



HM Government

# **Nature markets:**

## **A framework for scaling up private investment in nature recovery and sustainable farming**

March 2023



# Ministerial Foreword



## **Rt Hon Thérèse Coffey MP**

Secretary of State for Environment, Food and Rural Affairs

Across the country farmers and land and coastal managers are stepping up to the challenge of delivering net zero and nature recovery.

In the Environmental Improvement Plan 2023, we set out our blueprint to deliver our ambitious environmental goals. In the cross-Government Net Zero Growth Plan, we detail how we will tackle climate change, including through nature-based solutions. To support these plans, we need to scale up the flow of private finance to nature, so that farm businesses and the growing pipeline of nature projects have access to the investment they need to grasp the opportunities of the transition to a nature-positive economy.

Nature is key to our wellbeing and to sustaining livelihoods and vibrant local communities. Many of the services that nature provides however, such as carbon sequestration, biodiversity, clean water and natural flood management, are still systemically undervalued in our economy. This Nature Markets Framework makes clear our commitment to address this, by accelerating the development of high-integrity markets that enable firms to finance the provision of these ecosystem services. In developing this framework, we have listened to experts from across the farming, environment, finance and business communities.

The UK was an early leader in developing voluntary carbon markets to support woodland creation and peatland restoration. We were also at the forefront of new global commitments to scale up finance for nature and tackle deforestation. We have pioneered new market mechanisms at home, to ensure that biodiversity and water quality impacts from new development are more than compensated for through investment in additional nature restoration projects. But the potential to mobilise investment through nature markets is still relatively untapped.

Thanks to the UK's twin strengths in environmental science and green finance, innovators have developed and piloted an impressive range of models for mobilising investment into nature projects. To translate this innovation into well-functioning

markets however, participants are looking for trusted standards and robust governance arrangements to support transactions and keep costs low. Work by the British Standards Institution to accelerate standards adoption in the UK, building on international best practice, is a pillar of this framework and will be key to taking this forward.

The UK has the potential to be a global hub for nature finance and government is committed to doing its part. This framework provides a clear vision for how we will hardwire integrity and trust into emerging nature markets to help confidence grow and finance to flow where it is most needed.

A handwritten signature in blue ink that reads "Thérèse Coffey". The signature is fluid and cursive, with the first name "Thérèse" written in a larger, more prominent script than the last name "Coffey".

Rt Hon Thérèse Coffey MP

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# Executive Summary

Our Environmental Improvement Plan 2023 (EIP23), published in January, set out a comprehensive plan for halting and then reversing centuries of decline in nature. Sustained government funding has an important role to play in helping us meet these targets and transition to a net zero, climate resilient, and nature positive economy. But government cannot do the job alone. We have set a goal to grow annual private investment flows to nature to at least £500 million every year by 2027 in England, rising to more than £1 billion by 2030. The development of high-integrity nature markets is a key part of our strategy to enable firms to mobilise this investment.

Nature markets enable private investment in nature, through creating units or credits that can be bought and sold. They allow businesses to invest with farmers and other land and coastal managers to enhance the ability of land and freshwater and marine habitats to provide carbon, nature recovery, clean water and other benefits. Our farmers, land and coastal managers and environmental sector are well equipped to lead the way, build on existing good practices and capitalise on the new opportunities these markets will offer.

For investment in nature markets to grow, participants need to have clarity and confidence in the principles and standards that should be used to structure investments. Clarity is also needed on the governance arrangements to ensure that these new, emerging markets will operate transparently and deliver benefits for nature, the economy and local communities.

This framework therefore sets out:

1. **Core principles** to ensure markets operate with integrity and deliver positive outcomes. We will monitor market development and support development of markets in line with these principles.
2. **Current rules** for how farmers and other land and coastal managers can access markets and combine income streams, and plans to further develop policy in this area.
3. **A new arrangement with the British Standards Institution** to develop a suite of high-integrity nature investment standards. These will enable new markets to develop and emerging markets to scale up and operate soundly.
4. **Next steps** to clarify and develop institutional and regulatory roles and market infrastructure needed to ensure good market governance.

This framework represents a commitment from the Government to support the development and operation of nature markets, and to build market policy on robust and enduring principles. It takes into account the shared ambition with the devolved nations to support the scale up of high integrity nature markets across the UK. As demonstrated by the successful UK-scale operation of the UK Woodland Carbon Code and the UK Peatland Code, there is a clear advantage in achieving scale and consistency of market offer across the UK. In taking this framework forward, we will work closely with the Devolved Administrations to align policies where appropriate and work together to build on these successful joint initiatives. We have listened to the views of a wide range of partners and stakeholders in developing this framework

and look forward to further collaboration and mutual learning as we put in place further building blocks of nature markets policy.

## Key terms

**Ecosystem services:** The benefits delivered by nature, for example carbon sequestration, biodiversity, water quality improvement, flood mitigation.

**Nature market:** A mechanism for private investment in nature through the sale of units of ecosystem services, which are delivered by nature restoration projects or improvements to land or coastal management.

**Voluntary nature market:** A market in which buyers purchase units of an ecosystem service voluntarily, for example to meet corporate net zero targets.

**Compliance nature market:** A market in which buyers purchase units of an ecosystem service in order to meet regulatory requirements, for example to deliver biodiversity net gain.

**Biodiversity Net Gain:** A way to contribute to the recovery of nature while developing land. Mandatory BNG, requiring a 10% net gain, will apply from November 2023 for developments in the Town and Country Planning Act 1990, unless exempt. It will apply to small sites from April 2024.

**Marine Net Gain:** Aims to put the marine environment into recovery. It will do so by requiring that all in-scope developments leave the environment in a better state than before, and thereby firmly embed environmental improvement into the heart of infrastructure planning and delivery.

**Unit/credit:** A quantified amount of an ecosystem service, for example a tonne of carbon or a defined amount of biodiversity, that can be sold in the market.

**Land and coastal managers** Those responsible for managing land, river catchments, coastal areas and seas, for example farmers, foresters, estate owners and managers, public authorities.

**Suppliers:** Those producing and selling units of ecosystem services on the land or coastal area they manage, for example through nature restoration projects or sustainable land management practices.

**Bundling:** When a suite of ecosystem services produced by the same activity (for example the biodiversity and water quality improvement provided by wetland restoration) is sold as *a single combined unit* in the market.

**Stacking:** When multiple different ecosystem services produced by the same activities (for example biodiversity and carbon benefits of a new woodland) are sold as *separate units* in the market.

**Nature investment standard:** An agreed set of requirements, principles or criteria against which nature markets and schemes issuing units can be assessed to provide an assurance of quality. Standards may set minimum requirements or offer detailed methodologies and requirements for schemes to issue units.



**Baseline:** The ecosystem services (for example biodiversity) provided by an area of land or coast in its initial condition, before a nature recovery project or new management practices are implemented to generate units for sale.

# Introduction

Our Environmental Improvement Plan 2023 (EIP23), published in January, set out a comprehensive plan for halting and then reversing centuries of decline in nature in England. It is built upon the new legally binding targets for protecting and enhancing our environment and cleaning up our air and rivers.<sup>1</sup> Interim and long-term targets provide farmers, businesses and investors with greater clarity on the scale and pace of improvement required, and a sounder basis for long term business and investment planning.

EIP23 also sets out how the UK will be at the forefront internationally on two key areas. Firstly, we are taking domestic action to deliver the landmark commitments made at the UN's COP15 Nature Summit to halt the decline of nature by 2030, including mobilising resources for biodiversity from both public and private sources. Secondly, we are supporting achievement of the international target to protect 30% of the world's land and ocean by 2030.<sup>2</sup>

Sustained government funding has an important role to play in helping us meet these targets and transition to a net zero, climate resilient, and nature positive economy. As an example, our recent update on Environmental Land Management (ELM) sets out that we will continue to provide support to farmers to improve nature and provide environmental goods alongside food production.

As well as reforming government funding and aligning it with our ambitious environmental targets, we also need to transform the frameworks for financial decision making in the wider economy, as set out in government's [Green Finance Strategy](#). We have set a goal to grow annual private investment flows to nature to at least £500 million every year by 2027 in England, rising to more than £1 billion by 2030.

