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By email: Nature.Investment.CfE@defra.gov.uk
7 August 2025

Dear DEFRA,

BVCA Response on DEFRA's Expanding the Role of the Private Sector in Nature Recovery: Call for Evidence

The BVCA welcomes DEFRA's engagement on expanding the role of the private sector in nature recovery. We support the Government's commitment to exploring how it can incentivise businesses to invest in nature. We agree that unlocking Private Capital is essential to delivering nature-based solutions at scale and the BVCA is committed to supporting UK's Private Capital industry in playing a leading role. To help facilitate this, an appropriate regulatory landscape and enabling environment will be crucial to create investor confidence, catalyse capital flows and stimulate sustainable economic growth. We look forward to working with Government to develop innovative policy strategies that align financial returns with nature-based outcomes and maintain the UK's position as a global leader in sustainable finance.

Private Capital and its role in the UK economy and green finance

With a membership of over 600 firms, the BVCA represents UK-based Private Capital, as well as the wider ecosystem of professional advisers and investors. Private Capital consists of Private Equity and Venture Capital, which makes long-term investments to grow British businesses and build a better economy, and Private credit and venture debt which provide active and engaged debt finance to businesses. The Private Capital industry backs 13,000 UK businesses, nine in 10 of which are small or medium-sized enterprises. Businesses backed by the industry employ 2.5 million people across the UK and contribute 7% to GDP. In 2024, £29.4bn was invested by Private Capital into UK businesses in sectors across the UK economy, ranging from consumer products to emerging technology. This increased investment has fuelled the growth of businesses across the UK, with six in ten (58%) of the businesses backed in 2024, located outside of the capital. These investments are long term, with an average investment period of six years, in contrast to less than a year in public markets.

According to the Office for National Statistics, "the total asset value of ecosystem services in the UK in 2022 was around £1.8 trillion—equivalent to 72% GDP in that year. In the same year the annual value of UK ecosystem services was £87 billion—equivalent to 3.5% of GDP." However, the nature market remains underdeveloped and underrepresented in mainstream investment strategies, signalling a major growth opportunity, which Private Capital can leverage, subject to an appropriate enabling environment. As of the end of 2024, UK-based private funds had £190bn of unallocated capital (known as "dry powder"). Unlocking this capital relies on the availability of suitable investment opportunities and, while nature-based markets have not historically been comprehensively explored by private funds, they present a compelling avenue for future growth.

Role of Private Capital evolving approach to nature recovery

Private Capital is a global industry, with our members actively investing and diversifying their portfolios worldwide. The industry stands at the unique intersection of deploying capital, investing for the long term and helping to shape the strategy of investee companies through its active ownership model. This model could enable Private Capital to drive systemic change by investing in nature-based projects, help firms respond to biodiversity loss by either understanding and mitigating risks or by seizing emerging opportunities and investing into nature solutions.

As majority, or significant minority owners, principally of unlisted, fast-growing SMEs, Private Capital funds are well-placed to drive nature-positivity in areas of domestic and global economies that the public markets generally cannot reach.

Over half of global GDP is estimated to be highly or moderately dependent on nature and shocks to the global economy related to biodiversity loss and ecosystem damage could cost upwards of $5 trillion.[1] The nature positive economy needs $2.7 trillion of capital investment every year until 2030; however, private sector investment is estimated to be only around $35 billion annually, itself a tiny fraction of global private markets, which exceed $10 trillion in value.[2] There is therefore a significant opportunity for the private sector to contribute towards nature positive goals in the UK and internationally and in so doing contribute to economic growth, job creation and a more resilient economy. While global awareness of nature-related assessments and investment opportunities is still in the early stages, an increasing number of Private Capital firms are starting to assess and respond to nature opportunities and dependencies through frameworks like the TNFD and explore and develop nature-based investment strategies.

According to a BVCA survey[3], 15% of members are accounting for biodiversity considerations as part of their investment process. However, budget constraints and the lack of consensus on how to measure nature recovery impacts continue to hinder scalable investment and these barriers have left significant capital untapped, even as the urgency for sustainable finance grows. Without clear metrics and guidance, especially for SMEs and smaller investment firms, engagement in nature-positive strategies remains limited. The transition to a nature-positive economy presents compelling opportunities which Private Capital firms are increasingly keen to understand. Valuing nature appropriately can incentivise investment, while demonstrating added value, support planning permissions and unlock new revenue streams. A growing belief in the scale of the nature investment market is also driving momentum. With effective rollout of TNFD-aligned disclosures and targeted support, Private Capital can play a transformative role in both mitigating long-term risks and realising new sources of resilience and value.

