

Reforming environmental markets

Making them work for nature and communities

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Wildlife and
Countryside

LINK 

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Executive summary

The Environment Act 2021 set new legally-binding targets for nature, including a target to halt the loss of wildlife in England by 2030. These stand alongside the UK (2008) Climate Change Act requirements - to reduce greenhouse gas emissions and adapt to the impacts of climate change - as a fundamental necessity for a sustainable economy.

The UK is not on track to meet its nature targets and wildlife is continuing to decline at an unprecedented rate, despite Government pledges to leave the natural environment in a better state overall. After decades of nature's decline, a major boost is needed in both funding and ambition. Success will require reform and investment across the country and in almost every sector of the economy.

Increased public spending will play a critical role in protecting and restoring ecosystems over the coming decades. But it will also be essential for the private sector to play its part to halt and reverse the decline of nature. Currently, many economic sectors exert unsustainable pressure on our natural world. Businesses will need to change the way they operate to reduce their "footprint" on nature in the UK, without simply exporting harm abroad. More than that, responsible sectors will need to invest actively in nature's restoration to help achieve national targets and the targets under the 2022 Kunming-Montreal Global Biodiversity Framework, which the UK has signed up to.

These changes will not happen by themselves. Although many businesses are eager to explore contributing to creating a 'nature-positive' economy and many investors stand ready to finance action, a reliance on good will or marketing is unlikely to amount to more than peripheral change. To date, the Government has appeared to rely on voluntary private sector action, but there is good evidence to show that this alone will not achieve the scale of change needed for nature. There remains a major 'financing gap' for nature, which will not be bridged unless the Government takes a new strategic approach to creating high integrity environmental markets with a clear regulatory requirement or sustained return on investment. This requires bold reform for England's environmental markets.

Government must play a co-ordinating role in structuring new markets for investment in nature. Creating thriving environmental markets will require the private sector to be legally compelled to address long-standing market failures by investing in and funding environmental improvement that is large scale and sustained long-term. This will create the demand.

Poorly designed environmental markets can do more harm than good, however. To avoid greenwash and provide confidence for investors, delivery will need to be underpinned by strong monitoring, accreditation and assurance models to give confidence that the nature 'product' on sale meets strict quality standards. Government should also use its buying, co-funding and project development clout to accelerate high-quality projects. This will give confidence in supply.

Regulation will need to address a new, more ambitious “business as usual”, regulating to improve standard rules and operating procedures. There is no viable path to halting the decline of nature without a strong set of laws to constrain environmental harm and support sustainable business methods. Market approaches should not be seen as a replacement for strong environmental laws and public investment. In particular, public spending will be important to protect existing habitats where there may be limited opportunity for landowners to access private investment for additional ecosystem services.

Change will inevitably mean some costs for businesses, but that should not deter the Government from action. Without change, much greater costs will continue to fall on the general public because of the harm caused by environmental decline. Moreover, environmental costs will also eventually affect businesses: the risk of flooding, fire and crop failure, for example, are already being seen on balance sheets. The choice for Government is not whether there are costs; it is how great they are and where they will be felt.

Change will also mean enormous opportunity. Investment in nature often brings a huge benefit to cost ratio, with large scale benefits accruing in mental and physical health improvements, for example, as well as more resilient infrastructure. There are also opportunities for business innovation, with intelligent regulation driving businesses to the forefront of a global green business revolution. In addition, through the Taskforce on Nature-related Financial Disclosures (TNFD), large businesses will increasingly consider nature-related risks to their own operations and productivity and how direct investment can reduce those threats.

Without reform to how environmental markets operate, unsustainable business practices, a lack of investment in nature, or an inefficient use of funds directed towards nature will mean that the Government misses both of its headline environmental targets: the target to halt nature’s decline by 2030 and to achieve net zero by 2050.

We recommend that the Government sets out a major new cross-departmental strategy for stimulating high-integrity environmental markets, going beyond the piloting phase which has been the focus up until now. In this report, we set out a framework for regulatory reform needed to ensure that private investment in nature is used in the most efficient way, unlocking significant opportunities for innovation and growth in high-integrity environmental markets.

To drive demand, we recommend:

1. **The effort required to achieve Environment Act targets should be attributed to responsible economic sectors for delivery as part of a 'Nature Recovery Obligation'.** A “beyond offsetting” approach to regulatory requirements for investment in nature. Major sectors of the economy - such as infrastructure development, and public utilities - should be required in law to disclose nature-related risks and more than compensate for the harm they cause to nature in line with national targets.

To structure effective markets, we recommend:

2. **Long-term public investment in nature** should be guaranteed and communicated with the opportunity for blended finance approaches through environmental markets to help stabilise a pipeline of projects and to share risk with innovative private sector investments. Funding should go beyond existing commitments and guaranteed over several decades.

3. **Community participation and engagement should be a cornerstone of environmental markets** to ensure that investments are sympathetic to local ecosystems and to people’s needs, including access to nature.

4. **Targeting and combining market investments**, including Government purchasing power, to ensure that strategic environmental restoration projects can be achieved at scale.

To ensure markets have high integrity and to avoid greenwash, we recommend:

5. **The establishment of a properly-funded Environmental Markets Authority**, tasked with accreditation of environmental markets, enforcement, and ensuring that markets take an “ecosystem approach” to environmental improvement, rather than simply focusing on one feature of nature or climate at the expense of others.

6. **The development of a broader set of Government-backed codes to support delivery of high quality projects.** Codes should cover a range of habitats and land uses and for a range of different ecosystem services, guided by a set of Government principles and minimum requirements for codes.

7. **The Government should develop a publicly accessible spatial registry**, designed to track the creation and sale of units in environmental markets, to guard against double counting, ensure transparency, and guarantee that improvements are maintained.

1

The funding gap: driving investment in nature

The UK faces a range of urgent environmental problems. Decisive action is needed to address climate change: to reach our net zero commitment and to protect ourselves through adaptation from catastrophic floods, wildfire, heat and drought. Alongside this we face a crisis in the natural world, which is leading to the decline and destruction of key species groups in the UK, the pollution of rivers and coasts, and the loss of local nature spots.

The UK is equal to solving these problems, but doing so will require immediate action and investment. This means rapid scaling up of investment in our natural world and the elimination of subsidies that cause harm to the environment.

In the UK, there is a funding gap of more than £19 billion from 2022 to 2032 for biodiversity when comparing existing funds and Government objectives.¹ This funding gap increases to more than £44 billion for all nature-related objectives. Globally, it is estimated that \$78-91 billion is spent per year on biodiversity from public and private sources, compared with an estimated annual sum of \$500 billion directed towards activities that are potentially harmful to biodiversity.²

Following the 2008 global financial crisis, market-oriented solutions have increasingly been presented as an opportunity for private investment to plug the gap in public funding needed to achieve the UK's 2050 net zero target and, more recently, the 2030 target to halt the decline of species abundance by 2030. In its response to the Dasgupta Review, the UK Government stated that it was 'committed to leveraging private sector finance to enhance our natural environment, encouraging private sector-led, market-based solutions'.

With a suite of targets to meet across nature and climate, the challenge will be unlocking the potential benefits of markets - to boost public funding, provide people, charities, and businesses the freedom to design efficient projects and support local communities while still helping us get on track to nature and climate goals.

¹ Green Finance Institute, 2021, [The Finance Gap for UK Nature](#)

² OECD, 2020, [A Comprehensive Overview of Global Biodiversity Finance](#)

What support has there been for private investment in nature in the UK to date?

