

Unlocking the potential of nature markets in the UK



About TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth. The industry contributes 12% of the UK's total economic output and employs over 2.4 million people – with two thirds of these jobs outside London across the country's regions and nations. It pays more corporation tax than any other sector and is the largest net exporting industry. The industry plays an important role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and manage risk.



Executive summary

This paper explores the potential of nature markets in the UK. It emphasises the role of nature markets in addressing biodiversity loss and climate change by recognising the value of nature's goods and services. Nature markets, including biodiversity credits and offsets, provide opportunities for private investment in conservation and sustainable land use, while integrating nature and climate finance for greater economic and environmental returns.

Several barriers hinder private sector participation in nature markets. Regulatory uncertainty, complex measurement and verification processes, and concerns over greenwashing reduce investor confidence. Legal uncertainties around credit ownership, inconsistent market signals, and a lack of expertise further slow market development.

To overcome these challenges and unlock the potential of nature markets in the UK, the government should:

- Provide policy and regulatory certainty for high-integrity compliance and voluntary nature markets by developing market guidelines, tax treatment clarity, investment standards and governance arrangements.
- Introduce policy measures to create nature-positive pathways, provide long-term policy certainty to investors and encourage greater market participation.
- Expand the use of mandatory nature markets by including high-impact sectors outside of property development.
- Collaborate with the financial and related professional services industry to develop blended finance models and financial incentives to de-risk nature-related investments and unlock investment.
- Implement capacity-building initiatives to upskill both public and private sectors in understanding and participating in nature markets.
- Consider further statutory support for biodiversity offsets and credits to provide greater legal certainty and protection for trades.
- Create a pipeline of investable nature restoration projects through the targeted use of public funding and applying lessons learnt from voluntary carbon markets.
- Integrate nature and climate efforts by embedding nature restoration into national net zero frameworks and transition plans and targeting of key sectors.

To capitalise on the opportunity of nature markets and mobilise greater investment, the government must work with the private sector to build capacity and achieve greater integration of nature and climate policies.

Introduction

The degradation of the UK's natural environment is slowing economic growth and could lead to an estimated 6–12% reduction in the UK economy in coming years.¹ This decline stems from the breakdown of nature's essential benefits, including tangible goods, the regulation of natural processes, supporting services, and cultural services.² Key drivers of nature's degradation are changes in land- and sea-use, over-exploitation of natural resources, climate change, pollution, and invasive alien species.³

Biodiversity loss and ecosystem collapse is identified by the World Economic Forum (WEF) as the third most severe global risk for the decade ahead.⁴ The urgency to protect and restore nature and prevent biodiversity loss is gaining increasing recognition, confirmed by the landmark Kunming-Montreal Global Biodiversity Framework (GBF) agreement in December 2022. However, as of 2024, there was an estimated financing gap of \$942bn annually needed to address global biodiversity loss.⁵ More resources are directed towards tackling climate change, even though nature and climate are deeply interconnected—healthy ecosystems regulate temperatures, store carbon, and buffer against extreme weather. Nature is often overlooked in climate solutions, with biodiversity loss remaining widespread. Professor Dasgupta outlines in 'The Economics of Biodiversity: the Dasgupta Review' that the value of nature is often overlooked due to its 'mobility, silence and invisibility'.⁶

One mechanism for mobilising finance to mitigate global biodiversity loss is the creation of biodiversity credits and nature markets, referred to in Target 19 of the GBF framework.⁷ Nature markets seek to better recognise the economic value of the goods and services nature provides. The government has signalled its ambition for the UK to become a pioneer in the development of high-integrity nature markets, as demonstrated through their launch of the 'Principles for Voluntary Carbon and Nature Markets Integrity' at COP29 in Baku, Azerbaijan.⁸ The UK, as a world-leading centre for green finance, and the financial and related professional services industry are well placed to play a major role in domestic and global nature markets.

