



NSW Natural Capital Statement of Intent

Recognising the value of nature

Acknowledgement of Country

The NSW Government acknowledges that it stands on Aboriginal land. We acknowledge the Traditional Custodians of the land and we show our respect for Elders past, present and emerging through thoughtful and collaborative approaches to our work, seeking to demonstrate our ongoing commitment to providing places in which Aboriginal people are included socially, culturally and economically.



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Foreword

The NSW Government's Natural Capital Statement of Intent recognises multiple benefits that natural assets on private land can bring, and sets out a partnership with farmers and landowners to manage all aspects of their land for economic and environmental outcomes. The Statement was developed in consultation with key stakeholders across a wide range of sectors and geographic locations.

Natural capital refers to our stock of natural assets. According to the UN World Economic Forum, more than 50% of global Gross Domestic Product is dependent on nature. We need to seize the opportunity to drive investment in our natural environment and create new markets, and the NSW Natural Capital Statement of Intent delivers a strong signal about where we're moving in this state.

The NSW Natural Capital Statement of Intent lays the foundation for improving our environment, attracting private investment, supporting the creation of new industries, future-proofing NSW primary industries, and building greater economic and climate resilience for NSW.

The NSW Government's approach to natural capital will give landholders and managers more options to diversify their income, while maintaining ultimate decision-making power on how to sustainably and productively manage their land. This will open up alternative revenue sources for farmers, while helping reduce their exposure to climate change and biodiversity loss, ultimately improving their long-term farm productivity.

Many landholders across NSW are already natural capital specialists and there are opportunities for them to be rewarded for the productive and environmental outcomes they generate. The NSW Government will continue working with farmers and landholders to recognise their efforts to improve natural capital and tap into emerging markets.

The NSW Government's approach to natural capital is about recognising the inherent value of these assets, and valuing and investing in nature. This in turn is an investment in NSW's long term economic and social prosperity. We will create rigorous standards required for wider adoption.

The NSW Government will share experiences and insights to help build capacity across other sectors and key industries, and actively seek out and engage global and national partnerships.



The Hon. James Griffin MP

A broad coalition of stakeholders, including landholders, Aboriginal communities, financial institutions, business and community groups, will be brought together to help the NSW Government develop an implementation roadmap.

As the responsible Ministers, we look forward to working with landholders, business and finance sectors to build on the investment landholders already do to manage their land and protect their natural assets, for the benefit of future generations.

The Hon. James Griffin MP
Minister for Environment and Heritage

The Hon. Dugald Saunders MP
Minister for Agriculture and Minister for Western NSW



The Hon. Dugald Saunders MP



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NSW Natural Capital Statement of Intent

Why release a Natural Capital Statement of Intent?

The NSW Natural Capital Statement of Intent has been developed by the NSW Government to further deliver on economic, environmental, social and cultural outcomes for the people of NSW.

The NSW economy and communities depend on environmental assets and the goods and services they provide, including agricultural products and practices, amenity, cultural values and longer-term liveability. Enhancing and protecting these natural capital assets is critical as NSW continues transitioning to a lower carbon and sustainable economy that is resilient to climate risk and seasonal variances.

International momentum to acknowledge, protect and value natural capital, while integrating natural capital considerations into economic and financial decision-making, is growing.

NSW is well placed to respond to and benefit from this global trend:

- our landholders from right across the state have decades of experience as environmental stewards managing their natural assets
- our Aboriginal communities have long-standing connections to Country, cultural custodianship of land, and own and manage large areas of land in NSW
- our finance community is ready and poised to invest in natural capital initiatives.

Objectives

The objectives of the NSW Natural Capital Statement of Intent are to:

- recognise the value of, and our impact and dependencies on natural capital, while mitigating risks against losses, in line with the Taskforce on Nature-related Financial Disclosures Framework
- recognise the importance of land managers' ability to support ecosystem services while also supporting productivity and economic opportunities
- recognise Aboriginal peoples' connection to Country, traditional land knowledge, management practices and economic aspirations as land managers
- build on existing initiatives that integrate the enhancement of natural capital with primary industries productivity and land management by:
 - rewarding best-practice sustainable land management techniques by removing red-tape and other barriers
 - co-designing cost-effective natural capital mechanisms with stakeholders
 - recognising landholders' knowledge in enhancing natural capital



- foster an enabling environment that:
 - supports the economic transition towards a nature-positive economy where landholders are recognised for the public good they provide
 - accelerates, scales up and improves the value of investment into nature-positive opportunities and avoids perverse outcomes.

