code restorations experiences spread from 5.000 to 15.000£/ha. This cost is one of the big barriers for farmers and landowners when it comes to rewet peatlands. It is not the only one as agriculture in drained areas is generally considered easier technically and offering better production opportunities than in wet areas. To counterbalance these costs and barriers, different financing mechanisms can support farmers and landowners:

1) SUBSIDISING: "THE SUPPORT OF THE COMMUNITY"

The rewetting of peatlands are projects of common interest and as such, they can be publicly funded. Different subsidising tools exist for farmers and landowners:

- **The eco-schemes:** Introduced in the European framework of the CAP 2023-2027, those eco-schemes are some bonus direct payments that will be conditioned by the environmental quality of farm practices. This conditionality must go beyond that of the basic payments that already protect wetlands/peatlands by prohibiting further drainages in the framework of the Good Agricultural and Environmental Condition 2 that ensure the preservation of carbon rich soils *(European Parliament, 2020)*. The European Commission identified the rewetting of wetlands/peatlands and paludiculture as potential agricultural practices that these new eco-schemes could support *(European Commission, 2021)*. It is up to each state/region to include those practices or not in their national/regional strategic plan:

    - In France, Belgium and Ireland, there is no specificities about peatland in the eco-schemes (however extensive grazing is subsidised).
    - In Germany, there is no specific mention of peatland in the eco-schemes, but good management of Natura 2000 sites and extensive grazing can be subsidised.
    - In the Netherlands, paludiculture is supported by the new eco-schemes.

- **The agri-environment-climate measures:** These measures are one of the major territorial development tools of the 2nd pillar of the Common Agricultural Policy. They allow farmers to receive financial assistance under a one to five-year contract in return for environmentally friendly practices *(European Parliament, 2021)*. In some countries, complementary contracting mechanisms are also used in the framework of the Natura 2000 network that are targeting other type of landowners that are not eligible for the CAP. All those payment schemes can be result-based (respect of a good outcome regarding environmental quality) or prescription-based (respect of a set of practice specifications):

    - In France, the contracting is only possible in restricted zones where territorial agri-environment-climate projects exist. These projects can be proposed and then

animated by different operators of the territory (local authority, association, natural park, community of municipalities…) and must be validated at regional level by the state. Numerous agri-environment-climate projects have been carried out in peatlands. Those projects support farmers practices which sustainably maintain some of the ecosystem services delivered by peatlands, but they are not promoting direct peatland restoration. For example, in the "Marshes of Grand Lieu" site, the syndicate of the Grand-Lieu watershed animate an agri-environment-climate project. This project allows local farmers to access payments if they practice extensive grazing, maintain the vegetation cover, and limit their fertilisation and mowing. The subsidises range from 120€/ha to 265€/ha depending on the level of commitment of the farmer. *(DRAAF Pays de la Loire, 2020)*

- In Ireland, the Green Low-Carbon Agri-Environment Scheme (GLAS) was also promoting sustainable farmer practices but there was no direct support for peatland restoration *(Adas, 2020)*. This will change in the CAP 2023-2027 as GLAS will be replaced by Agri-Environment Climate Measures (AECM). In this AECM, a new results-based scheme is proposed with the aim of reducing greenhouse gas emissions from drained peatland by promoting an agricultural management that raise the water tables levels. *(Department of Agriculture, Food, and the Marine, 2021)*.

- In Germany, the Environmental, climate-related, and other management commitments can subsidise peatland restoration projects. *(Ministry of food and agriculture, 2021)*

- In the Netherlands, with the Agricultural Nature and Landscape Management (ANLb), only farmers' groups can be funded for their good management of peatland areas. *(Ministry of Agriculture, Nature, and Food Quality, 2021)*

- In Wallonia, subsidies to restore the hydrological functioning of peatlands/wetlands can be provided in the future CAP. However, these funds are part of the aid for non-productive investments in agricultural and forestry holding, not from the agri-environment-climate measures *(Wallonia agriculture SPW, 2021)*.