1 Green Finance Institute (GFI), 'Assessing the Materiality of Nature-Related Financial Risks for the UK', (April 2024), available at: <https://hive.greenfinanceinstitute.com/gfihive/assessing-the-materiality-of-nature-related-financial-risks-for-the-uk/>

2 UN Environment Programme Finance Initiative, WWF, 'Navigating Nature-Related Regulations for Banks: Mapping the Policy Landscape' (December, 2024), available at: <https://www.unepfi.org/wordpress/wp-content/uploads/2024/12/UNEP-FI-WWF-Navigating-Nature-related-Regulations-for-Banks.pdf>

3 IPBES 'The global assessment report on biodiversity and ecosystem services' (2019), available at: https://files.ipbes.net/ipbes-web-prod-public-files/inline/files/ipbes_global_assessment_report_summary_for_policymakers.pdf

4 World Economic Forum (WEF), 'The Global Risks Report 2024' (2024), available at: https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2024.pdf

5 BloombergNEF (BNEF), 'Gap Between Current Biodiversity Finance and Future Funding Needs Widens to \$942 Billion', (October 2024), available at: https://about.bnef.com/blog/gap-between-current-biodiversity-finance-and-future-funding-needs-widens-to-942-billion-according-to-bloombergnef/?utm_source=chatgpt.com

6 GOV.UK, 'The Economics of Biodiversity: The Dasgupta Review', (February 2021), available at: https://assets.publishing.service.gov.uk/media/602e92b2e90e07660f807b47/The_Economics_of_Biodiversity_The_Dasgupta_Review_Full_Report.pdf

7 Convention on Biological Diversity (CBD), 'Kunming-Montreal Global Biodiversity Framework', (December 2022), available at: <https://www.cbd.int/doc/decisions/cop-15/cop-15-dec-04-en.pdf>

8 GOV.UK, 'Voluntary carbon and nature market integrity: UK government principles', (November 2024), available at: <https://www.gov.uk/government/publications/voluntary-carbon-and-nature-market-integrity-uk-government-principles>

This paper outlines the current landscape of nature markets in the UK, looking at the policy and regulatory environment, barriers to private sector participation in nature markets, and key policy recommendations for government and regulators to support the scaling of nature markets in the UK.

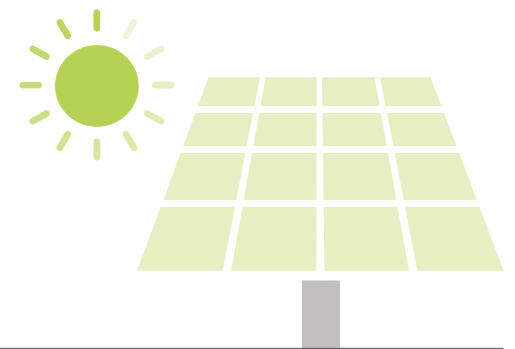
What are nature markets, credits and offsets?

There are various nature markets in the UK, including those that trade in soft commodities such as agricultural and natural resources, nature assets including land and freshwater rights, and those trading in nature credit and offset markets, which this paper focuses on.⁹

Credits

A nature market is an economic system where the value of natural resources and ecosystems are recognised, monetised and traded. These resources are often referred to as natural capital or ecosystem services (see Annex 1). They signify the benefits delivered to humans by nature, for example through carbon sequestration, water quality improvement and flood mitigation. These ecosystem services are packaged as credits or units, such as carbon and biodiversity credits. The trade of credits enables private investment in nature and is designed to promote the conservation and sustainable use of natural resources while generating economic benefits.

The transition to a nature-positive economy, for example through trading credits, has been recognised as one of the most significant business opportunities of the 21st century, both in the UK and internationally.¹⁰



9 Taskforce on Nature Markets, 'Biodiversity Credit Markets, The role of law, regulation and policy', (April 2023), available at: <https://www.naturefinance.net/resources-tools/biodiversity-credit-markets/>

10 WWF-UK, 'National Nature-Positive Pathways to Guide Policy and Private Sector Action', (February 2025), available at: <https://www.wwf.org.uk/our-reports/nature-positive-pathways>

Offsets

Biodiversity offsets are tradeable units that represent positive biodiversity outcomes that are used to offset an equivalent negative impact on biodiversity elsewhere.¹¹ Biodiversity offsets are used for compliance reasons and should comply with the AR3T framework (Avoid, Reduce, Restore & Regenerate, Transform).¹² Offsets and credits are both certified units of biodiversity gain (certificates) and can be provided by the same supplier. Their key difference arises in their intended use.