The development of high-integrity nature markets is a key part of our strategy to enable firms to mobilise this investment. The UK has a strong skill base and track record of innovation in farming, environmental science and green finance. Our farmers, land and coastal managers and environmental sector are well equipped to lead the way, build on existing good practice and capitalise on the new opportunities these markets will offer.<sup>3</sup> While we await the framework from the Taskforce on Nature-related Financial Disclosures later this year, it is self-evident that the investment and business sectors are already considering their risks, dependencies and impacts on nature and are seeking straightforward financial instruments to support nature recovery.

In order to mobilise investment through nature markets, we need to ensure that participants have clarity and confidence in the market framework: the principles and standards that should be used to structure investments, and the governance arrangements to ensure that these new, emerging markets will operate transparently and deliver benefits for nature, the economy and local communities. This framework

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<sup>1</sup> [New legally binding environment targets set out](#)

<sup>2</sup> [COP15: Nations Adopt Four Goals, 23 Targets for 2030 In Landmark UN Biodiversity Agreement](#)

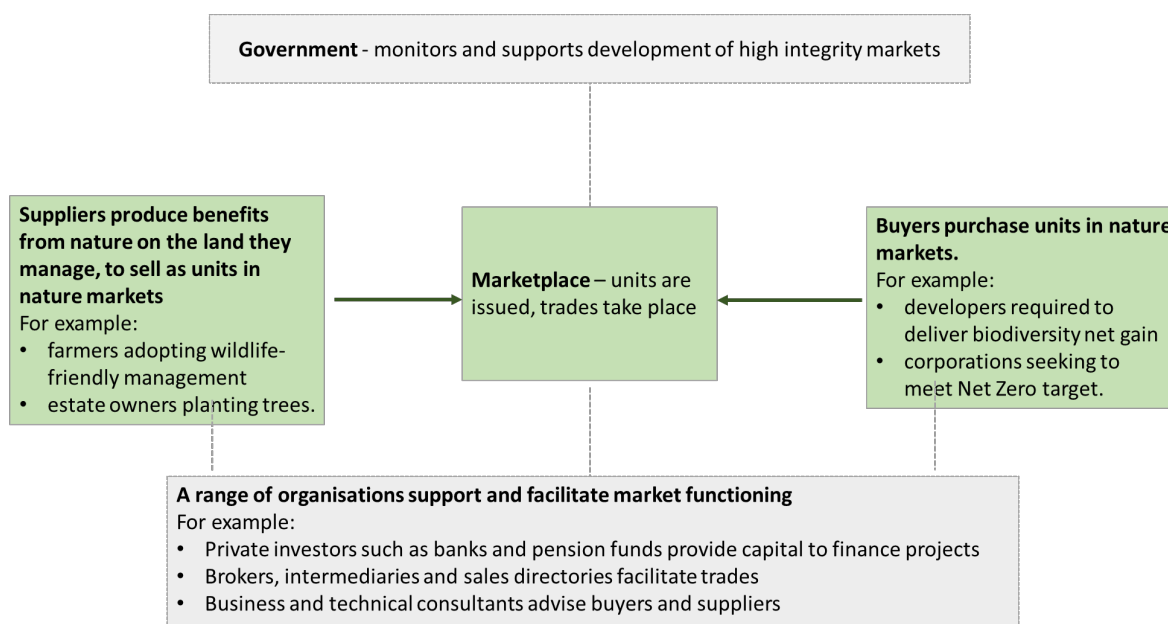
<sup>3</sup> [Green Finance Institute - Financing a Farming Transition](#)

represents a clear commitment from the Government to support the development and operation of nature markets, and to build market policy on robust principles.

## Nature markets

Nature markets enable private investment in nature, through creating units or credits that can be bought and sold. The private sector may also invest in nature in other ways, which do not involve the creation of units, for example providing repayable finance to projects, direct investment in benefits to a company's operations, for example improving water quality or building resilience to climate shocks in its supply chain, or philanthropic funding of nature restoration projects.

### Representation of nature markets



Nature markets enable businesses to invest with farmers and other land and coastal managers to enhance the ability of natural and farmed land and freshwater and marine habitats to provide carbon, nature recovery, clean water and other benefits. Markets for delivering carbon sequestration from new woodland creation and emissions reductions through restoration of peatland are already established.<sup>4</sup> New markets to facilitate funding from business in the food retail, construction, water, and other sectors to support sustainable farming and nature recovery projects are also emerging.

Where robust methodologies are established, units or credits are awarded based on codes or standards that set out the methods used to quantify the ecosystem service (for example how many tonnes of carbon are expected to be absorbed) and how quality assurance will be provided.

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<sup>4</sup> Through the [UK Woodland Carbon Code](#) and [UK Peatland Code](#)

Nature markets may be *voluntary* – driven by companies wanting to meet environmental and climate targets or goals or to invest in projects that will bring them direct business benefit (such as a company seeking to achieve net zero).<sup>5</sup>

Alternatively, nature markets may be driven by *regulatory obligations* – where companies are required by law to deliver environmental improvements (for example a developer who needs to ensure that a housing development delivers biodiversity net gain).<sup>6</sup>

## A framework for scaling up nature markets in the UK

This framework has been developed by the UK Government. It takes into account the shared ambition with the devolved nations to support the scale up of high integrity nature markets across the UK. It builds on broad stakeholder engagement including the work of the [Financing Nature Recovery UK](#) coalition which reflects an emerging consensus from the farming, business, finance and environment sectors across the country as to the actions needed to support development of these markets.

The Scottish Government has set out its aim to develop a wellbeing economy in the 2022 National Strategy for Economic Transformation. This includes a commitment for a public sector programme to develop a values-led, high integrity market for responsible investment in natural capital. The 2022 Interim Principles for Responsible Investment in Natural Capital set out in greater detail the vision for nature markets in Scotland. This vision includes a strong commitment to secure investment that engages with and benefits local communities.

The Welsh Government is committed to tackling the nature emergency and meeting the global 30x30 target. This includes unlocking additional finance to deliver for nature at far greater scale and pace through developing a clear policy position on private investment in nature recovery, and appropriate government interventions.

We have listened to concerns from environmental experts, the farming sector, politicians, investors and communities that poorly designed nature markets can result in greenwash and/or harm local communities. Farmers and other land and coastal managers stand to gain from new opportunities to participate in new nature markets, but regulators and expert bodies must keep pace with market development in order to ensure that markets operate with integrity and avoid adverse effects. And the interests of local communities must also be at the heart of decision making about land use in their area.

Firms can buy units in nature markets to help meet their environmental commitments, but this should be alongside (not instead of) action to minimise emissions and impacts from their own operations and supply chain. That is why we published our Environmental Reporting Guidelines, to provide clear guidance on when it is appropriate to use offsetting. We also made strengthening carbon market

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<sup>5</sup> For example, see the growing number of companies which have signed up to initiatives such as the [Science-Based Targets Initiative](#) and the Council for Sustainable Business's [Get Nature Positive](#) campaign, are adopting natural capital accounting captured by the [Capitals Coalition](#) or are reporting their environmental impacts to the [CDP](#).

<sup>6</sup> [Understanding biodiversity net gain](#)

integrity a flagship of our COP26 Presidency, and the updated Green Finance Strategy sets out in more detail how we will build on initiatives such as the Integrity Council for Voluntary Carbon Markets and Voluntary Carbon Markets Initiative.

We have also listened to the growing consensus from experts in the farming, finance environment and business sectors that government can further accelerate the development of high integrity markets through additional policy actions. This nature markets framework sets out principles for the development of high integrity nature markets which will operate to support our policy aims, and focuses on areas where policy action is needed. In particular it sets out our plans for:

- the development of **rules** including to clarify how farmers and other land and coastal managers can access markets and combine income streams between markets and with public funding
- establishment of a **suite of high-integrity nature investment standards** based on robust science to facilitate the development, operation and scaling of markets for a wide range of ecosystem services
- consideration of appropriate **institutional arrangements, regulatory roles and market infrastructure** to ensure good market governance

Markets take time to develop and scale responsibly. This framework represents a commitment from the Government to support the development and operation of high-integrity nature markets which build on the principles established here. We will put in place key building blocks and take a learning approach as markets establish and grow, adapting policies and rules where needed as new evidence emerges, keeping rules as simple as possible. We will provide an update on further developments and next steps within 12 months.