- **The LIFE program:** This program is a financial instrument of the European Commission, dedicated to the support of innovative projects that protect the environment and climate. Project owners can be both public and private (associations, local and regional authorities, citizens, companies, NGOs…). It can fund pilot projects with the aim of developing the knowledge around new potential beneficial practices for the environment. Demonstration projects can also be funded to test the relevance of these practices in a new specific context. The LIFE program can also fund best practice projects and communicate on practices that are already well known for their positive impacts to disseminate them at a larger scale *(Ministry of Ecological Transition and Territorial Cohesion, 2022)*. LIFE-Nature and Biodiversity funds the Natura 2000 network of European ecological sites and other actions to preserve and study biodiversity in Europe. An example in France can be the project LIFE "Tourbière du Jura" which funded the hydro-ecological restoration of 55 peatlands of the Franc-Comtois Jura massif, within 14 Natura 2000 sites in 32 communes *(DREAL Bourgogne Franche-Comté, 2022)*.

2) CREDITING: "THE SUPPORT OF PRIVATE STAKEHOLDERS"

The rewetting of peatlands is a way to enhance the ecosystem services provided by the peatland areas. This ecosystem services and/or the rewetting projects can be sold by farmers or landowners in a free voluntary market in the form of credits or certificates to other stakeholders.

The average carbon credit price in the European voluntary market is at 13€/$t_{eq}CO_2$, but this price is mostly influenced by the credits sold in the framework of forestry projects. In fact, those forestry projects represent 93% of the carbon credits in European voluntary markets compared to the niche 2% of the peatland projects.

The price of carbon credits from peatlands appears quite diverse depending on the country, type of peatland, restauration work and certification scheme. In Germany, the MoorFutures scheme offer credits ranging from 40 to 60€/$t_{eq}CO_2$. In the Peatland Code from the UK, the price is a lot lower ranging from 6 to 10€/$t_{eq}CO_2$ with a scheme focusing only on blanket bogs and raised bogs. In the other end of the spectrum, the MaxMoor scheme from Switzerland produce carbon credits that are a lot more expensive around 110€/teqCO2 because they fund very expensive restoration projects focusing on the high marshes *(G. Cevallos, J. Grimault, V. Bellassen, 2019).*

The price of the credit is not imposed but negotiated in an over-the-counter market. As such it is influenced by the equilibrium between offer and demand, between the willingness to pay of companies and other potential sponsoring organisations and the willingness to receive of the farmers and landowners.

- **The willingness to pay of the sponsors:** To assess the potential value of carbon credits, it's important to understand what private stakeholders can win by buying them:

    - Reputation-based engagement: The company funds local conservation projects with verified impacts; this information is communicated internally and externally and can be integrated in sustainability reporting or in a CSR strategy. A good reputation can enhance the attractivity of the company for customers, potential employees, and investors.

    - Customer-based engagement: The support of carbon, biodiversity or other ecosystem services becomes part of the selling-process: each time a customer buys a product, a small amount is put aside for conservation projects (could be automatically or voluntarily).

    - Employee-based engagement: The CSR part of the governance of the company is piloted by employees that can choose the nature conservation projects that are supported. The participation of employees is a good way to enhance employees' pride and cohesion in the company. In site events with them can also be very appreciated.

    - Production-based engagement: A company support ecosystem services that they depend on for their activities.

    - Externalities-based engagement: The activity of the company creates some negative externalities on the environment (for example, greenhouse gases emissions). The company can voluntarily offset a part of those negative externalities by financing

verified positive externalities (such as the carbon sequestration delivered by land uses).

- Area-based engagement: A company "compensates" certain areas, for example office buildings by supporting conservation projects on the same amount of area.

- "Love money" engagement: Individuals have private interests in the project (because it is in line with their values, or they know the project proponent or it's a local project from which they can benefit…). This solution is facilitated if the crediting is coupled with a crowdfunding system.

Most of the time, to meet the demands of funders, crediting systems should take the form of a donation with counterpart. The farmer/landowner is not only committing to the project completion but also to the production of deliverables (reporting, sharing communication materials, opening to field trips…). To be attractive for project proponents, a crediting market should find a good balance between the time that the proponent will have to invest and the money he will receive.