Biodiversity damage cannot be offset in a like-for-like manner, unlike with carbon offsets. This is because each ecosystem is unique and provides distinct benefits. As such, this has resulted in concerns that markets may favour fast-developing, low-cost habitats such as grasslands and scrubs, potentially resulting in lower biodiversity gains.

Nature credit and offset market participants aim to meet compliance or conservation goals. Units are awarded based on standards that specify how to quantify the ecosystem service (for example tonnes of carbon absorbed) and ensure quality assurance. These markets can be voluntary (e.g. the Peatland or Woodland Carbon Codes) and/or compliance-driven (e.g. Biodiversity Net Gain, an offset scheme, and Nutrient Credit Markets).

There are other ways to invest in nature, for example through payments for ecosystem services and directly in the supply chain. Although supply chain investment can create credits, it also creates value in the end product. This increases resilience and mitigates adaptation and transition risks.

Nature markets policy landscape in the UK

Nature markets in the UK are still relatively nascent when compared to more mature 'asset classes' such as traditional infrastructure and renewable energy. However, demand for nature markets is growing, driven by increasing pressure on businesses, from both supervisory authorities and investors, to counter their environmental impact. This has resulted from commitments such as the GBF in 2022, where the UK, alongside all other parties, committed to 23 global targets for 2030. The UK published its National Biodiversity Strategy and Action Plan (NBSAP) on 26 February and is due to publish its updated Environmental Improvement Plan (EIP) later this year.¹³ The UK's NBSAP – 'Blueprint for Halting and Reversing Biodiversity Loss' – commits the UK to achieving all 23 of the GBF targets at home by 2030 and details key strategies, policies and legislation driving implementation across the UK and the approach to monitoring.

11 Taskforce on Nature Markets, 'Biodiversity Credit Markets, The role of law, regulation and policy', (April 2023), available at: <https://www.naturefinance.net/resources-tools/biodiversity-credit-markets/>

12 The biodiversity consultancy 'Science-based targets for nature', (2025), available at: <https://www.thebiodiversityconsultancy.com/our-work/our-expertise/strategy/science-based-targets-for-nature>

13 Department of Agriculture, Environment and Rural Affairs (DAERA), Scottish Government, Welsh Government and UK Government, 'Blueprint for Halting and Reversing Biodiversity Loss: the UK's National Biodiversity Strategy and Action Plan for 2030', (February, 2025), available at: https://uk.chm-cbd.net/sites/gb/files/2025-02/UK_National_Biodiversity_Strategy_and_Action_Plan.pdf

Alongside this, businesses are increasingly understanding their impacts and dependencies on biodiversity and natural resources, supported by initiatives such as the Taskforce on Nature-related Financial Disclosures (TNFD) and the Science Based Targets Network (SBTN).

The Green Finance Institute (GFI) leads the Group of Financial Institutions for Nature (G-FIN). This group is open to UK financial institutions involved in nature finance and is focused on increasing private sector finance and providing feedback and input on key government initiatives, including the development of domestic nature markets.¹⁴

Nature markets review 2023 and the British Standards Institute

The government aims to grow private investment in nature to at least £500m per annum by 2027 in England, rising to over £1bn by 2030.¹⁵ Central to this plan is the development of high-integrity nature markets. High integrity in these markets is crucial to ensure they deliver genuine environmental benefits, foster trust, prevent fraud, support global climate and biodiversity goals, and promote equity and economic stability. The Nature Markets Framework (NMF) outlines the core principles to guide the development of high-integrity and efficient nature markets across different sectors, providing clearer rules for farmers and other land and coastal managers to access markets as an additional income stream. The rules include stacking and bundling nature and carbon credits (see Annex 1 for definitions); additionality tests; and combining public and private finance.¹⁶

To support market integrity, the NMF core principles include additionality (new environmental gains); no double counting; robust quantification; delivery of lasting benefits; transparency; and validation and verification (see Annex 1 for definitions).¹⁷ Credits must meet these criteria to be included in the markets.