Major environmental markets are developing in every nation of the UK. These include both markets for regulatory requirements and those for voluntary commitments. The voluntary carbon market (VCM) is expanding rapidly as corporations make net zero plans, while large compliance markets are being formed by the UK Government to deliver Biodiversity Net Gain and nutrient neutrality in new housing.

In the 2021 Comprehensive Spending Review (CSR), the scale of ambition for nature investment was set out alongside the expected role of private investment and markets. The 2021 Autumn budget included a target to raise at least £500m in private finance for nature's restoration every year by 2027, increasing to £1bn annually by 2030. The CSR also included a new £30 million Big Nature Impact Fund, with the aim of leveraging private finance into new markets for ecosystem services including carbon, water, and biodiversity.

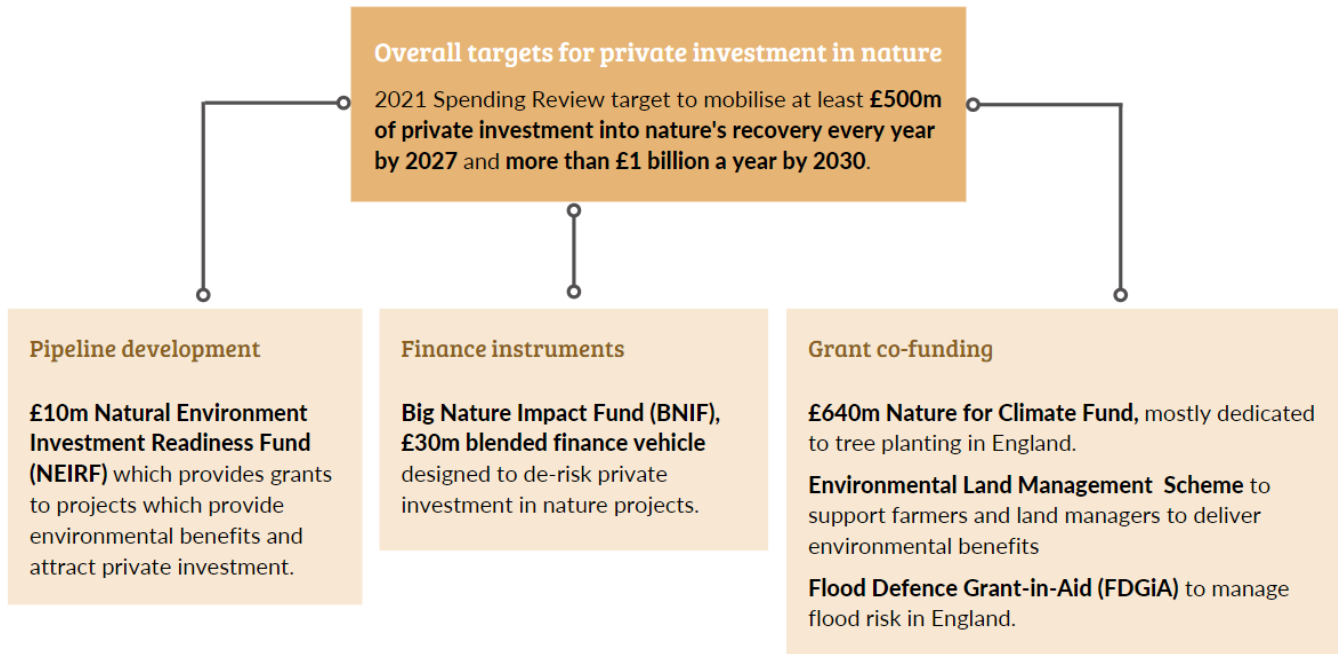
Prior to the CSR, the UK's Green Finance Strategy was published, setting out how the finance sector could help deliver the goals of the UK's Clean Growth Strategy, 25 Year Environment Plan and Industrial Strategy. The Natural Environment Investment Readiness Fund (NEIRF), established in February 2021, supports the goals of the strategy by preparing suitable pilot projects ready for investment, and the recently released Environmental Improvement Plan reiterated the Government's private finance target.³

At COP15 in Montreal, the UK also signed onto the post-2020 Global Biodiversity Framework which included a target to '*Mobilise by 2030 at least \$200 billion per year in domestic and international biodiversity-related funding from all sources – public and private*'.⁴ This includes leveraging private finance, pursuing blended finance approaches, and '*encouraging the private sector to invest in biodiversity, including through impact funds and other instruments*'.

In addition to supporting increased private investment in nature, the Government is also exploring options for blended finance, combining public and private sources of finance to support nature's protection and recovery. The new Environmental Land Management scheme for England is one such example where multiple income opportunities for farmers and land managers are being supported in the design of the scheme in order to access a wider range of benefits and achieve better outcomes for the environment whilst ensuring additionality for different sources of funding.

³ Defra, February 2023, [Environmental Improvement Plan](#)

⁴ Convention on Biological Diversity, 2022, [COP15: Final text of Kunming-Montreal Global Biodiversity Framework](#)



A clear rationale for investment

The benefits of investing in nature's recovery are significant. As the Dasgupta review clearly sets out, the functioning of our entire economy relies on healthy ecosystems, with nature as one of our most valuable assets.⁵

The Natural Capital Committee has shown that investing in natural capital demonstrates benefit-cost ratios that are at the same scale of other forms of investment such as rail infrastructure and housing.⁶ Nature restoration and creating nature-rich greenspace can also lead to job creation through restoration work itself and in the tourism and related environmental goods and services sectors. At the moment, the natural environment supports almost 750,000 Full Time Equivalent jobs and over £27.5 billion of economic output across the UK.⁷

A study by the Nature Based Solutions Initiative showed that for every £1 invested in peatland restoration, an estimated £4.62 is generated through economic and social benefits, with three temporary jobs estimated to be created for every 100Ha of peatland under restoration.⁸ There are also additional, non-monetised benefits including enhanced water quality, improved biodiversity and reduced flood risk. The situation is similar for woodlands, where every £1 invested in planting trees is estimated to create £2.79 of economic and social benefits such as through carbon sequestration, biodiversity, and recreation. For saltmarshes,

⁵ [The Economics of Biodiversity: The Dasgupta Review](#), 2021

⁶ Natural Capital Committee, 2015, [The State of Natural Capital: Protecting and Improving Natural Capital for Prosperity and Wellbeing](#)

⁷ RSPB, [Natural Foundations: Conservation and local employment in the UK](#)

⁸ RSPB, 2020, [The economic costs and benefits of nature-based solutions](#)

every £1 invested in restoration is estimated to generate £1.31 in economic and social benefits, with an estimated 14-74 temporary jobs created for each 100Ha of habitat restoration. In the Government's "Future of the Sea: Marine Biodiversity" report, marine biodiversity was given an estimated value of up to £2,670 billion, which could still be a conservative estimate.⁹

Early investment is the cost-effective option. Delaying investment not only risks a worsening of the nature crisis so that we see even more species extinctions and further habitat degradation, but also the possibility for significant damage to local communities and human health and businesses from the erosion of functioning ecosystems.

The UK must scale up investment in the natural world as soon as possible if we are to experience the myriad benefits healthy, resilient ecosystems offer. We outline in more detail the kind of benefits well-functioning environmental markets could offer below.

