

AITHER QUARTERLY LETTER | Q2 FY2021-22

Making better decisions that account for an uncertain future

Climate change will have major and irreversible effects on the planet, its ecosystems, and its people. The discussion and actions emerging from COP26 demonstrated that mitigating and adapting to these effects will take concerted, focused and collaborative global action.

There is increasing momentum and action from governments and businesses to address climate change. However, both need to prioritise investment and demonstrate the effectiveness of mitigation and adaptation actions.

This quarterly edition highlights the importance of using tried and tested tools like economic appraisal to make better decisions and ensure the momentum needed to mitigate and adapt to climate change. We introduce an [insight](#) by Director Chris Olszak and Senior Economist Sarah Leck that explores the principles and methods used in environmental economics to improve investment confidence. We also introduce an upcoming [webinar](#) where Principal Consultant Justin Story and Sarah Leck will demonstrate how environmental economics can help assess the value of investments in natural capital and account for uncertainty.

We encourage you to read on and welcome the opportunity to share more insights, approaches, and tools that can support the making of better decisions.



Dollars and sense: Using environmental economics to improve decision making

[READ THE FULL ARTICLE →](#)



Investment in natural capital - using environmental economics to measure costs, benefits and account for uncertainty

[REGISTER FOR THE WEBINAR →](#)

The scale of investment in natural capital continues to grow

With governments and businesses worldwide committing to net-zero targets, interest in natural capital is gaining momentum as a critical means of mitigating and adapting to climate change. Recent commitments arising from COP26 are likely to be relevant for natural capital investments. These include resolving a path forward for Article 6 carbon market rules, a new target to double funding for adaptation in developing countries by 2025, and a promise to end deforestation by 2030.

Beyond climate change, natural capital is an increasingly important investment theme in its own right, in recognition of its significance to the global economy and society. For example, natural capital is necessary to support ecosystem services, such as pollination, which are essential for agricultural productivity. The recognition of this reliance continues to grow and has been emphasised, for example, through the emerging Taskforce for Nature-Related Financial Disclosures (TNFD).

However, there is continued uncertainty about the magnitude of the effects of climate change on different industry sectors, ecosystems, and communities and, consequently, the effectiveness and prioritisation of actions. Investors, whether they are from the public or private sectors, need confidence that they are investing in the best possible outcomes, and certainty and confidence that these outcomes will be, and are being, achieved.

The scale and speed of investment required for mitigation and adaptation highlights the need to identify and prioritise the most effective response options. For example, a recent report by the Insurance Council of Australia suggests Australia will have to spend \$30 billion over the next 50 years to mitigate coastal flooding and erosion. Associate Director Martijn Gough and Senior Economist Sarah Leck recently wrote an [insight](#) that highlights how economics can help ensure this investment delivers the best outcomes for our community.

The examples highlighted above demonstrate the potential scale of investment in mitigation and adaptation, including natural capital. There is an opportunity to ensure this investment is used on response options that are effective and deliver the best value for money.

Environmental economics can be used to ensure effective investment in natural capital

Environmental economics provides a framework to identify and value the benefits and costs of natural capital investment. The structured framework enables analytical rigour to be maintained and provides clear outcomes, costs, and benefits that can be directly compared and understood, enabling effective investment prioritisation and communication of value for money.

There are multiple benefits of investment in natural capital, but the case for investment is often weak. We often hear that the value of ecosystem services – how much people are willing to pay for them – is not fully revealed in market prices, and this can limit investment in ecosystem services from the government or the private sector. Robust methods for valuing ecosystem services can therefore lead to better policy and investment decisions.

Environmental economists have developed a range of methodologies that can be used to value natural capital investments. The Total Economic Value framework is used to estimate the full range of values from ecosystem services by considering both use and non-use values. Economists also use a

range of methodologies to assess how these values might be affected by different assumptions, such as future climate change scenarios. Methods range from simpler sensitivity or scenario analysis to more complex probabilistic approaches (such as Monte Carlo methods) that can account for changes in assumptions across multiple parameters.

This topic continues to receive a lot of attention, particularly as participants in voluntary carbon markets look to better understand the potential value of the co-benefits from their investments. We welcome you to read more in the [insight](#) written by Director Chris Olszak and Senior Economist Sarah Leck and look forward to welcoming you to the upcoming [webinar](#) with Justin Story and Sarah.

We welcome your feedback and take this opportunity to wish you a safe and happy holiday.

Yours sincerely,

Will Fargher and Chris Olszak
Co-Founders and Directors, Aither