What does the Statement of Intent do?

The Statement of Intent:

- defines natural capital
- recognises and provides a common framework for existing public, private and community environmental stewardship initiatives
- guides and promotes the development of new programs that recognise and financially reward landholders who choose to protect and enhance natural capital, including encouraging participation in and expanding voluntary natural capital markets in line with national and international accreditation schemes
- aligns NSW Government policies, national and international commitments such as the UN Sustainable Development Goals and draft post-2020 global biodiversity framework, which are focused on varying objectives, under one umbrella
- outlines the immediate next steps and priority action areas to guide policy and implementation.

Defining natural capital

Natural capital refers to the world's stocks of natural assets, and the services that flow from them, which include geology, soil, air, water, and all living things. It is from this natural capital that humans derive a wide range of services, often called ecosystem services, that make human life possible. The most obvious ecosystem services include food, water, plant materials used for fuel, building materials and medicines (Convention on Biological Diversity 2021b).

Capital has traditionally been thought of as money or any resource or asset that stores or provides value to people and the economy. Natural capital is a way of thinking about nature in much the same way as traditional capital – if we invest in it, it creates value, and if we degrade it, we limit its value.

Natural capital provides opportunities for mutually beneficial solutions for environmental conservation, agricultural enterprises and investors. Conventional economic models and financial markets do not always account for environmental degradation and so do not provide a holistic picture of economic growth and prosperity. By accelerating steps to recognise the benefits we get from nature and taking nature into account in our economic and financial decisions, we increase the creation of environmental, social and economic value.

The international and national context

The economic case for natural capital is growing

The economic case for valuing nature cannot be understated. In 2019, the World Economic Forum (WEF) estimated that \$44 trillion of global economic value generation, more than 50% of global gross domestic product, is moderately or highly dependent on nature.

The *Global Risks Report 2021* (WEF 2021a) ranks biodiversity and ecosystem collapse as one of the top 5 most likely and impactful risks humanity will face in the next 10 years.

More recently, the United Kingdom Government commissioned a landmark independent review on the economics of biodiversity, the Dasgupta Review. It concludes that nature is a 'blind spot' in economics and that 'we can no longer afford for it be absent from accounting systems that dictate our national finances or ignored by economic decision makers' (Dasgupta 2021). The Dasgupta Review is expected to set the agenda for the UK Government's 25-year environmental plan and will shape how nature is valued and accounted for on its balance sheets.





There is a global trend towards the recognition of the resources and assets that store or provide value to people through the 5 capitals – natural, financial, produced, human and social. The focus of the NSW Natural Capital Statement of Intent is natural capital, with regard for the influence and impact of other capitals.

International momentum is building to develop the enabling policy framework

The Strategic Plan for Biodiversity¹ 2011–2020 (developed as part of the UN Convention on Biological Diversity) included 20 Aichi Biodiversity Targets, with Target 2 aiming to mainstream biodiversity in policy decision-making and national economic accounts. The draft post-2020 global biodiversity framework is building and extending this commitment to mainstreaming biodiversity and is scheduled for completion at the Conference of Parties (COP-15) in 2022 (Convention on Biological Diversity 2021a).

Financial markets have started to connect the climate and nature-related risk agendas

Biodiversity loss entails physical, transition, reputational and systemic risks for investors. Leading financial actors are integrating nature-related risks and opportunities in their approaches to sustainable investing, lending and underwriting practices, including reporting on biodiversity portfolio footprints and developing common biodiversity metrics and targets.

The Taskforce on Nature-related Financial Disclosures (TNFD 2021) is a global initiative aiming to guide financial institutions and businesses in their nature-related financial disclosure efforts. By 2023, the TNFD will provide a framework for corporations and financial institutions to assess, manage and report on their dependencies and impacts on nature. The NSW Government is a member of the TNFD Forum.