# State of the market

UK nature markets are currently small scale and mostly at an early stage of development, though expected to grow rapidly in the coming years.

## Existing and emerging nature markets in the UK

**Voluntary nature-based carbon markets:** Two mechanisms supported by the UK Government and the Devolved Administrations enable firms to compensate for emissions through woodland creation through the [UK Woodland Carbon Code](#) and [UK Peatland Code](#) (a recent update to which has extended its applicability to a larger area). A number of other private mechanisms to sell voluntary nature-based carbon credits are also emerging.

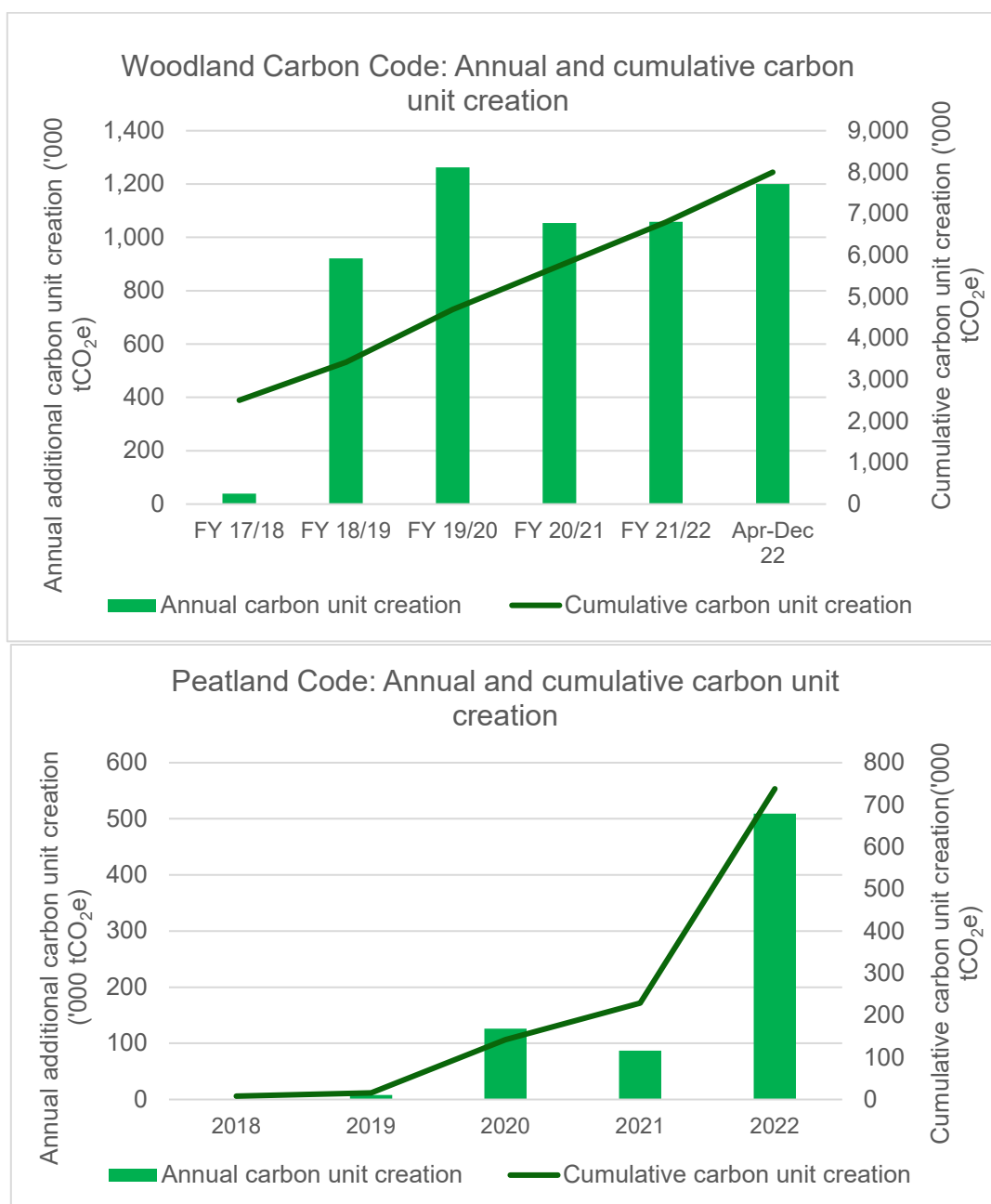
**Compliance nature markets (England only):** Under the Environment Act, developers in England will be required to compensate for the biodiversity impacts of new developments that they cannot improve on-site and deliver **biodiversity net gain** through the purchase of biodiversity units (from November 2023 for most Town and County Planning Act development, April 2024 for small sites and 2025 for Nationally Significant Infrastructure Projects). By contrast, markets in **nutrient credits** have developed in response to new obligations on developers in sensitive catchments to mitigate the impact of new housing on water quality – these obligations arose from case law on the Habitats Regulations, rather than new legislation. Nutrient credit markets are making good progress in building a pipeline of affordable mitigation and, alongside Natural England’s Nutrient Mitigation Scheme, can ensure the high demand for nutrient credits is met. The 2023 Spring Budget also announced a call for evidence on further funding for local mitigation schemes. The Government also sees a key role for industry, civil society and other third parties in delivering **marine net gain**. Following our consultation on the aims and principles of marine net gain, we will explore a market-based approach further in future policy development.

**Voluntary water quality and flood risk markets:** Markets are being pioneered by water utilities in some catchments as a mechanism to finance natural solutions to improve water quality and reduce flood risk, with support from environmental regulators. The Forestry Commission is exploring development of a **Woodland Water Code** by March 2025, to provide a standard for water-related benefits of woodland creation such as pollution mitigation, flood risk mitigation and river flow support, and enable markets for these.

## Size of key existing markets

The **UK Woodland Carbon Code (WCC)** and **UK Peatland Code (PC)** are the two most mature nature markets in the UK. For the most recent annual period for which we have data, units for 1 million tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e) were validated by the WCC and 500,000 tCO<sub>2</sub>e by the Peatland Code. The graphs show the growth of unit creation in these markets since 2018 (a unit represents 1tCO<sub>2</sub>e).

## Growth of the market for voluntary carbon units from woodland creation and peatland restoration



**Note:** The graphs show the number of units created by projects validated in that period through the UK Woodland Carbon Code and the UK Peatland Code. This includes buffer units, which are not issued but put aside in a shared pool in case of any future losses. Also note that the final period shown in the UK Woodland Carbon Code is for 9 months rather than annual data as per the rest of the graph, reflecting the latest data.

The annual average growth rate of UK Woodland Carbon Code units over the 4 years between 2018 and 2022 has been strong at 28%, whilst UK Peatland Code units saw a significant growth in issuance in 2022.

The introduction of compliance markets in England for **nutrient credits** (which has recently begun operation) and **biodiversity net gain** (coming into effect from November 2023) are expected to lead to a step change in the scale of nature markets. Under these schemes developers can buy units from habitat creation projects to meet their obligations to mitigate the environmental impacts of development and contribute to the recovery of nature.

There is also innovation taking place to develop and pilot new nature markets – emerging areas include carbon credits from both peat and mineral soils, hedgerows, paludiculture,<sup>7</sup> native habitat restoration, carbon capture technologies including biochar and advance weathering, saltmarsh and seagrass, as well as markets for other benefits from nature such as natural flood management,<sup>8</sup> biodiversity and water quality. Government is supporting innovation through funds such as Defra’s **Natural Environment Investment Readiness Fund** and the Scottish Government / NatureScot **Investment Ready Nature Scotland Grant Scheme**.

The UK Emissions Trading Scheme (ETS) Authority published a call for evidence in March 2022 exploring the role of the UK ETS as a long-term market for greenhouse gas removals, including the potential inclusion of nature-based removals.<sup>9</sup> The Authority will shortly publish a response.