The government has partnered with the British Standards Institution (BSI) to develop a three-year Nature Investment Standards (NIS) programme, running until March 2026. The NIS is developing a suite of interconnected standards to provide guidelines on governance, measurement, reporting and verification (MRV).¹⁸ The standards aim to place the UK at the forefront of international efforts to create high-integrity nature markets. They build on international best practices from initiatives such as:

- the Voluntary Carbon Markets Integrity (VCMI) Initiative
- the Integrity Council for the Voluntary Carbon Market (ICVCM)
- the International Advisory Panel on Biodiversity Credits (IAPB) Framework for high-integrity biodiversity credit markets.¹⁹

14 Green Finance Institute, 'UK Group of Financial Institutions for Nature (G-FIN)', (July 2023), available at: <https://hive.greenfinanceinstitute.com/gfihive/uk-finance-institutions-for-nature-group/>

15 GOV.UK, 'Nature markets: A framework for scaling up private investment in nature recovery and sustainable farming', (March 2023), available at: <https://www.gov.uk/government/publications/nature-markets>

16 Ibid

17 Knight Frank, 'Understanding the Nature Markets Framework', (April 2023), available at: <https://www.knightfrank.com/research/article/2023-04-04-understanding-the-nature-markets-framework>

18 British Standards Institution (BSI), 'Nature Investment Standards (NIS) programme: An update following BSI's initial discovery stage', (February 2025), available at: https://www.bsigroup.com/siteassets/pdf/en/insights-and-media/insights/brochures/nature_investment_standards_report_26_july_2023_web_version.pdf

19 IAPB, 'FRAMEWORK', (October 2024), available at: <https://www.iapbiocredits.org/framework>

The government will issue a public consultation in 2025 to seek views on measures to improve the integrity and use of voluntary carbon and nature markets as mechanisms to support the UK's domestic and global climate and nature goals.²⁰

Taskforce on Nature-related Financial Disclosures (TNFD)

The TNFD plays an important role in fostering the growth of nature markets. It does this by providing a structured approach for organisations to understand, measure, disclose, and manage their nature-related dependencies, impacts, risks and opportunities. Through the standardised approach, the TNFD framework enables greater understanding of dependencies on nature and investment required to mitigate the risk of this dependence. It also enables greater transparency and clarity on nature's potential investment returns, which is essential for building trust and market confidence and attracting investment in nature markets. The TNFD framework has worked to closely align its framework with the International Sustainability Standards Board's (ISSB) Standards, fostering greater integration of nature disclosures into global financial reporting systems. This will support and enable the international scale-up of nature markets.²¹ As part of its 2024-2026 work plan, the ISSB will research risks and opportunities associated with biodiversity, ecosystems and ecosystem services (BEES). This will enable the ISSB to determine whether to set disclosure standards on these topics.²²

Key nature and biodiversity credit markets in the UK

Biodiversity is highly context specific and, unlike carbon, is not fungible. This makes standardised biodiversity credits and offsets unsuitable (though standardisation could support market development).²³ There are currently four main voluntary nature markets in the UK:

Voluntary nature-based carbon markets

The UK Woodland Carbon Code and the UK Peatland Code: These codes provide independent certification for carbon savings from peatland restoration and woodland creation and restoration projects. The government identifies these to be the most established voluntary nature markets in the UK. However, some parts of the industry see these codes as primarily carbon credits with environmental co-benefits. There were over 2,000 projects registered with the Woodland Carbon Code by December 2023 and over 240 with the Peatland Code by February 2024. However, the credits for these two codes are still very small compared to the global volume of carbon credits.

Other private mechanisms: There are several other private mechanisms in development to sell voluntary nature-based carbon credits. The BSI's NIS will drive consistency and greater integrity across these schemes.

- 20 DESNZ, 'Raising integrity in the voluntary carbon and nature market', (November 2024), available at: <https://www.gov.uk/government/publications/raising-integrity-in-the-voluntary-carbon-and-nature-market/raising-integrity-in-the-voluntary-carbon-and-nature-market-notice>
- 21 Taskforce on Nature-related Financial Disclosures (TNFD), 'Disclosure recommendations: Providing companies and financial institutions with a risk management and disclosure framework', (February 2025), available at: <https://tnfd.global/recommendations/#disclosures>
- 22 International Sustainability Standards Board (ISSB), 'Biodiversity, Ecosystems and Ecosystem Services', (November 2024), available at: <https://www.ifrs.org/projects/work-plan/biodiversity-ecosystems-and-ecosystem-services>
- 23 IAPB, 'Framework for high integrity biodiversity credit markets', (October 2024), available at: <https://www.iapbiocredits.org/framework>