1. Creating healthy ecosystems: tackling the biodiversity crisis

Without urgent and significant action, the world's wild species, habitats and ecosystems face a dire future. The 5th Global Biodiversity Outlook revealed that an average of around 25% of species in assessed animal and plant groups are threatened with extinction.¹⁰

In the UK, the 2019 State of Nature report highlighted long-term loss of wildlife across all parts of the nation.¹¹ The analysis revealed that since 1970, 41% of species have decreased in abundance, and 15% of species are threatened with extinction from the UK. A recent analysis carried out by the Natural History Museum, in collaboration with the RSPB, reaffirms this picture. Using the Biodiversity Intactness Index (BII), the analysis reveals that the UK ranks 12th worst globally out of 240 countries and territories, and lowest out of all G7 nations, having retained less than 50% of its baseline level of biodiversity in face of human pressures.¹² WWF estimate that failing to protect nature and reverse biodiversity loss could cost the UK economy £16 billion every year.¹³

Our ecosystems form the foundations of our economies. From healthy soils and pollination of crops to natural flood management, we rely on healthy functioning ecosystems in every part of our lives. As the biodiversity crisis worsens, we will begin to see - and have already seen in many cases - how the destruction of nature is undermining these functions with catastrophic knock on effects, compounding the risks already identified from inadequate climate action.

Increasing private investment in nature through environmental markets can be used to fill the finance gap and support the restoration and protection of natural ecosystems to meet national and international targets and ensure that these essential functions are fulfilled and sustained.

⁹ Government Office for Science, 2017, [Future of the Sea: Marine Biodiversity](#)

¹⁰ Convention on Biological Diversity, 2020, [Global Biodiversity Outlook 5](#)

¹¹ RSPB, 2019, [State of Nature](#)

¹² RSPB, [Biodiversity Intactness Index Summary Report](#)

¹³ Roxburgh, T., Ellis, K., Johnson, J.A., Baldos, U.L., Hertel, T., Nootenboom, C., and Polasky, S. 2020. Global Futures: Assessing the global economic impacts of environmental change to support policy-making. Summary report, January 2020 [GlobalFutures_SummaryReport.pdf \(wwf.org.uk\)](#)

2. Resilient, net zero communities: addressing the climate crisis

The voluntary carbon market was established as a tool for climate change mitigation by allowing greenhouse gas emissions to be offset through the purchase of carbon credits. There is now evidence to suggest that such markets have not only failed to tackle climate change but in many cases may be contributing to it.

Under the Paris Agreement, parties to the UN Framework Convention of Climate Change have agreed to limit global warming to less than 2°C above pre-industrial levels by the end of the century. However, global policy commitments remain very far off meeting this goal, and we know that every fraction of a degree of warming matters.

The sooner we can reduce global emissions, the more likely we are to avoid planetary tipping points along with the devastating consequences of rising temperatures on nature and people. For example, the estimate for the risk of species extinction increases ten-fold for a warming level of 3°C compared to 1.5°C.¹⁴

Extreme weather events caused by global temperature rise are already having a significant impact on communities in the UK and around the world. In the UK, it is estimated that flooding and flood management alone cost £2.2bn each year.¹⁵

Studies suggest that nature-based solutions could play a crucial role in climate change mitigation, contributing up to a third of global climate mitigation required to limit global temperature rise to below 2°C.¹⁶ They also play a central role in climate change adaptation; recent analysis by RSPB showed that nature-based solutions are central to addressing 33 out of 34 of the most urgent risks from climate change in the latest UK Climate Change Risk Assessment.¹⁷

Alongside rapid and sustained emissions reductions across all sectors of the economy, it is clear that investing in nature's protection and restoration offers a reliable and immediate climate change mitigation tool whilst also providing additional benefits for biodiversity and people and providing protection against the future effects of existing climate change.

¹⁴ [Summary report on the SBSTA-IPCC special event](#): Unpacking the new scientific knowledge and key findings in the Working Group II contribution to the Sixth Assessment report: Impacts, Adaptation and Vulnerability (2022)

¹⁵ Defra, 2011, Commencement of the flood and water management act 2010, schedule 3 for sustainable drainage: Impact assessment, p. 42.

¹⁶ Griscom et al. 2017; Schlesinger & Armundson, 2019; Anderson et al. 2019, Seddon et al.2020, 2021, Girardin et al. 2021.

¹⁷ WWF, RSPB, NbSI, 2021, [Nature based solutions in UK Climate Adaptation Policy](#)

3. Green, healthy communities: expanding access to nature and healthy air

The 2020 update of the Marmot Review found that the health impact of climate change was increasing, with a disproportionate impact on older people and deprived communities.¹⁸ At the same time, 11 million people in England live in areas with limited access to greenspace, with minority ethnic groups and people in deprived areas worst affected.¹⁹

There are significant benefits on offer by valuing nature-rich spaces for health and wellbeing, with the UK's parks and green spaces already providing people with an estimated £34.2 billion of health and wellbeing benefits each year.²⁰ This saves the National Health Service around £111m annually, and an estimated additional £2.1bn in health costs could be saved each year if everyone in England had good access to greenspace.²¹

These benefits are not just seen on land: healthy, protected seas can support billions of pounds of revenue for local coastal communities through tourism and recreation. In 2015, marine leisure and tourism sectors supported 86,400 FTEs²² and had a value of £3.9 billion,²³ while annual visits to the coast generate approximately £17 billion.²⁴ These sectors and revenues could grow significantly with investment in improved water quality, protected areas and coastal habitats.

Projects funded through environmental markets could play an important role in increasing access to nature and unlocking more of the health and wellbeing benefits from green and blue spaces. Combined with a locally-led approach and spatial mapping to ensure that all parts of the UK are targets for investment, there is the potential for high-integrity markets to create a future where everyone lives with easy access to nature-rich spaces in a healthier and wilder world.

¹⁸ Marmot M, Allen J, Boyce T, Goldblatt P, Morrison J., 2020, Health Equity in England: The Marmot Review 10 Years On. Institute of Health Equity

¹⁹ Friends of the Earth, 2020, [England's green space gap](#)

²⁰ Fields in Trust, 2018, [Revaluing Parks and Green Spaces](#)

²¹ Ibid

²² UKMMAS, 2018, [Uses of the marine environment: social and economic analysis](#)

²³ Government Office for Science, 2017, [Future of the Sea: Marine Biodiversity](#)

²⁴ [UK National Ecosystem Assessment](#)

2

Increasing private investment in nature

Unless by law or for reputation, there is currently little incentive for polluters to reduce their impact on the environment. The economy remains fundamentally extractive and the processes and products that businesses rely on come at a cost to our environment which is not reflected in normal market economics. Instead, the costs fall on the public and on future generations, a basic market failure.

These external costs are not only damaging in terms of the significant impact on human health, the climate, and nature, but also because they also mean bad news for businesses. As outlined in the Dasgupta Review, well-functioning ecosystems underpin the entire economy, and without the myriad services they provide, society would be unable to function.

Some businesses, of course, already invest in nature's recovery because they recognise that improving nature can help save or make them money. For example, some insurance companies may invest in wetland creation to help reduce the risk of flooding. Other businesses invest to meet Corporate Social Responsibility objectives or shareholder expectations. Many other businesses are also ready to invest in nature once the right governance framework and standards are in place.