Key challenges and recommendations to attracting Private Capital investment into nature recovery

<u>Growing the nature market</u>

- There is a need to create strong demand signals by reframing investing in nature as a national priority, rather than a cost. Framing it in terms of economic growth, job creation and food security will help reposition it enabling Private Capital to invest in nature-positive projects that generate both economic returns and nature positivity.
- Recognition that nature is not a homogeneous asset class. This misunderstanding may result in misaligned capital expectations and ineffective policy targeting.
- The market is not yet ready to absorb large capital flows and smaller ticket size/early-stage projects risk exclusion due to scale requirements. The Government should consider complementing any pooling strategies with dedicated funding streams or incentives specifically designed to support small-scale nature restoration projects. This will help balance large-scale efficiency with grassroots engagement and biodiversity outcomes.

<u>Creating a stable and clear policy and regulatory environment to support nature investment</u>

- Governments must establish clear, stable and long-term policy and regulatory frameworks that expand market capacity, provide financial incentives, and offer certainty to effectively integrate nature into financial and development planning. A strong example is the UK Government's Environment Act 2021, which led to the creation of the Biodiversity Net Gain (BNG) nature market, demonstrating how policy can unlock financial value and drive nature-positive outcomes.

[1] https://www.ox.ac.uk/news/2023-12-13-5-trillion-nature-related-global-economic-risks-will-amplify-climate-change-oxford
[2] https://www.weforum.org/stories/2024/09/nature-capital-investment-nature/
[3] https://www.bvca.co.uk/static/7affb5d2-d36a-4cef-a60dfba591c38f2d/Creating-Sustainable-Growth-Factsheet-2025.pdf

- Embed nature-related risks and opportunities into regulatory frameworks, encouraging SMEs and firms to engage with disclosure initiatives such as the Taskforce on Nature-related Financial Disclosures (TNFD). This must, however, be done proportionately and at minimal cost to reporters.
- Private Capital investment is inherently long term, yet the timelines required for nature restoration projects investment often extend even further. This means that many private investors are unlikely to remain involved throughout the entire lifecycle, resulting in secondary investment becoming essential to ensure continuity and success. Government support through grants or co-investment can help stabilise valuations and foster liquid secondary markets.
- The Government should continue to develop innovative financial mechanisms, such as blended finance and high-integrity voluntary nature markets, coupled with support for new nature compliance markets, to support nature-based solutions that fall outside traditional Private Capital models.
- Public Finance Institutions like the National Wealth Fund (NWF) can play a catalytic role by building confidence in emerging nature markets and unlocking private investment for initiatives that may otherwise struggle to attract funding.

Education and capacity building

- Education and capacity building are vital to fostering broader engagement with nature. A phased education program, beginning with foundational awareness and progressing to advance expertise, would help equip organisations with the skills needed to assess and address nature-related risks and opportunities effectively.
- Collaboration with industry and academia will further enhance these efforts, combining theoretical knowledge with practical insights to build a pipeline of experts who can drive the nature market across sectors. This is important as SMEs and smaller fund companies still need help understanding and enacting the first step of the TNFD process (LEAP assessment) before they can begin to understand nature-related transition plans.

Private Capital has a significant role to play in nature recovery and we are encouraged with the efforts being made by the Government to break down the barriers to Private Capital investment. We are keen to engage further and have provided below our more detailed responses to the Call for Evidence.

Call for Evidence Questions

Section 1: Policy principles

Q1. Do you agree with the 4 intended objectives for policy to increase investment in nature set out above?

- **Do you agree with each of the 4 objectives?**
- **Any further comments including other factors the government should consider?**

We agree with the proposed 4 objectives; however, we include further considerations which will prove valuable in understanding barriers and driving growth in the market.