Many of these private mechanisms are supported by government funding. For example, the Swinton Estate Multifunctional Forestry model aims to integrate carbon sequestration, biodiversity credits, recreation, and water quality into its land management. This aims to generate diverse revenue streams while balancing commercial and environmental benefits.²⁴

Compliance nature markets (England only):

Biodiversity Net Gain (BNG): The Environment Act 2021 mandates developers in England to compensate for biodiversity impacts of new developments that they cannot improve on-site, by purchasing biodiversity units. New developments under the Town and Country Planning Act – which includes industrial projects, infrastructure projects, built environment and mining – must deliver a minimum of 10% uplift in biodiversity, with housebuilders predominantly relying on nature markets to meet this requirement. Sites must register with the Natural England BNG register to minimise the risk of double counting, and to map BNG sites. If developers cannot achieve on-site or off-site BNG, they must buy statutory biodiversity credits from the government. Statutory credits should be used as a last resort. BNG became mandatory for major developments in February 2024. The government has estimated its worth to be £135m to £274m annually.²⁵ Units under this scheme are now also being sold on the voluntary market.²⁶

Nutrient credit markets: These markets have emerged to meet new requirements for developers to mitigate the impact of new housing on water quality in sensitive catchment areas. The government is investing up to £140m in nutrient mitigation through Natural England's Nutrient Mitigation Scheme (NMS) and the Local Nutrient Mitigation Fund (LNMF).²⁷



24 Swinton Estate, 'Swinton Estate awarded government funding for innovative woodland enterprise', available at: <https://www.swintonestate.com/news/innovative-woodland-enterprise/>

25 DESNZ, 'Nature Markets Framework progress update', (March 2024), available at: <https://www.gov.uk/government/publications/nature-markets-framework-progress-update-march-2024/nature-markets-framework-progress-update-march-2024#supporting-farmers-land-managers-and-landowners-to-access-nature-markets>

26 Carbon Pulse 'Interview: environment bank markets portfolio as voluntary biodiversity credits', (July 2024), available at: <https://carbon-pulse.com/302535/>

27 DESNZ, 'Nature Markets Framework progress update', (March 2024), available at: <https://www.gov.uk/government/publications/nature-markets-framework-progress-update-march-2024/nature-markets-framework-progress-update-march-2024#supporting-farmers-land-managers-and-landowners-to-access-nature-markets>

Nature markets landscape globally

Although the UK has made credible progress in establishing compliance-driven nature credit markets, some other jurisdictions have more advanced compliance and voluntary market designs and have incorporated broader elements of nature within their markets. GFI Hives Revenues for Nature (R4N) Database offers some strong international examples of financing models for nature.²⁸ The following are international examples that the UK could explore, to guide domestic policy:

- The Habitat Bank framework in Columbia is designed to achieve no net loss of biodiversity. It facilitates the use of biodiversity credits for mandatory offsetting in large-scale projects including mining, fossil fuels, the power sector and infrastructure. Administered by the National Authority of Environmental Licenses, the Habitat Bank addresses high transaction costs and uncoordinated offset purchases.²⁹ The UN BIOFIN estimates this initiative to be able to mobilise a net present value of \$4.9bn for the country.³⁰
- The US has a wide range of nature markets including nature-based soil carbon markets, mitigation banking, and water credit markets. Soil carbon markets incentivise farmers to adopt practices that sequester carbon whilst improving soil health and microorganism biodiversity. These markets are relatively nascent and the price of soil carbon must rise significantly for market growth. The 2022 Growing Climate Solutions Act enables the U.S. Department of Agriculture (USDA) to oversee these markets, offering certification for third-party verifiers and technical assistance for carbon credit generation and sales. The USDA is planning to invest £2.8bn in projects to produce climate-smart commodities.³¹
- The Australian Nature Repair Act 2023 establishes a voluntary national framework to boost investment in Nature-based Solutions (NbS). Landholders, First Nations people, conservation groups and farmers can register projects with approved methods to enhance biodiversity. Successful projects are awarded certificates that can be sold to private buyers. However, their use for environmental offsetting is prohibited. The Clean Energy Regulator (CER) will manage the Nature Repair Market, assessing applications, issuing certificates and maintaining a public register. This framework promotes a credible market that fosters inclusive participation and biodiversity restoration while safeguarding integrity. The market is set to start in 2025.³²