Without Government intervention, private sector investment in nature will not happen at sufficient scale to halt nature's decline - or meet the Government's targets for private investment - by 2030. Although businesses are increasingly interested in investing in nature, these kinds of investments remain marginal compared with the pressures imposed on nature by industrial activities. In many cases, investments are limited to "offset" markets designed to allay the conscience of consumers or burnish the reputation of an industry. They are largely confined to a minuscule portion of the profits of a small proportion of polluters.

At the same time, there is increasing interest in the polluter pays principle and the idea that those responsible for causing environmental damage should pay to minimise further damage and begin to reverse it.

In the Environment Act, *the polluter pays* principle is established as one of the key environmental principles, alongside a duty for the Government to have due regard to the statement of principles in making law and policy. It states that '**the costs of pollution control and remediation should be borne by those who cause pollution rather than the community at large**'.

There are already examples of the polluter pays principle being put to practice in the UK. The UK Emissions Trading System adheres to polluter pays by requiring a major polluting sector to purchase allowances to cover each tonne of its greenhouse gas emissions. It is also being explored through new schemes such as Biodiversity Net Gain, whereby new housing and other infrastructure projects are required to not only compensate for some aspects of the environmental damage caused by development, but to leave the natural

environment in a better state than beforehand. These requirements exist on top of regulatory requirements for businesses.

Unfortunately, at the moment, much of the money raised through markets such as the UK ETS returns directly to the Exchequer, without a plan for ensuring that it contributes to environmental improvement. Without a clear plan for the funds raised through environmental markets, there is a real risk that any investment that is eventually generated continues to go elsewhere.

Instead, this money should be spent on the UK's critical and essential environmental needs: preventing species extinctions and recovering degraded habitats, adapting our nation to the impacts of climate change, halting pollution, providing access to green and blue spaces, and meeting the UK's net zero target.

We also welcome the development of the Taskforce for Nature Related Financial Disclosures. Just as the Taskforce for Climate-related Financial Disclosures (TCFD) has significantly raised the profile of climate change amongst financial institutions and big businesses, disclosures on biodiversity should be made mandatory through the TNFD once it is introduced later this year. This would fulfil target 15 in the post-2020 Global Biodiversity Framework to which the UK is a signatory, which relates to the impact of businesses and financial institutions on global biodiversity.

Whilst this is a good start, the TNFD is focused on financially material risks to business, and does not necessarily prompt an ecosystem or landscape approach or the investment to address nature impacts and dependencies from the private sector. There is much greater scope to properly embed the polluter pays principle across the private sector. To meet the 2030 target, the "effort" needed to reach the 2030 goal will need to be apportioned to responsible polluting sectors for delivery.

We recommend creating a Nature Recovery Obligation for businesses that are damaging nature through their operations. Just as many businesses are seeking to reach net zero emissions by 2050 in line with the UK Government's target, we believe there should be mandatory requirements for sectors to demonstrate that they are also compatible with the target to halt and reverse the decline of nature by 2030.

How would a Nature Recovery Obligation work?

A Nature Recovery Obligation would mean that any activities carried out by businesses which may lead to the decline of biodiversity are more than compensated for, so that there is effectively net gain for nature.²⁵ Not only will this support a shift to more sustainable practices, but it could also generate the level of demand needed for environmental markets to have a tangible contribution towards achieving national targets and potentially create new economic advantages in the green economy.

We envisage a system whereby sectors have a set of obligations relating to the impact of their activities on nature. These requirements should cover all relevant sectors, starting with water companies, the agrifood sector, finance, the development sector, and the textile and clothing sectors.

Regulatory requirements could be structured in a number of ways. For example, a nature-recovery levy could be applied to responsible sectors, with contributions scaled according to the environmental impacts of individual businesses. Alternatively, requirements to purchase environmental credits (such as biodiversity units) could be applied. The important thing is that, whatever the mechanism, overall requirements for restoration and habitat creation must go well beyond compensating for the impacts of individual operations to contribute to delivery of biodiversity goals under the Environment Act.

Importantly, mandatory requirements for businesses should work in addition to existing environmental protections and requirements. In line with the mitigation hierarchy, businesses should first seek to demonstrate compliance with the obligation by showing improvements in their own supply chains, only buying external credits where this is not possible.

Existing compliance markets such as the UK Emissions Trading Scheme and Biodiversity Net Gain should be updated and strengthened to deliver agreed contributions to national priorities, as set out by the Environment Act, National Risk Register, and Climate Change Act. We welcomed the proposal in the recent UK ETS consultation to align the emissions cap with net zero and recommend that a similar approach for both biodiversity and climate targets be taken for other environmental markets, including voluntary ones.

Regulating markets can help restructure the rules so that responsible businesses are obliged to reduce, compensate for, and even reverse, the harm they do to our environment. In the case of climate change, for example, following the Climate Change Act 2008 and the setting of a UK Net Zero target in 2019, responsibility for reducing emissions was not left to chance; requirements to reduce greenhouse gas emissions were placed on major emitting sectors, such as energy. The result has helped to drive large-scale investment in decarbonisation and the creation of renewable energy assets.

If it is done well, private sector investment in nature's recovery makes good business sense as it can lead to good business outcomes at a lower cost than more conventional, non-nature based interventions. Private investment in natural infrastructure in many cases can reduce the need for investment in often more expensive grey infrastructure whilst also providing resilience against weather-related shocks, resulting in a win-win scenario for both businesses and the environment.

By shifting responsibility onto polluting sectors, there is also the opportunity to save a significant amount of public funds which can be used instead for other priorities.

²⁵ Biodiversity Net Gain was notionally established as a 'beyond offsetting' approach, but the 10% gain requirement is only expected to reach parity, and so a Nature Recovery Obligation would achieve more than this.

Limitations of the market: the need for regulation and public investment

Although markets can be a useful policy tool to drive down the cost of nature restoration they cannot be treated as a panacea. Alternative policy tools such as regulation will be important to meet environmental targets in addition to market mechanisms such as polluter pays levies and payments for improvement.

Environmental markets are not an alternative to strong regulatory requirements.

Industry standards for what is normal and acceptable are often defined by the regulatory framework in which they operate, which establishes “business as usual”. The extent to which businesses ought to pay or be paid for environmental action - either from the public or private purse - should depend on how far they fall below or fly above business as usual.

It is likely that a cost-effective solution will involve a combination of more stringent regulatory action and penalties for non-compliance, with payments for positive action on top.

Across the board, a major requirement for business is certainty. With this in mind, the Government should set out clearly, wherever possible, where basic regulatory requirements will ratchet up and change over time, allowing businesses to plan for a new, greener business as usual. Given difficulties around valuing biodiversity, regulatory frameworks will likely change more frequently than for carbon markets.

Importantly, regulations in the context of environmental markets should cover both buyers and sellers. For example, farmers and land managers selling credits from interventions on their land should be subject to minimum regulatory requirements and only once those requirements are met can additional measures be used to sell credits. On the buyer end, there should be minimum requirements that businesses must adhere to reduce environmental impact, and then on top of this have obligations to meet net zero targets and contribute to halting and reversing the decline of nature.

Finally, private sector finance, whilst an important addition to public funds, cannot be a substitute for increased public investment. Alongside the existing funds that have been committed to by the UK government, additional public investment is essential to accelerate the protection and restoration of nature. Public funds are also likely to be important to protect habitats where there may be less access to private finance, e.g. to reward existing good practice and to protect biodiverse and carbon rich habitats which are already established.