### **Innovation in nature markets in England supported by the Natural Environment Investment Readiness Fund**

The [Natural Environment Investment Readiness Fund](#) is supporting a total of 86 projects, helping environmental groups, farmers, land managers, local authorities, businesses and other organisations to develop nature projects in England to a point where they can attract private investment.

The Fund is also supporting research and innovation to develop methodologies to pilot new mechanisms that could be used to create domestic credit or unit issuance schemes, such as exploring carbon quantified from marine habitats, hedgerows, soil, rewilding, and biodiversity benefits from freshwater habitats and urban greening.

Two projects which are trialling prototype standards are:

#### 1. Water stewardship

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<sup>7</sup> Cultivation on re-wetted peatlands.

<sup>8</sup> Using natural processes to reduce the risk of flooding or coastal erosion, such as restoring bends in rivers, changing the way land is managed so soil can absorb more water or creating saltmarshes on the coast to absorb wave energy.

<sup>9</sup> [Developing the UK Emissions Trading Scheme \(UK ETS\)](#)



The Rivers Trust is seeking to develop a market for investment in ‘water replenishment’ – aimed at increasing the water volume in a catchment through environmental interventions such as wetland creation or removing invasive species – through the sale of Replenish credits which businesses can use to offset their water use. The Replenish credits will be based on the [Volumetric Water Benefit Accounting Methodology](#) and verified through live case studies led by 5 rivers trusts.

## 2. Wilder carbon

The Kent Wildlife Trust have created a voluntary nature-based carbon standard for projects that safeguard nature by protecting and restoring carbon rich native habitats across the UK, for the benefit of climate, wildlife and society.

## Wider benefits of nature markets

In addition to driving investment in support of our environmental goals and targets, nature markets have the potential to deliver wider benefits for society. Nature markets can contribute to economic growth by creating new revenue and employment opportunities, and ultimately through improving the environment to support long-term sustainable growth.

We also recognise that badly designed projects can have adverse impacts. Farmers and other land and coastal managers carrying out projects should seek to avoid, minimise and mitigate any negative impacts, and legal requirements on avoiding social and environmental harm must be adhered to as a minimum (for example planning permission or environmental assessment will be needed for some projects). Well-designed projects will enable wider local benefits to be delivered where possible, such as local jobs, community access to nature or environmental benefits beyond the core project aim.

Those looking to create and restore new habitats for biodiversity and wider environmental benefits should seek to engage in local initiatives such as Local Nature Recovery Strategies which will be prepared across England from April 2023.

# Core principles for market operation

Integrity is the bedrock of nature markets. It means that credits awarded and sold for benefits such as biodiversity, carbon capture or water quality must reflect genuine, lasting and additional environmental improvements, which are robustly verified and transparently documented, with no double counting or room for misleading claims or greenwash.

Well-designed markets that function well will also enable us to maximise the positive outcomes for society and the environment. Markets should incentivise environmentally rich multi-functional use of land and the marine environment and pay competitively for environmental improvements, and be as easy as possible to engage in (within the bounds of systems needed to ensure integrity) to allow investment to scale up.

The following principles, focused on the supply of ecosystem services, are key to ensuring that markets develop with integrity and in ways which maximise positive outcomes. In developing them we have drawn on international best practices emerging from international initiatives such as the Integrity Council for Voluntary Carbon Markets (IC-VCM), but they are designed to apply to all nature markets.

Particular markets may adopt more specific approaches in some cases, for example to align with emerging international best practice around high integrity voluntary carbon markets. We will use the principles to guide further policy development and expect people and businesses operating in the marketplace to follow them. The principles will therefore provide a lasting foundation as markets develop, with the mechanisms to implement them and further details evolving over time.

We will also continue to review global trends and encourage an inter-operable global market, with particular focus on the rapidly evolving architecture for voluntary carbon markets and the implementation of Article 6 of the Paris Agreement which governs cooperation between countries to meet emission reduction targets.

## Principles for the design and operation of nature markets

### Principles to ensure market integrity

#### **Additionality**

Credits or units issued in nature markets must be based on new environmental improvements, verified against an appropriate baseline. Different tests can be applied to assess additionality, for example considering existing legal obligations (so that units are not issued for activities that were already legally mandated) or whether the environmental improvements would have been likely to happen in the absence of market finance.

#### **No double counting**

Double counting relates to quantified credits/units of the same ecosystem service being sold twice or used as the basis for two claims. For example if two buyers purchased the same biodiversity units from a project to claim they have met their BNG obligations, this would be double counting and is not therefore permitted.

Where multiple different regulatory obligations can be met from the same intervention, this is not double counting.

Double counting applies whether it is a single service credit (for example carbon only) or part of a bundled credit. When reporting emissions reduction claims, recognised domestic carbon units *may* count towards both a company's voluntary target and the UK's Carbon Budgets and Nationally Determined Contribution (the UK's international emissions reduction commitment) as these represent the total of domestic emissions reductions regardless of source.

### **Robust quantification**

Units sold in nature markets should be based on robust assessment of the benefit delivered (for example the amount of biodiversity restored, carbon captured or nutrient pollution reduced). Methodologies used to issue units should be defined in codes and standards, reviewed periodically – and predictably – and updated when the evidence base improves sufficiently. Standards should be transparent in their approach to quantifying benefits and reasonable margins of error that must be tolerated to allow markets to operate.

### **Delivery of lasting benefits**

Each credit issuance scheme needs rules to ensure that contracted environmental outcomes are achieved. These must recognise delivery risks and mitigations, for example the risk of fire or disease, and could involve a range of measures including: only issuing credits periodically once outcomes have been verified; the use of restocking orders requiring suppliers to restore any losses; mandating the use of insurance; and using buffers to protect against losses (where a percentage of units created from each project are held in a central pool and not sold).

The nature of these rules as well as the minimum length of contracts may be different for different markets: we do not want to see environmental improvements which are transient, but we also recognise the need to reflect how different benefits from nature are delivered. For example the benefits of carbon sequestration rely on it being permanently locked up in natural systems, whereas the benefits of a wetland improving water quality or flood regulation are realised for any period for which the wetland is maintained. We must also consider the possible need for future land managers to amend their management practices and how rules may affect the incentives to bring forward projects – very long contract lengths could disincentivise action, for example if they tie the hands of future generations of farmers.

### **Transparency**

Each market operator should use a recognised, credible, publicly accessible registry to register, track and permanently retire verified credits to avoid double counting, double issuing or double selling. Registries should provide sufficient data to allow market participants to conduct appropriate due diligence of projects, which may include details of the relevant land/marine parcel, quantification methodology of the relevant code or standard, project documentation, credit issuance, ownership and details of whether the unit is bundled or stacked. Data should be recorded in standardised ways for monitoring and oversight purposes.

### **Validation and verification (assurance)**

Projects put forward for credit issuance should be validated by suitably qualified experts, to ensure they have a credible project design to deliver the estimated ecosystem services. After implementation, projects should be verified by a qualified body. Programmes issuing credits should define the required monitoring, reporting and verification processes or set out a rigorous process for approving third party methods.

## **Principles to maximise societal outcomes from markets**

### **Ease of access**

Markets should seek to provide simplicity, within the bounds of any rules and systems needed to ensure integrity. This will reduce the barriers to doing business and make it easier for buyers, sellers, investors to take part in markets, whether alone or in partnership with others, allowing more nature projects to be brought forward and investment to scale up. It should be easy for suppliers to access different markets simultaneously and individual market design should not unnecessarily impede this.

### **Support the best use of land and sea to deliver multiple benefits**

Markets should incentivise multifunctional land- and seascapes which maximise environmental benefits alongside food, timber and other goods or services. They should pay farmers and other land and coastal managers competitively for environmental improvements made over and above legal requirements.

Nature interventions can provide multiple ecosystem services and land managers should be encouraged to maximise a range of benefits. Therefore, where scheme rules allow, suppliers may sell units for multiple different nature markets (for example biodiversity and carbon) from the same project or piece of land.