28 Revenues for Nature (R4N) Database, 'How to Use the R4N Database', (February 2025), available at: <https://experience.arcgis.com/experience/1e48ddcdf9a742d9974531083787b2cb/>

29 IAPB, 'Framework for high integrity biodiversity credit markets', (October 2024), available at: <https://www.iapbiocredits.org>

30 City of London Corporation, PwC, 'A global centre for nature finance', (JUNE 2023), available at: https://www.theglobalcity.uk/PositiveWebsite/media/Researchreports/Global_centre_nature_finance.pdf

31 Ibid

32 Australian Government, 'Nature Repair Market Legislation', (December 2023), available at: <https://consult.dceew.gov.au/nature-repair-market>

Barriers to participation in UK nature markets

Consultation across the industry and with key stakeholders identified the following barriers to private sector participation in, and the growth of, nature markets in the UK.

- **Lack of policy and regulatory clarity:** The regulatory framework for nature markets is evolving, but fragmented. This creates uncertainty for the supply and demand of credits. For example, the finance industry has welcomed BNG as leading the way in compliance markets. However, uncertainties in key areas of the BNG scheme design - such as tax treatment and inheritance tax implications for non-agricultural land - are causing hesitancy among landowners.³³ This has resulted in landowners holding back on supply until clarity can be provided, given the long-term financial implications. There are also concerns that landowners may keep the land in poor condition to set a low baseline for when they start making improvements.
- **Measurement and verification issues:** Nature and ecosystems are complex, systems-based and inherently local. Markets promoting their restoration and conservation are therefore harder to standardise than carbon markets, with many different metrics and methodologies being necessary. This complicates credit integrity and pricing. Competing methodologies for biodiversity credits and natural capital accounting, alongside weak market governance, has left investors without sufficient certainty to price and manage long-term risk. Nature markets would benefit from third-party verification similar to that used in voluntary carbon markets (VCMs). Examples in the VCM includes Verra's Verified Carbon Standard (VCS), the American Carbon Registry (ACR), and the ICVCM, which evaluates the integrity of carbon crediting programs.
- **Greenwashing concerns:** Concerns over greenwashing are causing hesitancy to invest in nature markets. This risk stems from evolving regulations, unclear nature market standards and increased levels of stakeholder scrutiny. There is a risk of reputational damage and loss of investor trust if a business promotes nature credits without robust verification, transparency and measurable impact. Some investors are also uncertain about voluntary markets due to concerns about being perceived as endorsing a 'license to destroy' mentality. This perspective suggests that companies continue harmful activities by purchasing biodiversity credits to offset damage, rather than avoiding or reducing environmental harm. The government and regulatory bodies should provide further clarity on the policies and regulations governing nature markets. This will help mitigate the risk of greenwashing by building trust in the integrity of the credits.

33 Barclays, 'Creating New Nature Markets that Work for Farmers', (October 2024), available at: <https://home.barclays/insights/2024/10/the-opportunity-of-biodiversity-net-gain/>

- **Uncertain legal treatment:** There is currently no UK case law to determine whether credits and offsets are property. These instruments also lack legislative support like that of the UK and EU Emission Trading Schemes or financial instruments such as shares. As a result, dealing with voluntary credits and offsets involves legal uncertainties about ownership, registry definitiveness, and potential claims by previous owners. These issues create further uncertainties regarding insolvency treatment and applicable dispute laws.
- **Limited demand signals:** The demand for biodiversity credits and nature-based assets remains uncertain due to inconsistent market signals, limited return data, evolving regulations and low pricing and/or a lack of understanding on how to price non-carbon credits. Without a clear track record that demonstrates reliable returns and integrity of the markets, investors are finding it challenging to assess risk and value and are therefore hesitant to commit capital. There are also concerns about converting farmland into nature restoration projects and reducing the availability of land for agriculture. The government could support the use of agricultural land for the generation of biodiversity credits by providing clear legal and regulatory guidelines. This could be addressed through the planned Land Use Framework, the Farming Roadmap and planned revisions to the EIP.
- **Skills and resourcing gap:** Nature markets are a nascent area for the financial and public sectors. As such, limited capacity and expertise are leading to hesitancy in engaging with these markets. For example, fewer than 10% of local authorities report having sufficient expertise and resources to administer and enforce BNG, revealing an important disconnect between local approaches and DEFRA's nationwide strategy.³⁴ Furthermore, a report by Deloitte signals that banks often lack the necessary skills and resources to address biodiversity and natural capital issues. To support market development, there is a need for more professionals with cross-disciplinary expertise in assessing nature risks and opportunities across the banking value chain.³⁵