Australia is well placed to act

Australia is one of the most biologically unique and diverse countries in the world. Australia's natural capital has historically underpinned our economic success, but this biodiversity is under increasing threat. The *Independent Review of the Environment Protection and Biodiversity Conservation Act 1999* (DAWE 2020) found that Australia's natural environment is in decline and that the current environmental trajectory is unsustainable.

Globally, Australia has the fourth highest incidence of animal species extinction and eighth highest number of threatened species listed in the International Union for the Conservation of Nature Red List of Threatened Species (IUCN 2021).

¹ "Biodiversity" or "biological diversity" means the variability among living organisms from all sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems' (Convention on Biological Diversity 1993).



The Australian Government has proposed to amend Australia's environmental laws to better protect the environment, and has undertaken a number of initiatives to increase environmental resilience, such as the National Landcare Program, the \$100 million Oceans Leadership Package to protect Australia's oceans, the National Soil Strategy, and the \$66 million Agriculture Biodiversity Stewardship Package.

NSW environmental leadership

The growing population of NSW and ongoing effects of climate change, continue to exert pressure on the environment (EPA 2018). It is important for NSW to continue to build its understanding of its natural capital assets, how these interact with NSW's economy and social benefits, and the flow of renewable and non-renewable assets.

Land managers in NSW, supported by government programs, community led initiatives, and primary industry sector strategies, already play a large part in enhancing natural capital. For example, in the 2021 calendar year, Local Land Services, working together with landholders, increased the amount of land with improved land management practices for agricultural production, native vegetation and soil condition by 2,603,832 hectares (ha) (LLS 2022).

In the same calendar year, 43,124,187 ha (LLS 2022) of land was managed for pest and weed control, 82,482 ha of native vegetation was protected through rehabilitation and enhancement, 179,508 ha of land was managed for improved soil condition, 419 km of rivers and estuaries were protected, and 620,413 ha of threatened species, populations or ecological communities were protected or enhanced.

However, there is more work to be done. We must continue to identify innovative ways that directly engage landholders and government to effectively manage our natural resources and achieve improved outcomes for biodiversity, carbon sequestration and other ecosystem services whilst continuing to grow agricultural production.

The NSW Government is already responding to climate change and is leading the way through the *NSW Waste and Sustainable Material Strategy 2041*, *Electricity Infrastructure Roadmap*, and the *Net Zero Plan Stage 1: 2020–2030*. The NSW Government recently released a *Net Zero Plan Stage 1: 2020–2030 Implementation Update*, which commits NSW to an emissions reduction target of 50% by 2030 (DPIE 2021b).

We recognise that the sustainable development, climate change and nature agendas are interrelated and must be addressed together. An informed understanding of natural capital is critical to accelerating the response to climate change in a way that integrates economic growth with the enhancement of natural assets.

The NSW Government delivers a range of initiatives that sustainably manage and enhance the state's natural capital. NSW has



management frameworks in place for its marine and terrestrial environments, fisheries and forests, which provide direct benefits to the public through renewable goods and services.

In 2008, the NSW Government established the BioBanking program – a limited market-based program to support the exchange of biodiversity credits to offset major development-related biodiversity loss (DPIE 2021a). In 2017, the program was expanded into the NSW Biodiversity Offsets Scheme, which offsets the loss of biodiversity due to developments across the state.

In 2018, the NSW Government responded to investor feedback and issued an inaugural sustainability bond – a first of its kind in Australia and worth \$1.8 billion – which supports a range of environmental and social initiatives across the state. This program continues to grow, currently totalling \$5.2 billion in bonds issued to the market and contains capacity to issue more.

We have also implemented a range of initiatives to conserve and improve our natural capital asset base, including \$175 million for the 2 stages of the Saving our Species program, \$70 million per annum under the Private Land Conservation program (which has delivered more than 2,000 agreements that protect over 2 million hectares for conservation), and a commitment to add 400,000 ha to our national parks estate by the end of 2022; which since 2019, has resulted in the acquisition of 520,000 ha, of which approximately 295,000 ha has been reserved.