BVCA members invest in a range of nature related sectors, including through traditional PE/VC investments in companies providing services and new technologies that are relevant to natural capital and nature-based solutions, as well as in real asset and land-based natural capital projects that are seeking to generate nature positive outcomes directly through nature-based solutions. Indeed, for certain of our members, the natural capital investment opportunity is being viewed as a generational opportunity to develop a new long-term infrastructure-style asset class that serves both financial and natural capital needs. Government support for natural capital sectors, particularly through compliance-style mechanisms, can therefore help to incentivise a broad range of investment strategies and help achieve the Government’s 2030 nature goals. To do so, a deeper understanding and evidence for nature positive financial flows will be required.

Challenges for natural capital solutions versus traditional PE/VC

As has been studied elsewhere[4], there are several challenges that currently prevent the private sector from investing in nature-based solutions, particularly in respect of direct investments in real assets and land-based natural capital projects that focus on directly restoring nature. We support the objectives, especially investing in nature and creating a stable framework, but urge the government to consider the challenges outlined by the WRI in its *Financial Sector Guidebook on nature-based solutions investment*[5], specifically:

(i) risks and uncertainties in returns;
(ii) illiquidity;
(iii) high transaction costs; and
(iv) internal capacity constraints.

The Government is well placed to help facilitate solutions to each of the above challenges. We urge the government to recognise that long-term Private Capital, particularly patient capital, is uniquely positioned to support companies and greenfield projects through their financial and ecological "J curves". Unlike investors focused on short-term gains, this capital can deliver sustained impact where commercial or public sector funding often falls short. Furthermore, it is important to understand that despite this long termism, the timelines required for nature restoration projects investment often extend even further. This means that many private investors are unlikely to remain involved throughout the entire lifecycle, resulting in secondary investment becoming essential to ensure continuity and success.

Notwithstanding the above, from a venture and growth equity perspective, many of the most promising opportunities to address nature loss lie in scalable businesses that do not depend on the creation of entirely new markets. This is particularly true in areas such as sustainable food systems, nature monitoring and land-use transition technologies and the UK is rapidly becoming a hub for nature tech and data-led ecological solutions that have clear commercial traction and environmental impact. Government support for these industries will help to support the development and maturity of nature-related sectors and will contribute to the Government's economic growth objectives. It is important, therefore, to recognise that nature is not a homogeneous asset class. This misapprehension risks leading to misaligned capital expectations and ineffective policy targeting. Some commercial models will need to be enabled by policy or environmental markets, whilst others will stand on their own but will benefit from amplification.

The following comments in this section should be understood to relate principally to policies for increasing investment opportunities in new nature markets, which will be a significant driver of demand and profitability.

Action is needed to increase long-term, high probability demand in nature markets

One of the biggest barriers to attracting Private Capital to investing in projects and companies that are focused on enhancing natural capital and delivering nature-based solutions, is the lack of an established investment case demonstrating favourable risk and return profiles. At present, it is challenging to attract Private Capital when competing investment opportunities, in more established markets with better understood risk and return profiles, are available to Private Capital firms.

To strengthen demand signals for nature-positive investments, it is crucial to reframe investing in nature as a national priority rather than a cost. Positioning it as a driver of economic growth, job creation and food security can attract private capital by highlighting the potential for both financial returns and positive environmental impact. The Government should continue to provide incentives to companies conducting nature-related R&D, impact assessments or nature innovation research.

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[4] See WRI, WWF, and CPIC.
[5] https://www.wri.org/research/financial-sector-guidebook-nature-based-solutions-investment

Emerging nature markets require standardisation and governance

We agree with the Government's observation in its Land Use Consultation that, "[i]nvestors, farmers and other businesses want certainty about how Government will act to align incentives and shape emerging markets to support the food, environment, infrastructure, economic and climate outcomes that the nation needs."[6] We are furthermore encouraged that the Government recognises its role in shaping emerging nature markets, "including with clear standards, to enable them to scale up rapidly"[7]. Government policy, such as the Environment Act 2021, and the tools that flow from its application, like the BNG calculator, are crucial for establishing new nature markets with a consistent understanding across the private sector. By establishing a means by which to readily and easily identify the requirements under the Biodiversity Metric 4.0, the BNG calculator puts an economic value on nature and provides consistent and actionable information to market participants that is credible and well understood. Certainty and consistency are paramount for market participants to engage meaningfully with any new nature market-related opportunities.

