

FINANCING UK NATURE RECOVERY

RECOMMENDATIONS

FOR SCALING UP HIGH-INTEGRITY MARKETS FOR NATURE

NOVEMBER 2021



INTRODUCTION

As the world's nations meet to take decisive action to achieve net zero emissions by 2050, equally decisive action is needed to address the 'widespread institutional failure'¹ driving nature's decline.

Despite billions of pounds of taxpayer money being spent annually on land management and environmental protection across the UK,² ecosystems continue to degrade, and biodiversity is still being lost.³

The gap between the spending required to achieve the UK's nature related outcomes and the amount of public funding that is committed or planned has been estimated to be a minimum of £44 billion⁴

The scale of change required to meet commitments to restore nature to address both biodiversity loss and climate change across the UK is beyond the resources available from government and philanthropic sources alone.

Scaling up markets for nature and the environmental services it delivers, is a key step to provide the information and incentives to properly value nature and facilitate private investment in its recovery.

However, there are significant risks in harnessing market forces in the service of environmental improvement without a robust framework in place to ensure that investment in nature-based solutions is not 'green washing'.

The forthcoming Report of the Financing UK Nature Recovery initiative will outline a Vision and Framework for high-integrity markets for nature and provide Recommendations for how to scale up these markets across the UK.

The Framework with its three pillars of **Market Design**, **Market Governance** and **Market Operation** sets out what is needed to ensure market integrity.

These Draft Recommendations set out how it is proposed to deliver the Framework in a timely, consistent and coordinated way and will be included in a Draft Report to be released towards the end of November.

¹ Dasgupta, P. (2021), The Economics of Biodiversity: The Dasgupta Review. (London: HM Treasury), Headline Messages.

² National Audit Office, Departmental Overview 2019-20 Department for Environment, Food & Rural Affairs February 2021.

³ Natural England, JNCC, Natural Resources Wales, NatureScot & Northern Ireland Environment Agency (2021) Nature Positive 2030 – Summary Report. JNCC: Peterborough. ISBN: 978-1-866107-636-6.

⁴ eftec, Rayment Consulting (2021) The Finance Gap for UK Nature.

RECOMMENDATIONS

MARKET DESIGN

Nature positive obligation

1. Establish a **sector-based nature-positive obligation and supporting fiscal measures** commencing by 2025, to provide a clear pathway for delivering on long-term environmental targets.
 - 1.1 Commission the design of a **market-based nature positive obligation** to drive the delivery of existing habitat creation targets outside of protected areas.
 - 1.2 Establish sector shares of the obligation and cost **fiscal measures to support business and industry participation**.
 - 1.3 Offer companies the opportunity to participate in a **voluntary trial of the nature-positive obligation** to commence in 2023.

Sector policy review

2. Undertake **post-Brexit reviews of the interaction between economic and environmental regulation** that impact on the natural environment to align incentives to deliver better environmental outcomes at an efficient cost to taxpayers and consumers.
 - 2.1 Modernise existing water quality regulations to **eliminate perverse incentives and facilitate efficient investment** in nature based solutions by public and private water companies.
 - 2.2 Support water companies across the UK to **deliver integrated environmental outcomes at a catchment level**.
 - 2.3 Clarify current **tax treatments of land used for nature-based solutions** and eliminate disincentives.

Integrated outcomes

3. **Translate long-term environmental targets into outcome targets for nature recovery and environmental improvement** at a local level to provide regulatory certainty and investment confidence.
 - 3.1 Transition public investment in the natural environment **from funding activities to purchasing outputs and investing in environmental outcomes** at a landscape scale by 2024 as a catalyst for private finance.
 - 3.2 Develop **integrated area-based targets for environmental outcomes** to be achieved over a five year period, to provide a clear basis for public and private investment.
4. Develop local **community benefit policies for public investment in nature-based solutions** to ensure new environmental markets provide opportunities for local community participation and contribute to local social and economic goals.

MARKET GOVERNANCE

Market governance

5. Consult and agree on the **governance mechanism for environmental markets, including the institutional architecture for accreditation, oversight and enforcement** by the end of 2022.
 - 5.1 Publish an Environmental Market Governance Options Paper by March 2022.
 - 5.2 Consult on a preferred option by June 2022.
 - 5.3 All UK governments to agree a **Joint Implementation Plan for Environmental Market Governance** by December 2022.

Standards

6. Establish a UK-wide system to **develop and agree standards for quantifying environmental services** delivered by nature in different regions, catchments, and areas.
 - 6.1 Bring together specialists from the finance, business, environment and land management sectors to prepare a set of **principles for quantifying environmental services from nature**.
 - 6.2 Create a **nature based carbon standard** to ensure consistency in methods for assessing the carbon impact of investment in nature recovery across UK ecosystems.
 - 6.3 Commission the development of **new standards for measuring nutrient reduction and flood mitigation** from nature-based projects.

Accreditation

7. Ensure the **accreditation of nature-based projects is undertaken by an authorised body or service provider(s)** and aligns with the development of the UK Green Taxonomy.

Market Data

8. **Identify critical environmental data needs and make all relevant data available** in a consistent and accessible format to facilitate private investment.
 - 8.1 Identify and prioritise existing data that needs to be made accessible to support nature-based project development and accreditation.
 - 8.2 Design and implement **outcome-based monitoring systems** to evidence the long-term impact of nature-based solutions at a landscape scale.
 - 8.3 Produce an assessment of nature related impacts and dependencies of different sectors, and establish an on-going mechanism to collect data on the level of private investment in nature-based solutions.

MARKET OPERATION

Project pipeline

9. Establish investment readiness and pathfinder funds to **provide sources of patient capital for demonstration projects** to prove the scale of revenues available from nature-based projects.

Local delivery frameworks

10. Develop and test **frameworks for local prioritisation, administration and leveraging of public funding** by committing funding for area and catchment-based portfolios of nature-based projects, to be developed through community engagement and co-funded by local businesses and private investment.
11. Provide training and support for organisations to **build the capacity to develop nature-based project portfolios** for their areas to attract buyers and investors.

Market infrastructure

12. Resource and develop **market infrastructure including registries, platforms, tools, and templates** to facilitate efficient market operation.
 - 12.1 Develop a **nature-based project registry system** to provide a consistent framework for providing a transparent record of nature based-projects and the environmental services they deliver, and managing the issue, sale and transfer of environmental credits from individual projects.
 - 12.2 Establish **standard environmental market rules and operating procedures** that can be adapted for markets delivering different types of nature-based projects and environmental services.
 - 12.3 Develop and publish a **code of common terms** for contracts with landowners delivering nature-based projects.

Market transition

13. Develop **country-specific implementation plans** to align and integrate the delivery of the Investment Framework with wider policy objectives.
14. Establish a **transition team to lead and coordinate the delivery of the Roadmap** drawn from across the four UK administrations.