We also administer sustainable pathways to balance environmental services with economic outcomes on private land through our farm forestry, plantation, and land management frameworks.

This Natural Capital Statement of Intent, the Sustainable Farming Program and the Primary Industries Productivity and Abatement Program, are the next significant leadership steps toward delivering a resilient and growing economy, healthy and prosperous communities, and expanding, competitive and innovative industries and businesses. These initiatives will align with NSW Treasury whole-of-state sustainable finance principles to ensure the most effective use of government funding.

Opportunities and benefits for NSW



The Natural Capital Statement of Intent is a key step in the NSW Government's recognition of the value of natural capital. It provides the enabling environment for the evolution of natural capital markets, investment and employment opportunities in NSW (Figure 1).

Opportunities for landholders include: growing and diversifying income streams, improving farm productivity and profitability, and shifts the emphasis from regulation to incentive-based outcomes.

This is a cornerstone of the state's economy, which landholders, Aboriginal peoples, business, the finance community and key industries, particularly our world-class primary industry sector, are positioned to prosper from.



Figure 1 Opportunities and benefits of recognising the value of nature



The role of the NSW Government

The NSW Government has 3 main roles: to enable landholders and investors to participate in natural capital initiatives, to participate itself in natural capital markets and investments, and where appropriate, to regulate natural capital markets and investments (Table 1).

It already plays a key role as market maker and overseer, designing and implementing nature-positive conservation and environmental market policies and programs such as the Biodiversity Offsets Scheme, Saving our Species program and Green Corridors program.

The Government is also an enabler and investor, delivering a range of grant and extension programs to support landholders and Aboriginal land managers to improve natural resources and reduce biosecurity risks on their land, such as the Primary Industries Productivity and Abatement Program, Farm Innovation Fund and more.

As the manager of land, water and forests on the public estate, the NSW Government aims to generate environmental, social and economic benefits through the flow of natural capital assets to goods and services, employment, and social and economic values.

Implementation principles and vision

The vision, principles and key enablers to protect and enhance the state's natural capital assets are outlined in Figure 2. These will underpin NSW Government decision-making and planning.

Table 1 The role of the NSW Government in delivering enhanced natural capital outcomes

Role	Description
<p>Enabler</p>	<p>Building capacity and exploring opportunities to integrate natural capital into mainstream financial and economic decision-making through:</p> <ul style="list-style-type: none"> • raising awareness and building knowledge about natural capital • addressing the barriers to mainstreaming private sector investment in natural capital • establishing government-led activities that enhance natural capital • providing advice and supporting landholders to make informed choices about managing natural capital on their land, and addressing barriers to create the conditions for landholders and communities to voluntarily participate in, and benefit from, natural capital initiatives. <p>The NSW Government’s role includes supporting current and future research and development (R&D) activities and partnerships that will contribute to technical and technological advances, which in turn will provide greater confidence to market investors. R&D endeavours include:</p> <ul style="list-style-type: none"> • developing cost-effective ways to measure and account for natural capital • improving knowledge of barriers and enablers to improve landholder participation in natural capital initiatives • developing new approaches to optimise natural capital within productive landscapes • understanding the linkages, inter-dependencies and trade-offs between different natural capital assets • protecting our natural capital from biosecurity risks • identifying ways to build natural capital while delivering social and economic outcomes to landholders and regional communities at the same time • developing approaches that ensure we build resilience into our natural capital assets to adapt to a changing climate.
<p>Investor or investee</p>	<p>Accelerating nature-positive outcomes through financial activities (where appropriate), such as:</p> <ul style="list-style-type: none"> • investing in natural capital assets and markets • procuring nature-positive goods and services • contributing to nature-positive related bond issuance.
<p>Authority</p>	<p>Leveraging its authority in identifying opportunities to:</p> <ul style="list-style-type: none"> • take a leading role in standard-setting, accreditation, certification and market regulation, and supporting existing government businesses to achieve certification • facilitate capital flows to meet net zero targets and nature-positive biodiversity ambitions by convening industry stakeholders on key issues • establish and help regulate environmental markets and support voluntary market-creation opportunities