Government intervention can help to reduce transaction costs

Most nature restoration projects are "small-scale, localized efforts"[8]. To achieve nature restoration at scale, and to deliver effective nature-based solutions at scale, such as river catchment management, natural flood defence and new habitat creation, projects are likely to require cooperation between a high number of stakeholders, leading to increased transaction costs. The Government can help to overcome the limited scaled aggregation for nature positive projects by encouraging potential site owners within a nature corridor, river catchment or other ecologically coherent grouping, to cluster together. This could include the publication of model terms and framework agreements for cluster participants and the promotion of such schemes directly to landowners.

For investors, the government can also help to reduce diligence and discovery costs for new restoration projects by investing in the creation of standardised schemes, by providing nationwide data on natural capital (such as the government's land use survey) and by highlighting innovative tools and processes that can be adopted by land managers. The government should also support research into new technologies and techniques, including through AI, Big Data and open-source software that can help to reduce baseline costs for new projects.

Encouraging beneficiaries to pay for ecosystem services may also require Government intervention

While Private Capital can theoretically recover investment costs through bilateral contracts, applying the beneficiary pays principle typically depends on voluntary participation from private actors (e.g. businesses funding nature-based solutions). However, this rarely includes all beneficiaries, as the non-excludable and non-rivalrous nature of ecosystem services often generates value that cannot be directly monetised. In addition, initial investments in nature projects are likely to take many years before they start generating revenues through the issuance of nature-based credits. While certain arrangements can help to mitigate the funds flow for projects (such as offtake agreements and pre-paid purchases of nature credits), there is still limited maturity in UK markets and a lack of familiarity internationally with the Woodland Carbon Code and the Peatland Carbon Code.

As discussed in response to Q26, the introduction of TNFD, which provides a framework for companies to assess their nature-related dependencies, may help to stimulate voluntary demand. We further note that

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[6] Department for Environment, Food and Rural Affairs, Land Use Consultation – p.20: https://consult.defra.gov.uk/land-use-framework/land-use-consultation/

[7] *Ibid.*

[8] WRI – p.24

whilst the government is currently consulting on flood and coastal erosion funding reforms[9], wider reforms intended to encourage beneficiaries to help fund nature investment should also be considered.

Private sector asset owners should be encouraged to become a source of demand in nature markets

The insurance and pension sectors are long term investors that are well placed to support the UK's climate transition and biodiversity goals. Through appropriate regulatory incentives, market demand for climate and nature transition investments could grow, prompting investors to allocate a greater share of their strategic portfolios toward these areas. However, we note that owing to the relatively small size of many nature restoration projects, and the fact that the market is not yet mature enough to absorb large capital flows, the largest investors may struggle to identify projects with sufficient scale. While the government should encourage the grouping of projects (such as through clustering), it is also important to consider the downsides of the current local authority pooling approach. Specifically, it may limit opportunities to invest in smaller, community-based nature restoration projects or make these projects less appealing if they lack the scale needed to attract funding. Therefore, consideration should be given to complementing any pooling strategies with dedicated funding streams or incentives specifically designed to support small-scale, community-based nature restoration projects. This will help balance large-scale efficiency with grassroots engagement and biodiversity outcomes.

Catalytic capital and blended finance can help to de-risk investments to better align risk-reward expectations

In its analysis of the capital continuum, the Coalition for Private Investment in Conservation (CPIC) highlights a significant investment gap between the incubation and implementation phases for nature-based projects, "mirroring the 'valley of death' from the commercial start up arena"[10]. It, furthermore, mentions that "if overlooked, numerous nascent nature investments will struggle to grow"[11]. As awareness of nature-related dependencies increases, demand for such solutions and services may increase, allowing for growth equity focused investment strategies to help bridge the maturity gap. However, there is likely to continue to be a significant degree of uncertainty in the sources of demand and in the ability of Private Capital to confidently identify revenue generating projects that fit their financing expectations.