3

Market making: sharing risks, strategic projects, community engagement

Beyond driving demand for investment in nature through sector obligations, more must be done to increase private sector confidence in markets and ensure that projects contribute to national targets whilst also supporting the local communities where they are carried out. We outline three key ways to achieve this below:

1 | Sharing the risk through blended finance

Whilst the economic opportunities arising from investing in nature can be relatively clear, many private sector actors lack confidence in the market, which can hamper the flow of funds into projects. The Government can play an important role in de-risking private investment through co-funding and blended finance approaches. We welcome the announcement of the Big Nature Impact Fund and its aim to fulfil this function.

We also know that market players need assurances about the quality of projects before investing. We recommend that the Government issues a set of minimum requirements for codes that projects must follow in order to participate in the market. Publicly funded projects should adhere to these standards at a minimum, and so co-funding approaches could also help to drive up standards through a principle of high-quality Government procurement.

Whilst we recommend the use of blended finance approaches to increase investor confidence in markets and to drive up standards, we appreciate that there are outstanding issues relating to blended finance approaches such as the traceability and allocation of benefits between buyers which require ongoing consideration.²⁶

²⁶ Green Alliance, 2020, [The Eden Model: combining public and private funding for sustainable land management](#)

2 | Carrying out the right projects in the right places

Once investment is secured, Government will need to ensure that projects are carried out in the right place. Without proper oversight of the type and location of projects that are being funded by environmental markets and a comprehensive understanding of competing demands on land across the UK, there is a risk that investment is wasted on too many of the same types of projects, that projects are not suitable for the area where they are carried out, or incompatible demands for the same area of land leads to poor returns on investment.

We support the recommendation in a recent Royal Society report for the UK countries to ‘develop and coordinate spatially explicit national land use frameworks to ensure coherence across different areas of land use policy and between national and local scales.’²⁷ With a range of competing land uses to meet national commitments, such a framework will be necessary to identify where best to fulfil different commitments as well as helping to direct private finance to where it is needed.

Local Nature Recovery Strategies in combination with an ongoing account of progress towards national targets could also be a vital tool to decide which projects are suitable for the environmental and community needs of a local area and support connectivity between projects. Additional public funding or co-funding with the private sector could then be used to fill in the gaps and invest in projects which are needed to meet targets but where slow progress is being made.

The Government should also track the cumulative impact of their own projects to ensure that they are contributing equally to progress across all national targets and that benefits are equally distributed across the UK and cover a wide range of habitat types.

A land use framework can also be used to identify landscape-scale projects, which should receive priority fundings given evidence that these lead to better conservation outcomes than smaller scale projects. The Natural Infrastructure Scheme developed by Green Alliance provides a useful illustration of how multiple sellers can form a consortium to deliver multiple benefits across their collective land to a group of buyers, such as businesses or public authorities.²⁸

This considered approach should ensure that private investment is not wasted but allocated to the most complementary set of projects that will put us on the right path to a recovering and resilient natural world.

²⁷ Royal Society, 2023, [Multifunctional Landscapes \(Executive Summary\)](#)

²⁸ Green Alliance, 2021, [Natural Infrastructure Schemes explained](#)

3 | Strong links to democratic processes

As well as delivering for nature, environmental markets must work for communities living in and around where projects are delivered. There has been growing concern in recent years over the purchase of land across the UK for carbon offsetting purposes which excludes local communities from accessing and using the land.^{29 30}

This comes at a time when many communities do not have nature nearby, or their natural spaces are in a poor state, or being lost to development. Around 1 in 3 of the UK population do not have access to accessible nature-rich spaces near their homes, with no green space at all in some of the most deprived areas.

Local authorities must be able to design local plans and strategies to steer investment appropriately according to the needs and landscape of a local area. This includes the need for quantified delivery targets, designated nature recovery areas, and local powers to approve credit donor sites.

Although local community groups are often at the heart of current wildlife projects, they may struggle to access finance. We therefore recommend that there are clear structures in place for community groups to access finance and market infrastructure, so they are not squeezed out of nature restoration but instead play an instrumental role in nature's protection and restoration at a local level. This includes the need to upskill landowners and interested communities to deliver effective projects and the necessary ongoing project management support.

To prevent environmental markets worsening access to nature and instead use them as a force for good, there should be clear community benefit requirements from projects outlined in codes, including training, employment, access to nature and investment in a local community's longer-term regeneration. This rationale is outlined in global frameworks such as the IUCN nature-based solutions standard.³¹ We also support the development of 'community codes' as explored by the Sustainable Soils Alliance in their work on minimum requirements for soil carbon codes in the UK.³² The idea behind community codes is the need for standards that are accessible to new market entrants and smaller projects that are unable to access existing codes due to technical barriers and high up-front costs.

²⁹ Farming UK News, 2021, [Concern as Welsh farms 'bought up' for carbon offset projects](#)

³⁰ The Scotsman, 2022, [Insight: Scotland's great Net Zero land grab](#)

³¹ IUCN, 2020 [IUCN Global Standard for Nature-based Solutions : first edition](#)

³² [Sustainable Soils Alliance](#)

4

How to create high integrity markets: stopping the greenwash

Effective governance and market oversight is essential to ensure that environmental markets deliver what they are supposed to achieve: positive environmental outcomes at a cost-effective price.

However, the rapid scaling up of the voluntary carbon market has demonstrated that without proper governance, carbon credits of dubious quality are freely available to buy, sometimes many times over, and businesses face little scrutiny about what environmental credentials they can claim in return for participating in the market.

As new environmental markets begin to gain prominence, there is a crucial opportunity to learn from the current shortfalls and risks of the voluntary carbon market. In order to make environmental markets truly work for nature and climate, it will be the responsibility of the Government to establish the right market design, infrastructure and effective governance.

Government action to create the conditions for high integrity markets should happen quickly in order to set good practice for market players and ensure that the unregulated, scattered reality of carbon markets does not become embedded as standard practice across all environmental markets. We recommend that an interim environmental markets accreditation scheme is in place before the end of 2023, to be fully developed by 2025.

Experience of existing markets shows how they can suddenly change, just as the ecosystems which underpin environmental markets can fluctuate in condition. In light of this unpredictability, the Government must continually assess the impact of environmental markets and be able to tighten them, take stronger regulatory action, or be willing to shift away from market mechanisms if they are shown to be ineffective or even hinder progress towards meeting nature and climate targets.

The challenge

Designed correctly, environmental markets and private investment have the potential to play an important role in filling the funding gap and helping the UK become resilient, nature positive by 2030 and reach net zero emissions by 2050.

However, there is also a lot that could go wrong. The rapid expansion of the voluntary carbon market has shown that market efforts to find the lowest cost to deliver one environmental outcome can often be at the expense of a more holistic view of sustainability or a proper evaluation of whether the original outcome is even being met. There is also the real possibility that, left alone without adequate governance, environmental markets will continue operating as a 'wild west', with no real way of ensuring that products on offer are actually measuring and leading to the outcomes that are supposed to be delivered and no way to track the sale of credits across different markets.

At best this could hamper the UK's chance of meeting national targets; at worst it could enable the UK to greenwash its way into worsening the biodiversity and climate crises under a false sense of progress.

At this crucial early stage when many markets are just beginning to develop, the Government could lead the way and ensure that they develop into a suite of high integrity markets that lead to good outcomes for the climate, nature, and people.

The case of offsetting and voluntary markets

In some cases, credits bought through environmental markets will be used to offset environmental damage caused by an organisation or individual. Sometimes these offsets will be required under regulation whereas others will be purchased through the voluntary market for reputational or personal reasons, e.g. carbon offsets bought to support voluntary net zero targets.