### **Openness to innovation**

New technologies can bring benefits, for example connecting farmers and other land and coastal managers with businesses wanting to invest in nature or promoting integrity by making it easy to share information on transactions. We will support innovation and learning, encouraging the development of new tools which improve user experience or facilitate trades, innovative business models for habitat enhancement projects, and improved methods for monitoring, reporting and verifying results.

# Implementing the principles: market rules, standards, governance and infrastructure

This section focuses on key steps we are taking to support market development and ensure that as markets grow they adhere to the principles set out above. We will continue to work with our international partners to strengthen global standards for voluntary carbon and nature markets and to reflect international experience and best practice as we further develop our domestic standards, market rules, governance and infrastructure in line with our core principles.

## Market rules

This section covers rules in three areas: (1) stacking and bundling, (2) additionality tests and (3) combining public and private finance.

### Stacking and bundling

This section focuses on when and how different credits or units can be issued for different ecosystem services, on the same piece of land – enabling farmers and other people developing nature projects to benefit from multiple streams of income.

When more than one type of separate credit or unit is issued from the same activity on the same parcel of land this is known as ‘stacking’ – for example if a land manager were to sell both carbon and water quality units from the same woodland.

Stacking is an important concept to support achieving multiple environmental outcomes. Stacking promotes multiple land use (for example biodiversity and woodland carbon) by enabling income to be earned for delivering all benefits from a piece of land. Given governments commitments, maximising multiple benefits from land use is needed, and moving towards stacking of nature market credits has an important role to play. As land use interventions deliver multiple nature market services stacking may provide different incentives when one of those services must be delivered through compliance obligations. Stacking rules for individual markets will therefore evolve with the developing evidence landscape in this space.

When a single credit is sold representing several different environmental benefits (for example a wetland unit delivering carbon, biodiversity and water quality benefits), this is termed ‘bundling’. Bundles may be either explicit (in which several different benefits are quantified) or implicit (in which only one is quantified but others are assumed to be sold alongside it).

Regardless of whether units of environmental benefits are issued on their own, in a stack or in a bundle, if they are used to meet offsetting requirements or to claim progress against an environmental or climate target, they must be robustly quantified and each should be subject to the same standards of integrity, in line with the principles above. Schemes issuing credits should be clear whether the credit represents a single ecosystem service (for example carbon), or an explicit or implicit bundle.

We will support greater use of stacking as well as explicit bundling. If more ecosystem services are quantified, they can be bought and sold in different combinations according to market demand and the potential of different areas – to allow farmers and other land and coastal managers to be paid for maximising the environmental benefits they deliver. This will encourage positive changes in the use of land and the marine environment, and support the creation of multi-functional land and seascapes with high environmental value. Voluntary credits should in principle be stackable, as long as relevant additionality tests can be met (see below).

Currently opportunities for stacking and explicit bundling are limited by factors including the number of nature markets which exist, the availability of suitable methodologies to create units for the full range of ecosystem services, the nature of demand and additionality considerations (see below). For these reasons credits issued by the UK Woodland Carbon Code and UK Peatland Code are currently implicit bundles which include the wider benefits of woodland creation or peatland restoration (not in quantified form) alongside the quantified carbon unit.

We recognise that there may be risks associated with stacking, particularly when it comes to the ‘compliance’ markets for biodiversity net gain and nutrient neutrality. Biodiversity net gain units, and in some cases nutrient neutrality credits, are purchased to meet legal obligations to replace a habitat lost through development and contribute to nature recovery. If this new habitat delivers other benefits such as carbon sequestration, these may only be replacing what was lost (though this is not measured). There may also be a risk of crowding out private finance if projects would have gone ahead anyway to enable compliance buyers to meet regulatory obligations.

The first phase of rules<sup>10</sup> for biodiversity net gain and nutrient neutrality therefore set out that farmers and other land and coastal managers selling these units will also be able to sell units into a voluntary nature market (for example for carbon) only where a subsequent habitat improvement is delivered on top of an initial activity and it does not negatively impact on the original scheme objective. Biodiversity net gain and nutrient neutrality units *can* both be sold from the same project. These rules will apply until at least March 2025.

We will carry out analysis to determine whether a greater degree of stacking should be permitted between compliance and voluntary markets in the subsequent phase. This will include consideration of environmental outcomes and implications for market dynamics across all markets.

Annex 1 provides detailed information on the current rules for stacking in different market mechanisms and future directions.

### **Additionality tests**

Another important consideration for environmental integrity, with significant effects on stacking, are the additionality tests applied by market schemes. Two of the main approaches used to assess additionality are set out below.

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<sup>10</sup> [Combining environmental payments: biodiversity net gain \(BNG\) and nutrient mitigation](#)

*Legal additionality tests* are a key part of the operation of all ecosystem markets and need to be clearly set out in scheme rules. Schemes should ensure they do not issue credits where the activity providing ecosystem services is being carried out to meet an existing regulatory obligation on the part of the land owner or manager (such as a requirement for remedial works for habitat damage or to meet a compensation requirement imposed to enable new development or other activity). For example if a land manager has been issued a re-stocking notice and plants a woodland, the same woodland cannot be used to create biodiversity net gain units in the compliance market.

We recognise that when buyers purchase ecosystem service units from a habitat creation or improvement in order to meet a regulatory obligation, this habitat is likely to provide multiple environmental benefits which could support related regulatory obligations. For this reason, a land manager may sell biodiversity net gain units and nutrient credits from the same activity. Further arrangements will be considered as part of the planned research on stacking.

Another way to assess additionality is through a *financial additionality test* - these are generally required under international carbon market guidance<sup>11</sup> before carbon credits can be issued. They assess whether projects would have been viable investments without the income from selling ecosystem service market credits, and only allow credits to be issued where this income is found to be 'make or break' for the project.

As more markets develop and the opportunities for interactions increase, it is important that additionality rules work in a way that supports the integrity and efficiency of the entire market and also takes account of impacts on markets for specific ecosystem services.

We therefore plan to evaluate the role of financial additionality testing in UK nature markets and its impact in terms of overall environmental outcomes and costs. This may investigate alternative approaches such as moving to a single financial additionality test which would apply across multiple nature markets. This could support stacking by reducing costs and avoiding the perverse effects which can occur when multiple financial additionality tests are applied for the same project. This evaluation will take into account the latest guidance on additionality from the Integrity Council for Voluntary Carbon Markets and any similar international initiatives, while recognising that different approaches may be appropriate for different markets.

### **Combining public and private finance**

This section discusses how income from nature markets can be combined with public grants, including Environmental Land Management (ELM) schemes.

Various forms of public support are available to farmers and other land and coastal managers wanting to engage in habitat creation or sustainable land management activities. As markets mature, we want farmers and other land and coastal managers to be able to benefit from both private and public payments, as long as this does not lead to double counting. Where there is no duplication in outcomes between public and private payments, there is no concern about double counting – for example if a

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<sup>11</sup> For example, the [International Carbon Reduction and Offset Alliance \(ICROA\) Code](#).



public grant supports cleaning of derelict land before privately-funded tree planting, or if the public payment is to help with upfront capital costs where the farmer is unable to borrow against future private income streams or finance the project themselves.

In many cases grants pay for activities, for example peatland restoration or nature-friendly farming measures, but do not specify whether a particular ecosystem service is being paid for (such as water quality or carbon). In this case, whether nature market credits can be issued currently depends on the additionality rules set by credit issuance schemes.

At present the UK Woodland Carbon Code and UK Peatland Code allow projects to receive grant funding as long as they pass the financial additionality test.<sup>12</sup> Phase 1 rules for BNG/Nutrient markets do not permit units to be sold from projects that have been paid for with grant funding, but they may be sold where a grant has been used to pay for preparatory or complementary activities or where additional benefits are generated over and above what the grant has paid for, for example through habitat enhancement.

We know that farmers and other land and coastal managers are particularly interested in how payments from ELM schemes can be combined with income from nature markets. The ELM payment principles<sup>13</sup> set out in 2021 confirmed our aim to ensure that participants in ELM can earn income from public and private sector sources so long as they are compatible, pay for different or additional outcomes and do not pay for the same action twice.