In the short to medium term, this demonstrates an opportunity for government to provide catalytic capital to private sector projects, particularly where those projects can help to deliver public goods (consistent with the principle that public money should be for public goods[12]). Blended finance models can help bridge early-stage funding gaps "to mature projects and deliver investor returns without compromising ecological or social integrity". [13] Examples of blended finance strategies and other supporting considerations may include:

- *Blended finance strategies*
    - Creative grants and lower costs of capital which would support the growth of nascent projects and early-stage companies, by de-risking investments and make the financing more affordable.
    - Incentivisation of investments through sector-specific tax breaks, including better alignment of tax incentives across farming versus commercial forestry, noting that many nature-positive projects are likely to fall into the former, rather than the latter category.
    - Attraction of institutional capital into nature-positive funds through first loss/junior equity.

- *Other supporting considerations*

[9] https://consult.defra.gov.uk/floods-and-water/reforming-our-approach-to-floods-funding/
[10] Coalition for private investment in Conservation (CPIC), Building a Capital Continuum for Nature-Positive Investments, p.5: https://www.cpicfinance.com/wp-content/uploads/2023/10/CPIC-report_Buidling-a-capital-continuum-for-nature-positive-investments.pdf
[11] *Ibid.*
[12] See remarks made by the Environment Secretary to the Groundswell Show, 3 July 2025: https://www.gov.uk/government/speeches/environment-secretary-steve-reed-groundswell-show-speech
[13] WWF – p.5

- Earmarking of funding for the establishment of the Transition Finance Lab, as suggested in the Transition Finance Market Review. This would enable the development and testing of specific targeted financial solutions, such as blended finance strategies, potentially helping de-risk nature investments and unlock the capital required to support the growth of emerging activities. As highlighted by the WWF, blended finance models can help bridge early-stage funding gaps "to mature projects and deliver investor returns without compromising ecological or social integrity"[14].
- Earmarking of funding to pilot projects and proofs of concept, to support greater certainty for prospective investors in nature restoration projects, by demonstrating financial and investment models that can generate attractive levels of return for Private Capital. This would help overcome ambiguity for investments in nature where significant financing costs are sunk on "fact-finding" (e.g. running pilot projects or establishing a proof of concept).[15]
- Noting the typical lifespan of a nature restoration project, it is unlikely that a single private investor would be able to hold an investment in such a project from start to finish making it likely that projects would need to change hands and/or seek new or additional investment at different phases of their lifecycle. Support from government, including through innovative finance and investments could help to underpin project valuations that will make secondary investment a viable option and help to establish secondary markets, overcoming liquidity issues.
- Developing standardised metrics, reporting and legal and financial instruments that help reduce costs and provide a consistent standard against which assets can be reliably valued also plays an important role in developing a funding journey for natural capital.

In conclusion, while barriers to nature investment remain, there are numerous opportunities to incentivise investors, stimulate market growth and generate demand. Crucially, the effectiveness of any recommendations will be significantly enhanced by a clear and stable policy environment which strategically emphasises the financial value of these nature opportunities.

Q2. Is there evidence from existing domestic or international policies which the government can learn from regarding:

- **the benefits of policy action to increase private sector investment in nature?**

It will be beneficial for business certainty that the government sets clear policy for how it intends to prioritise public sector investment into nature-based solutions. In addition, to build confidence and clarity in the market and to continue to promote Net Zero-focused growth, innovation and opportunity, the UK Government needs to enable the Transition Finance Council to develop detailed Net Zero Roadmaps. This includes setting out clear commitments and actions on public investment and policy covering how it is going to get the UK to Net Zero, including through scaling nature-based solutions. The creation of effective roadmaps for the UK Private Capital market has been explored in the BVCA's response to the Transition Finance Council's *Scaling Transition Finance through Sector Transition Roadmaps* Call for Evidence. Additional to this, carbon offsets and how the carbon credit market operates is another area where businesses welcome further policy, guidance and support, particularly if those offsets can benefit the UK's environment directly.

- **the policy actions that are most effective and efficient at increasing private sector investment in nature?**

The best recent example is the Government's introduction of BNG as a legal requirement from February 2024 as part of the Environment Act 2021 which has created a market estimated by Carter Jonas and the Environment Bank to be worth over £2bn in GDP benefit for the UK over the next 5 years[16], at zero cash cost to the Government.