In both cases, the trend towards a growing number of unregulated offset markets presents several concerns. A major concern is primarily with the idea of offsetting itself. Focusing too heavily on offsetting distracts from the urgent need to reduce emissions, minimise biodiversity loss and reduce resource use at source as much as possible. In other words, it ignores the importance of the 'mitigation hierarchy' which is set out in global guidance on carbon offsetting (such as the Science-based Targets Initiative) and clearly states that offsets should only be used for impossible to abate emissions at the end of the process of reducing them to as close to zero as possible.³³

³³ Despite this, even in the most ambitious climate scenarios, we recognise that residual emissions are predicted for 2050 for hard to abate sectors.

Relying on offsets before emissions reductions are done creates a risk that urgent action is only taken when it may be too late and planetary tipping points are already exceeded.

Moreover, no matter how robust the marketplace is, emissions reductions or nature's recovery in the future is not as guaranteed as not causing damage in the first place.

A robust governance structure will be necessary to ensure both that offset credits are only used when absolutely necessary according to the mitigation hierarchy, and that when they are used, there are strong standards in place to assess issues such as additionality and ensure no negative impacts on local communities where projects are carried out.

The price of credits should also be high enough to incentivise better environmental outcomes within a company's or individual's own practices over the purchase of credits. For example, the carbon price must be high enough to drive emissions reductions and ensure that finding lower carbon practices is the more economic option over carbon offsetting.

The money that offsets provide for projects is often framed as essential in order to reach climate and nature targets. As illustrated by the finance gap previously, it is true that more funding is needed for these purposes, but the default cannot be to allow polluting sectors to continue with business as usual. Polluters should be required to pay for environmental damage under the polluter pays principle, with robust policies and regulations in place to ensure that the primary focus is to reduce emissions and biodiversity loss from the outset, both in the UK and internationally.

There are three key requirements for high integrity environmental markets:

1 | Robust standards

As carbon markets have grown over recent years, a number of codes have been developed to reassure buyers that credits are delivering genuine benefits for the environment and provide guidance for sellers as they develop their projects to sell verified credits on the market. Standards provide the scientific methods needed for accurately measuring these benefits and require evidence that these methods have been carried out.

To create high integrity environmental markets, projects should be required to demonstrate that they have followed a set of practices included in a code specific to the habitat where the project is taking place and the environmental service that is being delivered.

At the moment, the only UK Government supported codes relate to carbon removals from trees (the Woodland Carbon Code) and peatlands (the Peatland Code). Several additional codes are in potential development through the Natural Environment Investment Readiness Fund, covering carbon removals from habitats such as seagrass and hedgerows.³⁴ The UK saltmarsh code under development will also be an important first step towards the marketing and trading of blue carbon in UK coastal areas.³⁵

Further Government-approved code development is needed in the UK not just to cover further carbon removals from other natural habitats, but also to set out how to deliver and measure biodiversity benefits.

The Government should support and certify the development of a set of minimum requirements for codes, applicable across different types of nature-based projects and environmental services. Minimum requirements for codes are essential not only to guide projects towards delivering high-quality environmental outcomes, but also to support organisations who are establishing codes themselves.

³⁴ Several international standards also exist to verify emissions carbon removals or reductions from a wide range of projects. The [Gold Standard](#) provides certification for projects demonstrating positive impacts on the climate and progress towards achieving the Sustainable Development Goals. Other standards include the [Verified Carbon Standard](#) developed by Verra. Although they have historically been recognised as trustworthy standards by the international community, a recent investigation into Verra suggests that more than 90% of the rainforest carbon credits sold are 'phantom credits' and do not represent genuine carbon reductions. (Reference: [Revealed: more than 90% of rainforest carbon offsets by biggest certifier are worthless, analysis shows | Carbon offsetting | The Guardian](#))

³⁵ UK Centre for Ecology & Hydrology, [UK Saltmarsh Code](#)

Codes should cover a range of habitats and land uses and for a range of different ecosystem services. As they are developed, coordination between different codes will be needed to reduce complexity in the system and avoid conflicting advice where several codes are applied to actions on the same parcel of land.

As more codes are developed, there are also lessons that can be drawn from existing codes such as the Woodland Carbon Code, which is recognised as a high integrity standard. Developed over 15 years, the code validates and verifies carbon sequestration from woodland creation projects across the UK and stands in contrast to a number of international woodland carbon markets. As such, the WCC offers insights into market development and maturation which should be factored into plans for environmental markets.

Voluntary markets require a clear, accountable and properly resourced process of methodology development. However, even a process as well-established and as highly regarded as the WCC continues to have material shortcomings which need to be addressed. For example, in the methodologies underpinning the WCC, modelling is based on projected timber yield, meaning that the overall complexity of carbon flows in the wider environment is out of scope. This means that carbon flows such as those in the soil are excluded. Yet in permanent woodland soil, carbon can be substantially more than the carbon held in the tree itself.

Whilst there are efficiencies to be gained by drawing upon learnings from existing schemes, this example from the WCC also demonstrates the importance of a flexible approach to code design. Codes and the principles that inform them should be open to revision and development over time as markets and scientific knowledge develops and reporting and verification inform the development of codes, markets and claims, and as we track our ongoing progress towards climate and nature goals.

Principles for standards

Although the specific requirements for nature-based projects delivering greenhouse gas removals will depend on the habitat type, a number of more general principles have been developed for how to deliver nature-based removals in a way that works for nature, people, and the climate. For example, the Nature-based Solutions Initiative outlines four key guidelines for nature-based solutions, including the condition that they cannot be used as a substitute to rapid fossil-fuel phase out.³⁶ As these environmental benefits have been sold on environmental markets, a series of conditions for offsetting good-practice have been created, such as the 'Oxford Principles for Net-Zero Aligned Carbon Offsetting'.³⁷

Building on the above guidelines and looking at best practice in existing carbon codes, we outline below a set of minimum requirements for codes across all environmental markets and services. In all cases, code developers should demonstrate through pilot projects that the procedures and methodologies set out in the code lead to good environmental outcomes before the code can become adopted more widely.

³⁶ [Nature Based Solutions guidelines](#)

³⁷ Allen, M. et al., 2020, [The Oxford Principles for Net Zero Aligned Carbon](#)

Additionality	Projects selling offsets must demonstrate that the activities they are undertaking are 'additional' and would not have happened without the credit finance being provided. This can include measures that are already required by policy. In England, for example, felling licences include a condition that replanting and maintaining trees must continue, and so this replanting would not qualify for carbon credits.
Avoidance of leakage effects	Sellers must prove that environmental destruction or an increase in greenhouse gas emissions is not taking place in another location as a result of their activities.
Establishment of a baseline	Projects should establish a baseline of emissions or biodiversity in the absence of a project in order to adjust the number of credits sold accordingly. Codes should include standard methodologies for how to establish a baseline in each project.
Measurable	Codes must be supported by good science and monitoring protocols in order to be able to measure change as a result of activities. This should recognise the different methodologies which might be needed e.g. accounting for different farming types when measuring soil carbon. This should include details about what information needs to be collected and reported to the verification body.
Encompass a range of environmental impacts	Credits sold for one ecosystem service should not lead to negative outcomes for other environmental indicators in the same location. For example, credits sold for carbon sequestration should not lead to negative outcomes for biodiversity.
Access to nature	Alongside encompassing a wide range of environmental benefits, projects should demonstrate that they are increasing access to nature for the local community where the project is being carried out.
Third-party verification	Credits must be verified by a credible third-party in order to be sold on the market and to provide confidence to buyers that projects are truly delivering positive environmental outcomes.