To grow and maintain a resilient, productive agriculture sector over the long term and achieve our ambitious targets for the environment and climate, we want ELM payments to form part of a growing market for environmental outcomes where scheme participants can earn income from both public and private sector sources, as long as this does not lead to double counting. This will mean greater income opportunities for farmers and land managers and greater total investment in our environmental and climate priorities.

We have confirmed that Sustainable Farming Incentive (SFI) applicants may enter the same area of land into an SFI standards agreement and a private sector scheme arrangement, such as carbon trading or payments for natural flood management, subject to any eligibility rules or additionality tests applied by the private sector scheme in question. This approach will be reviewed annually to ensure that public payments are not crowding out private finance.

We have also confirmed our intention that Countryside Stewardship will dovetail with private schemes and markets for high-quality, accredited environmental outcomes, ensuring that private finance is crowded in. In January we published detailed information on how we plan to expand the Countryside Stewardship offer, including adding around 30 additional actions to the 250 actions already available to farmers

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<sup>12</sup> We have introduced additional flexibility into the England Woodland Creation Offer grant scheme this year, to allow the amount of grant funding to be reduced where it would otherwise prevent a landowner registering with the WCC due to the financial additionality test.

<sup>13</sup> [Environmental land management schemes: payment principles](#)



by the end of 2024 and rewarding farmers for taking coordinated action to support climate and nature aims.

Given the ambitious, large-scale, and long-term nature of Landscape Recovery projects, we anticipate that they will be well placed to secure private investment to complement public funding. Projects will be supported to develop credible proposals for attracting private finance, for example they will be able to use the Landscape Recovery project development grant to help them develop land management plans and create business models.

We will continue to keep grant offers under review so that publicly funded grants do not crowd out private revenue opportunities. For example as private markets mature, we will aim to enable stacking of public and private payments where appropriate and consider targeting public funding to focus on areas where private markets remain immature or non-existent. Future changes could include amending payment rates to allow space for private funding to be stacked with public funding or targeting eligibility or incentives towards those unable to effectively access private nature markets. We are considering carefully how we make decisions on these evolutions to ELM. We will set out how and when we intend to adapt policy design, including payment rates, before our full suite of farming offers is available in 2024. We will ensure that any changes to rates are communicated clearly to farmers to enable them to plan and prepare.

### **England Woodland Creation Offer – enabling public and private finance to work together**

The England Woodland Creation Offer (EWCO) is one of a suite of Forestry Commission Initiatives to support woodland creation and tree planting across England. Landowners, land managers and public bodies can apply for support to create new woodland, including through natural colonisation, on areas from as small as one hectare and it aims to support the creation of 11,000 hectares of new woodland by 2024/2025.

EWCO has laid out a clear set of rules<sup>14</sup> for combining payments for woodland creation with payments from nature markets. It offers a core grant for woodland creation, and landowners receiving this are eligible to register with the UK Woodland Carbon Code (subject to code rules and requirements).

It also offers ‘additional contributions’, which are one-off payments to allow new woodlands to be designed to deliver specific additional benefits including water quality and biodiversity. Recipients of an ‘additional contribution’ are not currently allowed to also sell these benefits as ecosystem service units in the market, as this would be considered double counting. In future Defra will allow the contributions to be repaid so that a woodland developer can instead sell water and biodiversity credits on the market if they wish to do so.

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<sup>14</sup> [Rules for combining England Woodland Creation Offer payments for woodland creation with other sources of payment for ecosystems services: operations note 62](#)

Discussions are underway to develop a Woodland Water Code as a methodology complying with the UK Woodland Carbon Code and it is expected that those holding EWCO additional contributions for water quality would be able to repay these and enter woodland water markets in the future.

## Support for market access through farming schemes

Public payments also have an important role in paying for activity which facilitates market access (such as project preparation) and in leading the way for private sector investment (by showing what can be achieved through investment in nature).

We are looking at how our ELM schemes can address barriers to entry for private markets. We are already:

- offering development funding and support to Landscape Recovery projects to help them prepare for implementation, including by developing credible proposals for attracting private finance
- paying for or proposing to pay for planning activities such as developing soil, nutrient, pest management or moorland management plans - these could support farmers to identify opportunities to deliver ecosystem services, which could be sold to private buyers now or in future
- supporting land managers to work together to take joined up action at landscape scale, through our existing Countryside Stewardship Facilitation Fund - this could enable them to form a project large enough to be attractive to private investors, as we know that projects delivering more significant environmental benefits may find it easier to attract private funding than projects on a smaller scale

We are also considering:

- how we can better support farmers and other land and coastal managers to collaborate with one another, including to help them unlock private investment, by reviewing the existing CS Facilitation Fund offer and developing a Countryside Stewardship Plus offer which will reward farmers for taking co-ordinated action
- how measurement can support farmers and land managers to access green finance through these new markets - in the Net Zero Growth Plan, we have committed to developing a harmonised approach to measuring carbon on farms and will set out how we will support farmers to undertake carbon audits by 2024
- the role of the commercial sector and Arms' Length Bodies in providing technical advice to help farmers identify and capitalise on market opportunities, and what advice could be provided or funded by government

We continue to develop our understanding of how we can best support farmers to secure private investment alongside public funds through our Tests and Trials, the Natural Environment Investment Readiness Fund projects, dedicated research and other sources of evidence. As evidence emerges and as markets develop, we will consider whether there are any other measures we should take to support market access through ELM schemes, as well as other government initiatives.

Defra has also commissioned the Green Finance Institute to develop an online toolkit to help farmers identify and navigate opportunities to access private sector investment to pay for nature positive outcomes, building on GFI's Farming, Finance and Agrifood Working Group report and existing Investment Readiness Toolkit (see box on page 27). We expect this to be available this summer.

Other organisations also have an important role to play in supporting farmers to engage with nature markets. For example on nature market agreements, the National Farmers Union offers a Contract Checking Service and subscription based Legal Assistance Scheme for members and is also helping to pilot carbon audits as part of our Tests and Trials programme. We also know that a range of other organisations such as the Tenant Farmers Association, Country Land and Business Association and Central Association of Agricultural Valuers have been supporting their members to understand how they can incorporate nature markets into their businesses.

We recognise the need for making progress and within the next 12 months we will publish an update on the actions set out here that will support farmers make the most of environmental markets – specifically how we will provide support to farmers around understanding and acting on their carbon emissions and new nature investment standards.

### **Wendling Beck**

The Wendling Beck Environment Project is a habitat creation, nature restoration and regenerative farming project spanning almost 2,000 acres of farmland in Norfolk. Four farmers, local authorities, environmental organisations and a water utility company have joined forces to manage the land for environmental benefits, while enabling agricultural businesses to diversify and supplement their farming income through nature markets.

The project involves adoption of low-carbon farming systems, creation of circa 20km of hedgerows and a range of other biodiversity-rich habitats (species-rich grassland, lowland heath and woodland), and the restoration of around 5km of river and 135 acres of floodplain. It will benefit from multiple nature markets: biodiversity net gain, nutrient neutrality, and carbon credits, with potential additional funding from ELM. Baselines have been developed for all these markets and revenue for the farming businesses involved is expected to increase by around £30million (Net Present Value) over the next 30 years, including nature market income, the regenerative production of blackcurrants, a new livestock enterprise, farm shop and café and eco-tourism.

A new cycle and bridle path has been developed to allow local communities to benefit from access to nature and the project will also build resilience to flooding in the local area. The project now aims to use the knowledge and experience to help other landowners to follow a similar model.

## Standards for nature markets

This section sets out new arrangements for developing a suite of nature investment standards to facilitate the scale-up of high integrity markets for a range of ecosystem services.