³⁴ Ibid

³⁵ Deloitte Center for Financial Services, 'Financial Services For You: How banks can help achieve nature-positive outcomes and preserve biodiversity', (February 2024), available at: <https://www2.deloitte.com/us/en/insights/industry/financial-services/nature-positive-outcomes-biodiversity.html>

Policy recommendations

Our policy recommendations outline strategic steps that the government should take to support the scaling of nature markets in the UK. To unlock the potential of nature markets in the UK, the government should:

- 1 **Provide policy and regulatory certainty for high-integrity compliance and voluntary nature markets:** The government and regulators must continue to develop market guidelines, market access rules, clarity on tax treatment, investment standards (through the BSI) and governance arrangements for these markets. For example, the government should provide clarity on where carbon markets and nature markets can be stacked together. The uncertainty caused by lack of clarity and guidance on credit stacking in the UK at present is resulting in a range of misaligned approaches and missed opportunities. The government should also provide clarity on the implementation of the TNFD (and encourage businesses to start nature-related risk reporting in line with the TNFD), and invest in MRV solutions.
- 2 **Introduce policy measures to create nature-positive pathways:** The government should publish its updated EIP and provide further detail on the policy measures and tools to deliver the recently published NBSAP for 2030. NBSAPs could serve as an investment roadmap for private capital, similar to how Nationally Determined Contributions (NDCs) can guide climate investment. Providing long-term policy certainty and building nature-positive pathways to complement the NMF and BSI standards, would build investor confidence, reduce market fragmentation, and encourage greater participation and demand. This would, in turn, support the scaling of investment and the growth of robust nature markets.
- 3 **Expand the use of mandatory nature markets:** For example, by broadening the scope of BNG to include additional high-impact sectors outside of property development such as mining, hydrocarbon, infrastructure, electrical and maritime.
- 4 **Concessional capital and financial incentives:** The government should work with the financial and related professional services industry to develop blended finance models to de-risk nature-related investments and crowd-in private capital. The government could do this through mechanisms including the National Wealth Fund (NWF) and the new Nature Restoration Fund, to make high-impact and large-scale interventions. The government could also introduce tax incentives for disclosing nature-related risks, setting nature targets and improving biodiversity outcomes. For example, the government could use tax credits or subsidies to incentivise uplifts in biodiversity above 10%, or contributions to improvements in water quality. These measures would lower investment barriers, increase capital flow into nature markets, and create a more stable and attractive environment for private sector participation.

- 5 Capacity building:** The government and industry should work together to upskill the public and private sectors to understand nature markets, identify market opportunities, and assess credit quality using available tools and data. This can be achieved through targeted training programmes, knowledge-sharing initiatives, and the development of standardised frameworks and data platforms. These efforts would improve market understanding and decision-making. This is key to growing the project pipeline and unlocking investment at scale.
- 6 Consider statutory intervention:** The government recently introduced the Property (Digital Assets etc) Bill into Parliament. If passed, the Bill will establish a third category of personal property. This could include assets such as credits and offsets. The government could consider further statutory support for nature offsets and credits. For instance, the government could regulate UK credit and offset registries to ensure legal certainty and protection for trades made on these registries. This legislation could align with existing laws on mandatory emissions trading schemes or uncertificated securities. Legal underpinning could also ensure that transfers of credits and offsets are final, preventing transactions from being reversed.
- 7 Create a pipeline of investable nature restoration projects through voluntary markets:** The government should build on the NMF to create high-integrity voluntary nature markets. The government should continue to use targeted public funding to crowd in private investment and apply the lessons learned from the evolution of voluntary carbon markets.
- 8 Nature and climate integration:** Climate and nature are deeply interconnected, with the degradation of ecosystems driving greenhouse gas emissions and undermining resilience to climate impacts. The government and the private sector should embed nature restoration into national net zero frameworks and transition plans. This could include integrating nature-based carbon credits into the UK Emissions Trading Scheme and integrating TNFD reporting with the TCFD. It could also include targeting priority emissions-intensive sectors where climate and nature meet naturally, for example the agriculture, manufacturing and construction sectors. This would maximise the environmental and economic benefits of these investments.