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[14] WWF – p.5
[15] Flammer – p.2
[16] Carter Jonas "Biodiversity Net Gain: Navigating the Evolving Market" report (February 2025) and the Environment Bank

For the sake of effectiveness and efficiency, government could reference how it would assess value for money and the weightings to be attributed to achieving priority outcomes (e.g. benefits for deprived communities or communities with limited access to nature) and provide incentives for projects to secure additional partnership funding contributions. We note the government's consultation on Land Use[17] seeks to prioritise better spatial planning. Clear guidance on priority areas for nature recovery, sustainable food production and clear plans for delivery will provide important signals as to where Private Capital can be most effectively deployed, with the help of public support, to make projects financially viable.

As noted above, one of the biggest obstacles to private sector investment in nature is the lack of an established business case or clear risk return profiles that align with and are attractive to Private Capital investment profiles. The development of policy to better enable catalytic funding to unlock primary and secondary nature markets could be effective to respond to the core of this issue. This is covered in our response to **Question 1**.

Policy enabling impact investment

Many of the BVCA's member firms have already adopted impact investing approaches as part of their strategies. Impact investing offers a particularly important means through which Private Capital could invest in nature. The Government should look to increase its understanding of impact strategies, to align its financial mechanisms with impact investing approaches and help incentivise the flow of Private Capital to address domestic policy issues, including investment in nature.

- Achieving the Government's sustainability goals requires not just capital, but deliberate strategies and innovative policies that prioritise the most meaningful impacts and outcomes. As detailed in our October 2024 report[18], the UK has a unique opportunity to build on its strong foundations as a centre of excellence for impact investing. Impact investing is an approach that generates positive measurable social and environmental impact alongside a financial return, helping to tackle societal challenges that public policy seeks to change, such as education, healthcare, the transition to net zero and investment in nature. The UK impact investing market size is approximately £70bn and has compounded significant annual growth over the last three years. However, impact investments account for under 1% of the whole UK investment management market.
- By working with the impact investment community to increase understanding of the impact investing sector, and how it can build this approach into its financing mechanisms (such as the NWF), the Government can deploy innovative polices aligned to their missions whilst incentivising Private Capital flow into nature.

We would also encourage the government to consider the need to promote investment in nature in both rural and urban areas of the UK, including regarding the United Nations Environment Programme's (UNEP) work on bridging the gap in urban nature finance[19]. The urban space offers interesting future pathways for nature-integrated infrastructure and materials innovation, such as sustainable building materials (e.g. mass timber and bio-based insulation). Appropriate mitigation is needed against barriers in this context, which tend to include market immaturity and regulatory complexity around certification and standards.

- **the risks of policy action to increase private sector investment in nature?**

We note the importance of stakeholder engagement as part of investing in nature, particularly with respect to land use change and changes to existing management practices (including in agriculture, forestry and fisheries). It is possible that changes that are introduced as part of nature-based solutions and the delivery of ecosystem services, as well as potential impacts on land prices and land ownership, could have adverse

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[17] HM Government Land Use Consultation (January 2025)
[18] https://www.bvca.co.uk/static/f193c6c9-710b-440a-9bdd0869125e8667/The-UK-A-Centre-of-Excellence-in-Impact-Investing-Report.pdf
[19] See: https://www.unep.org/technical-highlight/unep-unveils-new-framework-track-and-bridge-gap-urban-nature-finance and https://www.unep.org/topics/cities/cities-nature/finance-nature-cities

impacts on local communities if not managed appropriately and with meaningful stakeholder input. Furthermore, policy action which is seen as mandating potentially high risk and low return projects/investments should be avoided as this may effectively reduce demand for nature investments. Instead, government should look to incentivise investment rather than enforce it.

We would encourage the government to consider providing guidance on balancing trade-offs between nature, environmental, social goals and financial goals and to identify best practices for robust inclusion of stakeholder voices, especially local communities. Best practice guidance will also be important in helping to facilitate cost-effective project management that targets resources appropriately.

Section 2: Outcome- and sector-specific examples and questions

Outcome 1: Clean and plentiful water – cleaning up rivers, lakes and seas

Q3. Which sectors could and should contribute as part of a catchment-based approach to water management for nature recovery?

No response.

Q4. What are the barriers to incentivising sectors that depend on the water system to invest in water outcomes? What actions are needed by government to address these barriers?