NSW will transition towards a nature positive economy by focusing on six key principles

1	2	3	4	5	6
Demonstrate government leadership on natural capital that delivers both ecosystem services and productive landscape outcomes	Integrate natural capital considerations into NSW Government decision-making	Realise the value of natural capital to grow resilient industries, regional communities and jobs	Create and incentivise investable natural capital opportunities across all tenures and scales in NSW	Build capability and investment readiness	Foster collaboration and partnerships that will unlock and accelerate natural capital markets and opportunities



Key enablers

 Data and technology	 Sustainable finance	 Innovation	 Collaboration	 Skills and engagement
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Position NSW as:

Natural capital investment destination of choice	Nature-positive leader
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Figure 2 Implementation vision, principles and enablers



How NSW is taking action

The NSW Government will work with landholders, Aboriginal land managers, primary industry stakeholders and the finance sector to develop an implementation plan for the Statement of Intent. Table 2 summarises priority actions to recognise and value natural capital in government and industry decision-making.

Another key vehicle is the Recognising Natural Capital Initiative, which brings together stakeholders from the finance, non-government and government sectors to collaborate on ways to unlock the value of natural capital.

The market maturity development pathway (Figure 3) highlights the initiatives we will deliver to better recognise and value natural capital.

Table 2 Principles and priorities for action

Principle	Priority action
<p>Demonstrate government leadership on natural capital that delivers both ecosystem services and productive landscape outcomes</p>	<p>Lead by example through developing innovative natural capital strategies and initiatives that are underpinned by evidence-based targets.</p> <p>This includes developing strategies to recognise natural capital to enable markets to unlock alternative revenue streams for primary industries, Aboriginal communities, water management and sustainable land management.</p>
<p>Integrate natural capital considerations into NSW Government decision-making</p>	<p>Identify and test how to account for the social and economic value of natural capital on the state's balance sheet.</p> <p>This includes investigating opportunities to unlock the value of natural capital across the state's public lands and recognising natural capital in planning and development decisions.</p>
<p>Realise the value of natural capital to grow resilient industries, regional communities and jobs</p>	<p>Identify and enable natural capital opportunities in regional NSW that can contribute to the development of new regional industries, sustainable employment and opportunities for primary producers, landholders and Aboriginal communities.</p> <p>This includes creating the market framework and financial incentives for the primary industries and lands sector to sequester carbon, enhance biodiversity, improve productivity through best practice, and create other economic opportunities.</p>
<p>Create and incentivise investable natural capital opportunities across all tenures and scales in NSW</p>	<p>Investigate the merit of developing financial instruments and methods that overcome barriers to valuing and investing in natural capital.</p> <p>This includes investigating viable investment pathways, market-based natural capital mechanisms and financial instruments that can be scaled and reproduced to diversify revenue streams and capital for the primary industries and lands sector.</p>
<p>Build capability and investment readiness</p>	<p>Contribute to the establishment of consistent national biodiversity data metrics and support the development of capacity building networks that will unlock natural capital investment opportunities.</p> <p>This includes building the capabilities of the primary industries sector and landholders to identify new natural capital investment opportunities and diversify revenue streams.</p>
<p>Foster collaboration and partnerships that will unlock and accelerate natural capital markets and opportunities</p>	<p>Partner with other jurisdictions to harmonise natural capital methodologies and align national and international initiatives.</p> <p>This includes partnering with the primary industries sector and landholders to develop fit-for-purpose solutions and incentives that recognise industry-leading nature-positive agriculture practices.</p>