An added value could be also found with the selling of other environmental co-benefits delivered by rewetted peatlands such as increased mire-typical biodiversity, groundwater recharge, water quality or flood mitigation. This is notably the path taken by the new version of the German MoorFutures scheme *(H. Joosten, K. Brust, J. Couwenberg, 2015)*. Those coproduced ecosystem services can be bundled with carbon-credits to form eco-credits with premium prices or sold separately to create layered added value to fund the project (cf. white paper). It's a great opportunity because lots of companies are willing to fund external biodiversity projects for the need of their communication and CSR strategy. There is also a niche of companies that depend directly on water quality for their activities and that could be interested in funding projects that have positive effects on this parameter.

- **The willingness to receive of the project proponent:** To be attractive, the carbon credits should at least negate the costs created by the project for the farmer and landowner and even going beyond that to fund the created value of peatland rewetting for the environment and society. As stated in the introduction, peatland rewetting creates different costs for farmers and landowners that engage in peatland rewetting:

    - At short term: The restoration cost and other eventual investment costs linked to a production shift from the farmers.

    - In the long run: a potential loss of net production and technical possibilities on the field.

Another important cost is the transaction cost that is not directly linked to the rewetting but inherent to the carbon credit certification system. The crediting system should find a balance between its scientific accuracy and the administrative and technical costs of its certification process. This issue become bigger with smaller projects that face the same fixed cost as big projects for the verification steps (project approval with demonstration of additionality, eventual field visit for verification…) but get lower payments *(G. Cevallos, J. Grimault, V.*

Bellassen, 2019). Creating domestic standards rather than using international one seems to be a first step to limit these costs and allow for better financing for small project proponents *(cf. white paper)*. Other solutions can be explored:

- Adapting the additionality validation methodology: To be eligible for crediting, a project must demonstrate that it would not have been realized without the money provided by the crediting scheme: this is additionality. The validation of additionality can take different shapes and so have different costs *(G. Cevallos, J. Grimault, V. Bellassen, 2019)*:

  - The individualized tests are evaluating additionality with legal and/or economic parameters. The funded project must demonstrate that his action is going beyond what's required by law and that the crediting payment is allowing the project to exist. If public subsidies already exist to fund this type of projects, different approach have been taken in the already existing credit schemes: some schemes allow co-financing (Label Bas Carbone, Peatland Code) and others exclude it (MoorFutures).

  - The standardized method is a simple list of eligible practices that are identified as additional in most scenarios. This method is less costly but also less efficient. In the framework of the French "Label Bas Carbone" this reduced efficiency is offset with a discount rate applied on the credits.

- Controlling the costs of verification: Simplifying the verification process (restricting the number of field trips, laboratory tests…) can also lower administrative/technical costs. Another way to reduce those costs could be to wider the pool of potential auditors. This could create competition and raise the efficiency of verification *(G. Cevallos, J. Grimault, V. Bellassen, 2019).*

3) GREEN BORROWING: "THE SUPPORT OF INVESTORS"

Direct payments enabled by crediting and subsidising are a powerful tool to incentivise going toward sustainable practices for peatland valorisation. However, another opportunity should not be overlooked: the facilitation of borrowing for projects that benefit the environment and the climate. This facilitated borrowing doesn't create a new sustainable business model for peatland but can facilitate the transition and investments required to go toward those new business models. They can be done at two scales:

- At the scale of big investors: The **green bonds** are issued on the financial markets by public or private entities. The project proponent accessing those bonds must prove that the project he wants to finance will have a positive impact on the environment. He commits to publish annual reports giving investors an account of the progress and results of his project *(Delphine Cuny, 2021)*.

- At the scale of minor/local investors: The **participatory loans** are possible thanks to online platforms (in France, for example: Agrilend and Miimosa). Individuals or other private stakeholders can choose to invest online for the support of agricultural projects with an

advantageous interest rate for the farmers. The individuals can choose to invest small amounts of money and so reaching the investment goal is linked to collective commitment.

CONCLUSION

Peatland restorations are costly projects that create benefits for the climate and environment as a whole. Nowadays, less than 1% of European degraded peatlands have been restored and as such, this economic barrier should not be overlooked. Therefore, it's important to better identify and create new opportunities to unlock funds for the restoration of peatlands. Blending public funds and private money can be a solution as we identified different sources of European public subsidies and the emergence and development of carbon credit markets and green finance.

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