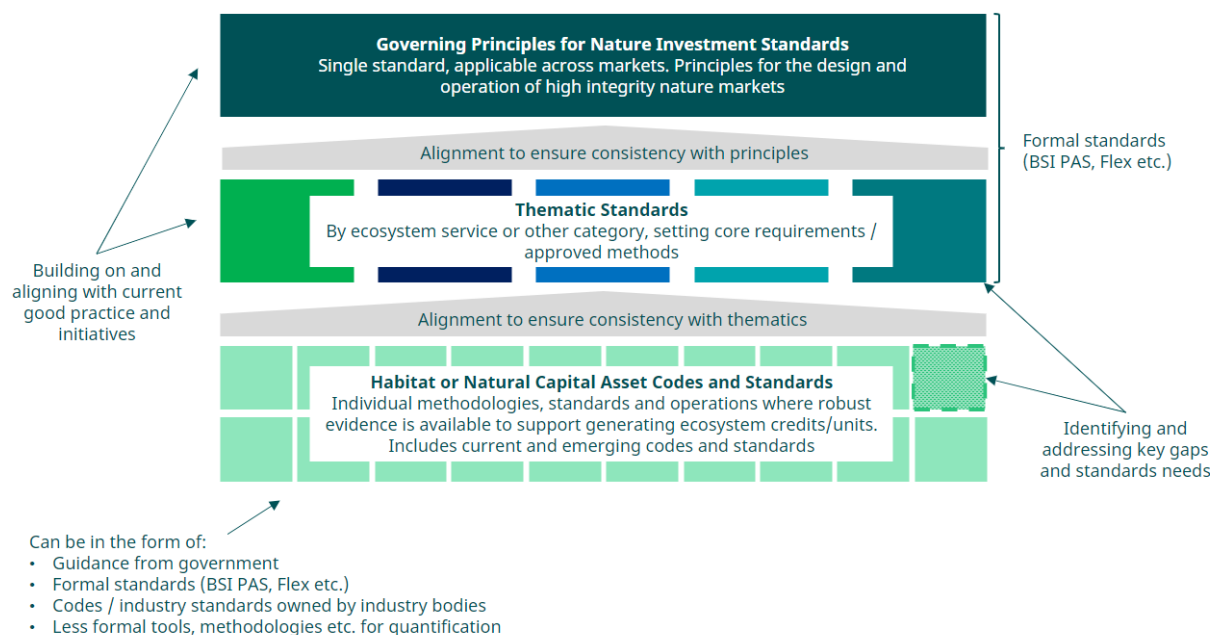
The current absence of a standardisation process for nature markets is holding back investment and market development, particularly for ecosystem services and land use/habitat types where recognised methodologies are nascent or where schemes are not yet set up to issue credits or units (the measurable and saleable benefit) to nature projects.

Over the past few years there has been huge innovation to develop new and prototype methodologies for quantifying the benefits of an ecosystem service (for example biodiversity, flood mitigation or carbon) in the form of credits or units, both in the private sector and through investment readiness funds launched by Defra and the Scottish Government. We have also sponsored Tests and Trials to explore how to embed standards into policy design for new agricultural schemes. But there is currently no pathway for successful methodologies to be recognised as sufficiently robust to underpin high integrity nature markets.

We are addressing this gap by appointing the UK's National Standards Body, British Standards Institution (BSI), to expedite a pipeline of investment standards for nature markets, starting in early 2023 and continuing for up to three years. BSI will work across all devolved Governments, to facilitate an industry-led process to develop a suite of interconnected investment standards across ecosystems services. These UK wide standards will drive the application of consistent principles and approaches to the quantification of ecosystem services. They will provide a benchmark by which successful methodologies can be recognised as sufficiently robust and credible.

The standards development process will leverage knowledge from a wide range of existing programmes and convene leading experts from across industry, academia, non-profits and the public sector to ensure that standards are based on the latest available evidence and expertise. An initial discovery phase will map existing and emerging methodologies, identify and prioritise gaps, and propose a pipeline of standards for development, based on an assessment of readiness, market demand and potential impact. These will include an overarching "governing principles" standard and nested standards for specific ecosystem services and/or land uses/habitats (see graphic).

### **Nested standards development**



Additionally, an accreditation mechanism will be developed to allow methodologies which meet these standards to become certified as offering high integrity. This will allow buyers and sellers to transact with confidence without the need for highly bespoke and costly due diligence and enable markets to scale up.

The discovery phase will consider the case for thematic standards which apply and build on the integrity principles set out in the governing standard as they apply to that specific market. These could be by:

- ecosystem service (for example carbon reduction, biodiversity uplift, water quality, flood risk management)
- supplier side activity (for example nature-friendly farming)
- buyer-side requirements for voluntary markets

These would have the potential to set core requirements and benchmarks for ecosystem services to demonstrate integrity, building on other initiatives, such as the work of bodies such as the Voluntary Carbon Markets Initiative.

The layer of habitat or natural capital asset codes and standards, as shown in the graphic above, includes individual methodologies and operations for quantifying ecosystem services, both existing and in development. We will work with BSI to identify potential standards development needs across this landscape.

### Standards development process

BSI will apply a robust and proven process for standards development, widely engaging with market participants and other stakeholders to identify, prioritise and develop consensus-based standards that meet market needs.

BSI plan to follow an approach that is well suited to areas of innovation and will allow multiple standards to be created within the timeframe of this programme. BSI's Publicly Available Specification (PAS) Standards and Flex Standards both provide

an appropriate route, with Flex also providing an iterative approach which can include versions that develop in line with rapidly changing markets.

All draft or “v1” standards will be made available for public consultation. BSI will promote these drafts and will welcome broad input to help ensure that they are consensus-based and reflect the latest good practice.

### **Standards administration and accreditation arrangements**

We will expect unit/credit issuance schemes and other market mechanisms to adhere to the standards once issued and to seek accreditation; this applies to existing and emerging standards, and those developed as part of the BSI process. More information on this will be made available when confirmed.

The intention is that both new and existing codes and standards will seek accreditation in order to ensure a level playing field. We will seek to ensure that accreditation processes are streamlined where codes or standards are also seeking accreditation from international bodies such as the Integrity Council for Voluntary Carbon Markets.

It will also be essential that standards are maintained and updated in future in line with the evidence. This will be done on a regular cycle with the objective of providing certainty to markets. Arrangements for maintaining standards and for codes and market mechanisms to apply for accreditation will be established in parallel with the standards development project. We will take action to support the uptake of standards, including through establishing the accreditation process, working closely with stakeholders.

### **Market governance and infrastructure**

Consultation with stakeholders has highlighted the importance of both effective institutional arrangements and the right market infrastructure. We will seek to align governance approaches wherever possible across the UK to create markets at scale, while recognising that regulatory systems and some aspects of market policy may differ between the countries of the UK.

We expect schemes operating in the market to implement appropriate governance for their operations, like any other business. We are scoping out the most appropriate role for government in overseeing markets, in particular what our role should be in ensuring that data on credit transactions is systematically and publicly available. This would support both the oversight and scaling up of markets. We have undertaken preparatory work in this area and will continue to explore the most appropriate way forward.

In due course secondary markets may develop for natural capital credits and we want to see development of the necessary systems for this to take place while maintaining integrity. Resale will allow the aggregation of smaller projects by habitat banks or other brokers – enabling smaller farmers and land and coastal managers to enter markets more easily – and the establishment of trading platforms by intermediaries to support transactions between parties. It will also allow units/credits to be transferable from one buyer to another as long as they have not already been used as the basis of a claim or to meet a legal requirement, for example to allow buyers to sell excess units. To ensure integrity is maintained transparent systems

will be needed for transfers of units to be reported and tracked, to protect against double counting. These are not yet in place meaning there are certain restrictions on resales in current markets.

We also welcome innovation in the private sector to deliver infrastructure that will help markets to scale up with integrity and improve access for both buyers and sellers. Recording data in standardised ways across schemes will help allow innovative services to be provided, such as online sales directories. These can enable potential buyers and sellers to readily identify opportunities and prices in the market, allow aggregation of credits for sales (enabling smaller farmers and land and coastal managers to enter the market) and reduce the costs of doing business.

The UK government and relevant domestic regulators will consider the outcomes of market integrity initiatives, such as the Integrity Council on Voluntary Carbon Markets (IC-VCM) and Voluntary Carbon Markets Integrity Initiative (VCMI) and consult on next steps, seeking views on the role of specific government and regulatory interventions to enable the growth of high-integrity voluntary markets, maximising synergies between carbon and nature markets where appropriate.