Conclusion

The government has identified climate change and biodiversity loss to be the greatest long term global challenge that we face³⁶, and has established renewed leadership to tackle this crisis and seize the opportunities that the transition to a low-carbon and nature-positive future presents. The development of high-integrity nature markets is a key vehicle to support the government in addressing this challenge and unlocking investment into the conservation and restoration of nature. By further developing market guidelines, expanding mandatory nature markets and incentivising private investment, the government can enhance investor confidence, mobilise private capital into nature markets and generate substantial environmental and economic benefits. To capitalise on this opportunity, the government must create and maintain policy and regulatory certainty, work with the private sector to build capacity, and deliver greater integration of nature and climate policies.



³⁶ 'Labour Party Manifesto 2024', available at: <https://labour.org.uk/change/make-britain-a-clean-energy-superpower/>

Annex 1: Glossary

TERM	DEFINITION
Additionality	Credits must be based on verified new environmental improvements. Different tests can assess additionality, for example by considering existing legal obligations and whether environmental improvements would have occurred without market finance.
Biodiversity credit	A tradeable unit that represents a positive biodiversity outcome achieved by a NbS project registered under a biodiversity credit scheme, and which is not used to offset an equivalent negative impact on biodiversity elsewhere.
Biodiversity offset	A tradeable unit that represents a positive biodiversity outcome achieved by NbS projects. They are used to offset an equivalent negative impact on biodiversity elsewhere.
Bundling	Selling a single credit with multiple environmental benefits.
Double Counting	Occurs when the same ecosystem service credits are sold or claimed twice. Meeting multiple regulatory obligations from one intervention is not considered double counting.
Ecosystem Services	The benefits delivered to humans by nature, for example through carbon sequestration, crop pollination, water quality improvement, and flood mitigation.
Nature-based Solution	Actions to protect, sustainably manage and restore natural and modified ecosystems to provide both human well-being and biodiversity benefits.
Natural Capital	The stocks of nature and natural resources on land, sometimes called ecosystems.
Nature market	A system for private investment in nature through the sale of units/credits for ecosystem services, provided by nature restoration projects or enhancements to land or coastal management.
Stacking	Selling separate credits from different nature markets with various measurable outputs for the same activity on the same land. For example, woodland creation generates both carbon and biodiversity benefits, which could both be counted and stacked.

TheCityUK Research:

For content enquiries, further information about our work or to comment on this report, please contact:

Jessica Skedd

Green and Sustainable Finance Policy Manager, TheCityUK

Jessica.skedd@thecityuk.com

+44 (0)20 3696 0100

TheCityUK

TheCityUK, Fitzwilliam House, 10 St Mary Axe, London, EC3A 8BF

www.thecityuk.com

MEMBERSHIP

To find out more about TheCityUK and the benefits of membership visit www.thecityuk.com or email us at membership@thecityuk.com

This report is based upon material in TheCityUK's possession or supplied to us from reputable sources, which we believe to be reliable. Whilst every effort has been made to ensure its accuracy, we cannot offer any guarantee that factual errors may not have occurred. Neither TheCityUK nor any officer or employee thereof accepts any liability or responsibility for any direct or indirect damage, consequential or other loss suffered by reason of inaccuracy or incorrectness. This publication is provided to you for information purposes and is not intended as an offer or solicitation for the purchase or sale of any financial instrument, or as the provision of financial advice. Copyright protection exists in this publication and it may not be produced or published in any other format by any person, for any purpose without the prior permission of the original data owner/publisher and/ or TheCityUK.