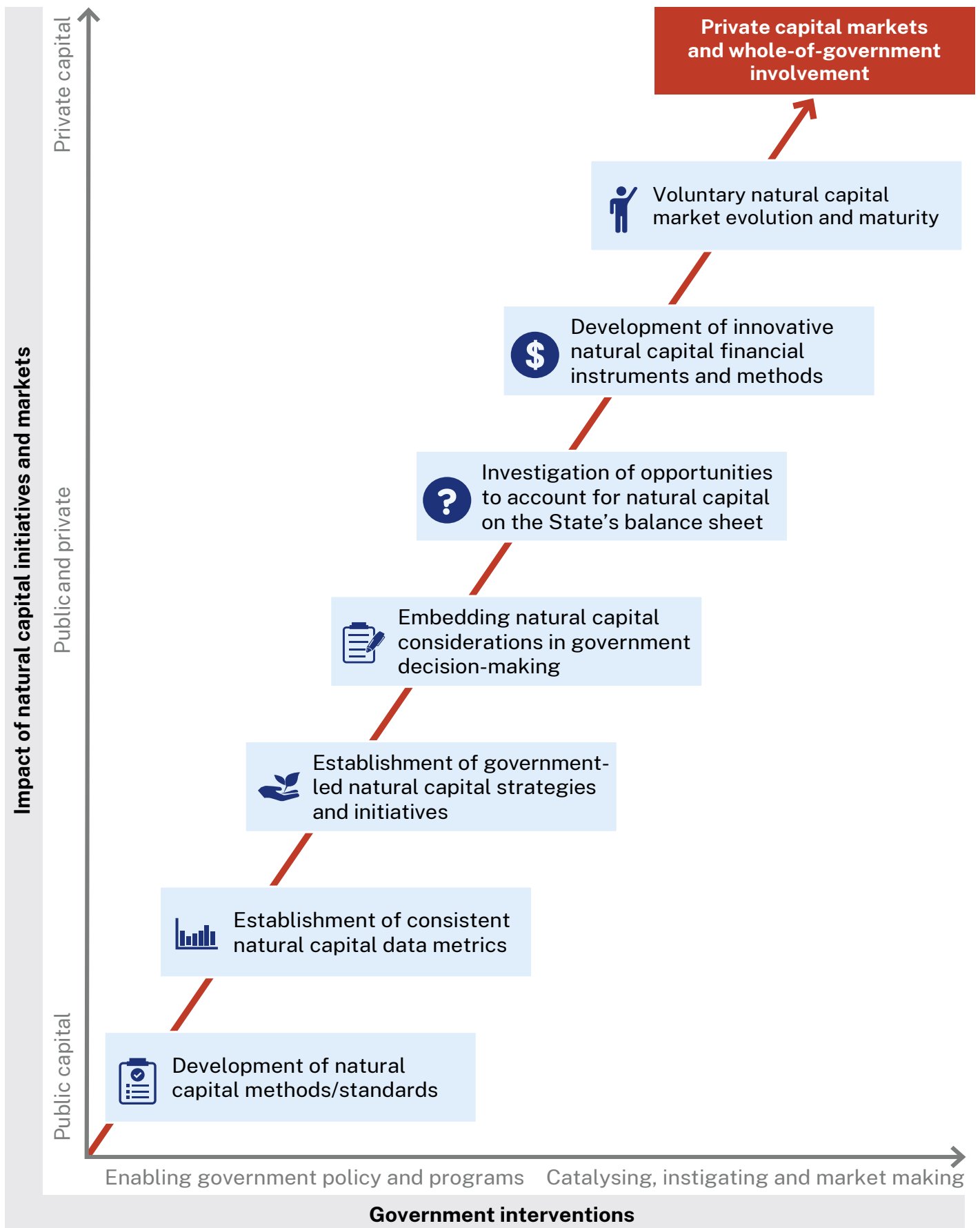


Figure 3 Market maturity development pathway



What will happen next?

The NSW Government will set out a pathway to recognising and valuing natural capital in a systematic and strategic manner that will support the evolution and maturation of voluntary natural capital markets and investments.

Successful implementation will depend on the Government's continued engagement with landholders, Aboriginal land managers and the primary industries sector to collaboratively design the natural capital programs that sit under the Statement of Intent. This includes getting a better understanding of the different barriers, and behavioural and economic drivers that affect voluntary landholder participation in natural capital initiatives.

The NSW Department of Planning and Environment, in conjunction with NSW Local Land Services, will develop an implementation plan for the Statement of Intent with input from across government, landholders, primary industry stakeholders and financial institutions.

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Glossary

Agriculture Biodiversity Stewardship Package: A \$66 million Commonwealth Government program that is working to develop market arrangements and kick start private investment in farm biodiversity and other sustainability opportunities (DAWE 2022).