To highlight best practice guidance for gathering and reporting environmental data, in the third quarter of 2023 the UK government will test with stakeholders updates to the Environmental Reporting Guidelines (ERG), which provide voluntary environmental reporting guidance for UK organisations.



# Supporting market development through innovation and learning

Nature markets are at an early stage and the scale of market expansion HMG is looking to achieve, as well as the levels of innovation taking place, mean that there is great potential for learning. We are committed to policy development based on continuous learning, and to sharing lessons to support markets to grow faster and in line with our principles.

As set out above we will take a phased approach to market development. We will undertake regular reviews to assess the effectiveness of policy and identify further steps required, and will engage on any changes, new policies or regulation to enable market actors to respond in good time before any changes take effect. We will provide a further update within 12 months. To inform this work and future support for market development, we will continue to support and learn from innovation, and gather the evidence we need to inform policy development.

Key innovative programmes are the ELM Tests and Trials programme; the Landscape Recovery pilots; and the Natural Environment Investment Readiness Fund (NEIRF).

Through the first round of Landscape Recovery pilots, Defra is working closely with 22 projects that consist of farmers, land managers, and other organisations to develop innovative long-term agreements. These agreements will leverage both public and private investment to deliver ambitious environmental outcomes. The second round of Landscape Recovery will take forward up to 25 projects.

The ELM Tests and Trials have provided a space to test mechanisms and innovative approaches to supporting the blending of public and private finance. Our tests and trials look at a range of challenges and opportunities, including how to set payment rates for environmental outcomes; evaluating the role of intermediaries; trialling governance models and examining contract structures.

The Natural Environment Investment Readiness Fund (NEIRF) is funding the development of a pipeline of nature projects suitable for private sector investment. 86 NEIRF projects have been supported to trial new nature markets and monetise revenues from a range of ecosystem services. Projects collaborate in a [Community of Practice](#) coordinated by the Environment Agency, regularly sharing learning, and lessons will also be shared through public facing platforms such as the Green Finance Institute ([GFI](#)) [Hive initiative](#) and the [Ecosystems Knowledge Network](#).

## **Green Finance Institute (GFI) Hive's Investment Readiness Toolkit**

The GFI Hive works with the finance sector, government, academia, environmental NGOs and land managers to identify and unlock barriers to private investment in nature restoration, nature-based solutions and nature-positive outcomes in the UK. It acts as a knowledge hub on private investment in nature to share learning, best practices and investment appetite.



The Investment Readiness Toolkit is an online framework that takes nature-based project developers and enterprises along a path to 'Investment Readiness'. The eight stages are shown below, and can be explored through an interactive website with an explanation of each stage, a checklist of activities developers should consider, useful links and case studies for to each milestone.



The toolkit has been developed based on learning from projects across the UK, including those in the Natural Environment Investment Readiness Fund, and is updated regularly as this learning develops and as case studies are added. See [Investment Readiness Toolkit](#).

## Looking ahead

We are committed to ensuring that market policy builds on a strong evidence base, and to monitoring and analysing the operation of markets as they grow to ensure that we are taking the right approach. We will gather and generate evidence to ensure that market schemes (for example credit issuers), market infrastructure (for example data systems) and rules (for example for stacking) are designed in ways that will best meet our principles and achieve our vision.

We will also regularly evaluate individual schemes and the operation of the market as a whole, to assess whether incentives are working to produce high levels of investment and deliver maximum improvements to nature. Details of notable upcoming evaluations are provided in Annex 2.

An important part of monitoring market development will be to understand the social impacts that nature markets may have. These impacts are likely to be different for different stakeholders, for example both the Rock Review and ELM Tests and Trials

for the ELM programme have found barriers to tenant farmers being able to engage in nature markets.<sup>15</sup>

We also recognise that our partners have knowledge and experience that will help us shape priorities. We will work closely with the Devolved Administrations to further develop our approaches in support of a UK-wide market.

We look forward to further work with the Green Finance Institute and Ecosystems Knowledge Network, and with other groups of experts from all relevant sectors including the Financing Nature Recovery coalition, on questions such as the future governance of nature markets.

Through these approaches we will ensure that markets develop according to our principles and achieve the outcomes we want to see, helping us deliver our ambitious targets for nature recovery and move towards a net zero, climate-resilient and nature-positive future.

## Summary of next steps in nature market development

### Policy and regulation

- launch new market for biodiversity net gain in England, for most housing development and subsequently nationally significant infrastructure projects
- consult on specific interventions needed to support growth of high integrity voluntary markets, following reports of key international initiatives
- test with stakeholders updates to the voluntary Environmental Reporting Guidelines for organisations
- respond to call for evidence on including carbon removals in the UK Emissions Trading Scheme
- continue to explore design of ELM and other grant schemes to strengthen compatibility with nature markets
- consider the most suitable approach for marine net gain
- liaise with Devolved Administrations on market development and governance across the UK

### Market rules

- analyse stacking models for compliance and voluntary markets
- evaluate the operation and impact of financial additionality rules in nature markets

### Standards and accreditation

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<sup>15</sup> The [Rock Review](#) published in October 2022 into tenant farming has made a series of recommendations to ensure tenant farmers are able to access land use schemes such as the ELM schemes and private natural capital markets. This includes issues of limiting the circumstances where landlord consent is required and the recommendation that tenants with Agricultural Holdings Act Agreements should be considered to have sufficient security of tenure and management control to enter multi-annual schemes.

- support BSI to expedite development of an overarching investment standard for nature markets and nested standards for a range of ecosystem services, habitats and land uses
- explore suitable accreditation arrangements for codes and standards
- consider the potential to support farm-level monitoring, reporting and verification, for example carbon audits

**Market infrastructure**

- further scope approaches to ensure publicly available data on credit transactions in nature markets

# Annex 1. Stacking rules in different markets

Currently, the rules for stacking set by some of the key market mechanisms are as follows:

**Biodiversity net gain (BNG) and nutrient mitigation** - Phase 1 guidance permits units to be issued for both BNG and nutrients from the same activity/project. They do *not* permit units to be issued for BNG or nutrients and also for a voluntary ecosystem market from the same activity/project, unless through a subsequent habitat improvement. This improvement needs to be quantified in comparison to a baseline which includes the initial activity.

**UK Woodland Carbon Code** - Currently the wider benefits of woodland creation projects are 'bundled' with the carbon unit by default when they are sold. In future, the WCC Secretariat may agree additional ecosystem service standards that can be stacked with the WCC. Once agreed and the necessary registry infrastructure is in place to keep track of 'stacked' and 'bundled' projects, woodland creation projects should be able to stack these standards with WCC provided that all income streams are declared in the WCC Cashflow Spreadsheet and the project meets required additionality tests. The potential to credit water or biodiversity and stack with carbon credits is being investigated.

**UK Peatland Code** - As with the UK Woodland Carbon Code, units are currently sold as an implicit bundle in which other ecosystem services associated with peatland restoration (such as biodiversity and water-related benefits) are 'bundled' in with the measured carbon unit. The UK Peatland Code notes that in future it may be possible to stack multiple voluntary credits where these meet the additionality criteria of the Code, and again provided the right registry infrastructure is in place to prevent double counting, and is exploring how this could be done.

## Annex 2. Planned evaluations

Notable upcoming evaluations include:

- **Sustainable Farming Incentive (SFI)** – Planned from 2023 with annual reviews thereafter on how successfully private finance is being taken up alongside SFI grants.
- **Landscape Recovery evaluation** – This evaluation will look at the barriers and enablers to putting in place blended finance agreements for landscape scale projects; reporting will commence from 2023.
- **Nature for Climate Fund Tree Planting Programme and Peat Project evaluations** – These will report by 2025 and evaluate whether the programmes are on track to deliver the expected level of environmental, social and economic benefits including measuring the private finance contribution.
- **Biodiversity Net Gain (BNG) evaluation** – This will evaluate the impact of the BNG policy intervention on delivering nature recovery, the extent of the development of the offsite market, the availability of units and their geographical location and how BNG interacts with other schemes.
- **Big Nature Impact Fund evaluation** – A number of evaluations will be carried out throughout the 15 year lifetime of the fund to understand how effective HMG's intervention of supplying loss capital has been at supporting investment.



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