<p>Timing around when credits can be used</p>	<p>Credits can only be claimed against a company’s or individual’s activities when the environmental outcomes have been delivered. For example, in the existing Woodland Carbon Code and Peatland Code, Pending Issuance Units (PIU) are first sold, effectively giving a ‘promise to deliver’ a real unit of CO2 removals in future, based on predicted growth.³⁸</p>
<p>Transparency</p>	<p>Codes must require projects to list payments for environmental goods on a single publicly-available registry, as well as the values and methods for estimating the environmental gains made.</p>
<p>Avoidance of double-counting</p>	<p>There must be robust measures in place to avoid double counting and track issuance of credits, including when they are retired or sold. A well-designed registry system would allow this tracking of the transference and use of credits.</p>
<p>Permanence of ecosystem services</p>	<p>Ecosystem services generated through markets should be permanent and projects should set out how they intend to maintain environmental gains past the crediting period. Agreements such as conservation covenants would provide such a level of protection from harm in the long-term. Projects should undergo some level of risk assessment to gauge how likely reversals are and how this would be addressed.</p>
<p>Historic land use</p>	<p>Projects must be able to demonstrate previous land uses in order to prove that environmental damage has not been caused in order to then profit from practices that reverse these losses.</p>
<p>Projects are carried out in the right places</p>	<p>Projects must be carried out in the right places. For example, some of our most important habitats might naturally have relatively low soil carbon, but this does not mean that they do not provide other important ecosystem benefits, even if they have a low perceived carbon value. A full auditing of the ecosystem services offered by an area must be carried out before projects are allowed to begin.</p>

³⁸ Woodland Carbon Code, [Statements about Pending Issuance Units](#)

A landscape approach	In quantifying environmental outcomes for sale, projects must take into account sustainability of the wider landscape, if applicable. For example, a farm would not be allowed to sell credits if it isn't already net zero. Given that the land use sector is currently a net emitter, with concerns about residual emissions in 2050, taking this approach would help to avoid a scenario in 2050 where nature-based greenhouse gas removals are tied up in offsets for other sectors.
Buffer pools	Codes must require projects to incorporate a buffer pool of credits into their calculations to compensate for overestimation of benefits or potential future reversals which may be as a result of accidental changes to land practices, extreme weather events, or natural disasters.

2 | A registry system to track the sale of credits

A key principle of high integrity markets is transparency, with the ability to clearly trace the sale of credits and environmental services. Tracking the sale, re-sale, and retirement of credits will be essential to avoid double-counting of carbon removals and prevent the sale of credits for multiple different ecosystem services from one area of land.

At present, the publicly accessible UK Land Carbon Registry is used to track projects under the Woodland Carbon Code and Peatland Code, including the ownership and use of carbon credits.

As the carbon market expands to include projects certified by new carbon codes, and as nature markets become more developed with greater demand, a registry will need to track credits sold across these various markets.

Multiple marketplaces also pose an additional administrative burden of coordinating credits sold for several environmental services, especially where there may be overlapping benefits delivered in one area. Proving additionality in this context is difficult and the tracking of credits for different services poses a serious challenge and opportunity for opacity and fraudulent behaviour.

We recommend the creation of a single, public-access registry that is used to track credits, ensure transparency and manage issues such as the stacking or bundling of payments for different environmental services from a single project. We specifically recommend a single registry rather than individual ones for different ecosystem services to avoid the issue of double counting. Oversight of this central registry could be carried out by an Environmental Markets Authority (more below) or similar body.

3 | Environmental Markets Authority

Establishing a robust governance system is an essential step to achieve a suite of high integrity environmental markets in the UK. The Government announced that it was considering the idea of a Greenhouse Gas Removals Regulator in the 2021 net zero Strategy and Biomass Policy Document.

Whilst oversight of carbon removals and carbon markets in the UK will be an essential move to ensure integrity in the trading of carbon credits, we recommend that this regulatory function expands to cover all environmental markets in the UK **through the creation of an Environmental Markets Authority**. This could be a much-needed new body to support delivery of the UK's updated Green Finance Strategy and crucially, must be adequately supported with sufficient and long term funding to ensure delivery of its responsibilities.

Given the breadth of stakeholders and sectors that environmental markets and a Nature Recovery Obligation would be expected to cover, we recommend establishing a new body to deliver high-integrity markets in the UK rather than allocating additional responsibilities to existing governing bodies such as the Environment Agency, the OEP or sector regulators. We would expect these bodies to work closely together, with an EMA providing extra capacity to ensure that markets are used to deliver good for the environment rather than facilitating business-as-usual disguised as action towards nature and climate targets.

An Environmental Markets Authority would be responsible for:

- Setting or approving codes to guide high quality projects.
- Oversight of the verification process to ensure accurate measuring of environmental services sold on environmental markets. Over time it will be necessary to ensure that projects selling credits on environmental markets are continuing to deliver and that habitats remain in good condition under good management.

Rather than carrying out the verification process itself, a regulator's role could include ensuring that verification bodies are accredited to the relevant standards to be able to undertake the necessary analysis of a project's claims about the delivery of environmental services.

- Determining who is able to buy credits on an environmental market, e.g. to ensure that the mitigation hierarchy has been followed and that the main focus for businesses is to shift to more sustainable ways of operating rather than defaulting to offsetting.
- Monitoring claims made by businesses around net zero or nature's recovery to avoid misleading greenwashing. This could build on the Financial Conduct Authority's proposals to tackle greenwashing.
- A well-designed registry to track purchase of credits. A regulator could be responsible for such a system and oversee further processes such as the stacking of payments for different environmental

services. In order to maximise delivery of these national priorities, additionality rules should be introduced as a clear principle throughout the operation of environmental markets in the UK, which a well-designed registry can help to facilitate.

- Ability to deal with complaints or whistleblowing associated with particular schemes.
- Given the demand for land for food production, development, renewables, and nature's restoration, a regulator's role could include monitoring the supply pipeline to ensure that opportunities are not over-sold. In the case of offsetting, there will be a limited number of offsets available for sectors of the economy, and so a regulator could oversee allocation of credits to different sectors according to relative need and how damage can be avoided or minimised through other means.

5 Case studies of cost-effective nature-based projects

Lakenheath: lowland peat fen restoration

Thirty years ago, RSPB Lakenheath Fen was intensive arable land. Since then nearly 400 hectares of nature-rich reedbed, fen and wet grassland have been created. This is a critical site for UK nature, designed so that threatened species can recover inland - and to shelter them if their coastal homes come under threat.

Lakenheath sits in the East Anglian fens, which are rich in carbon and have great potential for nature and biodiversity restoration. There is scope for environmental markets to build on sites such as Lakenheath, using their existing expertise and economies of scale to deliver rapid environmental improvements and associated credits. But in a drained landscape, this requires land aggregation and capital works to restore whole hydrological units - long-term investments that will only be possible with reliable demand from functioning lowland peat codes and regional BNG markets.