Aichi Biodiversity Targets: A suite of 20 international targets for biodiversity, which were agreed as part of the United Nations Convention on Biological Diversity Strategic Plan 2011–2020 (Convention on Biological Diversity 2018).

Biodiversity: ‘Biodiversity’ or ‘biological diversity’ means the variability among living organisms from all sources including terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems (Convention on Biological Diversity 1993).

Biodiversity Assessment Method (BAM): The method used to assess the number of biodiversity credits generated through a biodiversity stewardship agreement, under the NSW Biodiversity Offsets Scheme (DPE 2022c).

Biodiversity Offsets Scheme (BOS): A NSW Government scheme to offset the loss of biodiversity due to developments across the state. A development that has an unavoidable impact on biodiversity is able to offset this by purchasing biodiversity credits from landholders who have committed to biodiversity stewardship agreements that will deliver measurable gains for biodiversity on their land (DPE 2022b).

Biodiversity Indicator Program: A program established under the Biodiversity Conservation Act 2016 to assess the status of biodiversity in NSW at set intervals, including contributing to the 5-year review of the Act (DPE 2022a).

Biosecurity risks: Anything that could increase the impacts of pests, diseases, weeds or contaminants on the economy, environment or community (DPI n.d.).

Ecosystem: A dynamic complex of plant, animal, and microorganism communities and the nonliving environment interacting as a functional unit. Humans are an integral part of ecosystems. Ecosystems vary enormously in size; a temporary pond in a tree hollow and an ocean basin can both be ecosystems (Millennium Ecosystem Assessment 2003).

Ecosystem services: The benefits people obtain from ecosystems. These include provisioning services such as food and water; regulating services such as regulation of floods, drought, land degradation, and disease; supporting services such as soil formation and nutrient cycling; and cultural services such as recreational, spiritual, religious and other nonmaterial benefits (Millennium Ecosystem Assessment 2003).

Natural capital: The world’s stocks of natural assets that include geology, soil, air, water and all living things. It is from this natural





capital that humans derive a wide range of services, often called ecosystem services, which make human life possible (Convention on Biological Diversity 2021b).

Natural capital markets: Markets in which payments are made in exchange for ecosystem services, the underlying natural capital assets are traded, or related financial instruments or derivatives are traded. In NSW, for example, there are currently markets for carbon credits and biodiversity offsets.

Metric: A unit of measurement for a given natural capital asset or ecosystem service, calculated according to an agreed method (such as soil carbon sequestration and storage environmental accounts, the NSW Biodiversity Assessment Method, or water metrics for primary industries and landholders).

Nature-positive: A high-level goal and concept describing a future state of nature (e.g. biodiversity, ecosystem services or natural capital) which is greater than the current state (TNFD 2022).

Net Zero Plan Stage 1: 2020–2030: Sets out the NSW Government’s priorities and initiatives to grow the economy, create employment opportunities and reduce greenhouse gas emissions over the decade to 2030 and set the state up to meet its 2050 net zero emissions objective.

Post-2020 global biodiversity framework: A new global framework being negotiated under the UN Convention on Biological Diversity, to guide actions to preserve and protect nature and its essential services to people through to 2030 (Convention on Biological Diversity 2021a).

Primary Industries Productivity and Abatement Program (PIPAP): A key pillar of NSW’s Net Zero Plan Stage 1: 2020–2030, this \$125 million program aims to support farmers and land managers across the state to reduce their emissions, improve their carbon management, and enhance biodiversity on their land alongside production.

Taskforce on Nature-related Financial Disclosures (TNFD): A global initiative to develop and deliver a framework for organisations to report and act on nature-related risks, with the ultimate aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes (TNFD 2022).

United Nations Convention on Biological Diversity (CBD): This international agreement, established in 1992 and signed by most of the world’s governments, provides a global legal framework for action on biodiversity.

United Nations Sustainable Development Goals (UN SDGs): Global goals established by the United Nations General Assembly that are designed to be a ‘blueprint to achieve a better and more sustainable future for all’ and intended to be achieved by 2030.