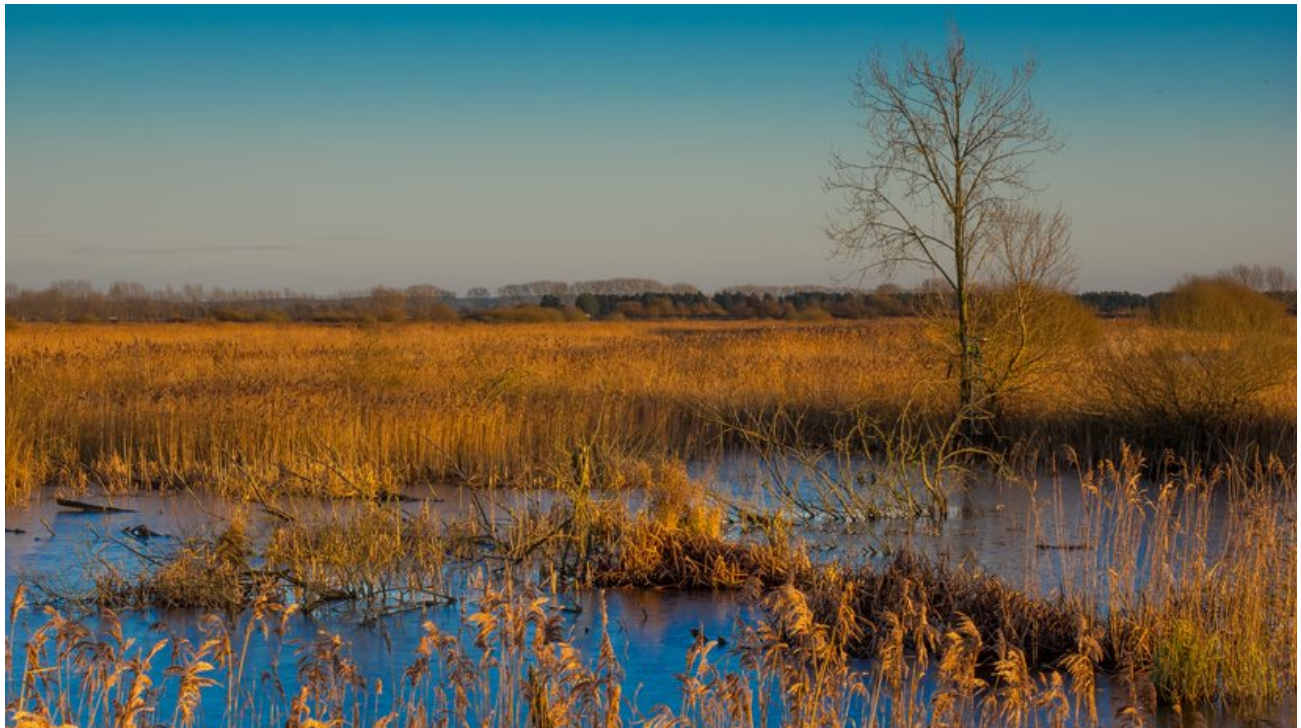


Image credit: Nigel Wallace

Medmerry: open coast realignment creating new saltmarsh and removing major flood risks

The Medmerry realignment on the Sussex coast defends 350 homes, one of the country's largest holiday parks, and the infrastructure and access route for the 10,000 people living in Selsey. The previous defences overtopped annually with an unacceptable and pressing risk to life.

The new defence is a 7km embankment buffered by 300ha of habitat - together these provide better than a 'once in a thousand years' protection against flooding. The habitat now hosts some of our rarest species - including the first black-winged stilts to breed in the UK for a generation - as well as significant carbon sequestration.

This project was completed ten years ago at a cost of £30 million, which was entirely funded by the Environment Agency. Despite the major biodiversity, flood and carbon benefits of projects like Medmerry, there is no equivalent site being brought forward with private investment.



Image credit: Environment Agency

Great Fen: Landscape scale change through partnership

Twenty years ago, a 100 year vision for the [Great Fen](#) was conceived to protect and connect two remaining fragments of ancient fen near Peterborough, creating a vast new, resilient, wetland landscape which would benefit both wildlife and people. The Wildlife Trust for Bedfordshire, Cambridgeshire and Northamptonshire (BCN) joined with four partners, Environment Agency, Huntingdonshire District Council, Middle Level Commissioners, and Natural England. Over time, the area of active restoration has grown and it is now one of the largest nature based interventions of its kind in Europe with some 1800 hectares now being managed for nature and for people to enjoy.

Through rewetting peatlands, greenhouse gas emissions are dropping and the remaining lowland fen is becoming more resilient to the effects of climate change such as extreme heat and drought. Great Fen provides wild places to get close to nature and support health and wellbeing, access to environmental and cultural heritage, training and upskilling opportunities and supporting rural livelihoods and the local economy. Newer initiatives are trialling wet farming (or paludiculture) for both food and other crops with a commercial benefit, whether for clothing or as building insulation. A number of academic partners including Cranfield University, UKCEH and the University of East London are providing research input to measure and evaluate the changes to the Great Fen over time.



Aerial view of Great Fen example restoration area. Image copyright: Terry Brignall

6

Conclusion

The Government's approach to environmental markets over the next few years will have a considerable impact on the state of the natural world and the UK's trajectory towards meeting national climate and nature commitments. If designed well, they could play an instrumental role in bending the curve of biodiversity loss and climate change mitigation and adaptation as well as increasing access to nature. If designed poorly, they could accelerate the climate and nature crises, allowing businesses to greenwash unchecked with devastating consequences for the health and wellbeing of communities and our economy.

We have seen from the early days of voluntary carbon markets the problems that can arise when environmental markets are left to their own devices without regulatory oversight. As the voluntary carbon market continues to expand and other environmental markets gain prominence, the UK Government must apply lessons from the VCM and create the right conditions for high-integrity environmental markets to become established across the country.

Whilst there are robust economic arguments for investing in the natural world, it is equally important to avoid over financialisation of nature. We need to invest in and protect nature for its own sake, not just as an offset to allow businesses to carry on with business as usual. Alongside environmental markets it will be essential to strengthen environmental regulations so that good practices are not just carried out when they are paid for through markets, but as a default.

The good news is that there are many projects already underway which provide useful examples of how investing in nature's recovery can create a whole host of benefits for biodiversity, the climate, local communities, and the economy. With the right incentives in place to scale up private sector investment and the right market structures and rules in place to ensure that projects are carried out in the right places and to a high standard, we could see more of these kinds of projects being rolled out across the country.

Given the scale of what needs to be achieved for the environment and the urgency with which this needs to happen, it is key that the Government sets out the appropriate measures as soon as possible and leads by example by investing public money in high quality environmental projects. If it is left too late, we risk all environmental markets following the same 'wild west' trajectory of the voluntary carbon market. Acting quickly and ambitiously will give the private sector the confidence to invest and unlock the potential benefits for nature that are on offer.

This means:

1. **Rapid work to drive demand, setting clear regulatory requirements for the private sector to contribute to nature's recovery—a Nature Recovery Obligation.**
2. **Intelligent market-making, with blended finance, spatial planning, and strong democratic input in decision-making.**
3. **Watertight standards, monitoring and accreditation—guaranteed by a new Environmental Markets Authority, and an integrated spatial registry.**

With these measures in place, private markets could play a crucial role in delivering nature's recovery, not just at least cost, but in a way that contributes to healthier communities and a more prosperous economy.

For more information, please contact Imogen Cripps, Policy Officer at Wildlife and Countryside Link (imogen@wcl.org.uk)