No response.

Q5. What activities by water companies that support nature recovery have potential to attract additional private-sector investment?

No response.

Q6. What should our priorities be when assessing the benefits of environmental enhancement measures proposed by the water sector?

No response.

Q7. How can the water sector ensure that opportunities to deliver multiple benefits are considered from the start of investment planning and decision-making?

No response.

Outcome 2: Nature-based carbon reductions and removals

Q8. What are the reasons why businesses fund or buy nature-based carbon through insetting agreements or markets such as the Woodland Carbon Code and Peatland Code?

No response.

Q9. What are the barriers for businesses in buying nature-based carbon through markets such as the Woodland Carbon Code and Peatland Code?

At present, the Woodland Carbon Code and Peatland Code are not yet aligned with the Core Carbon Principles (CCP) thresholds under the ICVCM,[20] which is likely to limit their attractiveness to sophisticated buyers. Awareness of these codes also remains low, particularly among global corporates, which make up a large proportion of voluntary carbon buyers. For those that are aware, there is also scepticism as to whether the UK offers sufficient scale to meet their offsetting needs. We encourage government to consider responses (including the BVCA's response) to **DESNZ's Voluntary Carbon and Nature Markets: Raising Integrity consultation** to understand how best to advance Voluntary Carbon and Nature Markets.

Q10. How can government ensure policies to support tree planting are also effective in unlocking private finance for woodland carbon?

We note that the government's previous Woodland Carbon Guarantee (WCaG) scheme provided index linked payments for the generation of woodland carbon credits on a 5- or 10-year basis out to 2055-56. While there appears to have been low levels of uptake for the scheme, with a limited number of successful bids in auctions 5-8, the cessation of this scheme following Auction 8 in September 2024 is nonetheless regrettable and should be resumed or replaced by a successor mechanism, potentially including expansion of the scheme to other credit types.

We note an earlier version of the Government's consultation referred in question 10 to a potential "offtake fund". We note that this has been removed as the policy has yet to be confirmed, but we would strongly encourage the government to make funding schemes available to project owners across a broad range of nature and carbon credit schemes, as well as bridge funding for projects that aim to deliver ecosystem services. Guaranteed revenue and funding streams help to make projects 'bankable', which is key to attract private finance.

In the absence of integration of woodland carbon and peatland carbon into regulated markets such as the UK ETS, more effort is needed to boost the visibility and credibility of the UK's voluntary schemes. This will also include updating registry systems, which are currently outdated and difficult to navigate, which risks undermining market access and trust.

Q11. Which sectors could be further incentivised to use, reuse and recycle timber as a low-carbon material?

The construction and packaging sectors are clear targets for scaling up sustainable timber use. Policy incentives could also drive greater uptake of timber reuse and recycling in these supply chains, alongside embodied carbon requirements in public procurement and design standards.

Q12. How could businesses which emit greenhouse gases or have negative impacts on biodiversity be further incentivised to fund or buy nature-based carbon reductions and removals, in line with the polluter pays principle?

[20] https://icvcm.org/core-carbon-principles/

As noted in our response to the Voluntary Carbon and Nature Markets consultation[21], overreliance on biodiversity credits could encourage companies to use them as a substitute for direct action, creating a "pay-to-pollute" dynamic. The current lack of standardised criteria for biodiversity credits might lead to concerns regarding claims of greenwashing, undermining the credibility of nature transition efforts. Additionally, reliance on credits could shift the focus away from more impactful systemic changes. Measures to avoid to the pitfalls and misuse of credits/offsets need to be well considered before these are introduced as a strategy. It is recommended that the business case and guidance for the appropriate use of biodiversity credits should be provided to enable effective use and prevent unintended misuse.

The iCI's private market guidance on the Voluntary Carbon Market[22] is a good example of guidance launched by the private market industry to consider the best practice application of carbon credits and could be good source of reference in this context.

Government could also accelerate the uptake of nature markets by embedding nature-based solutions requirements into procurement and permitting processes, creating clearer pricing signals through carbon or biodiversity-linked obligations and funding third-party validation to de-risk corporate investments.

[21] https://www.bvca.co.uk/asset/52BDC627-4F93-4D35-A1512BE58DA18C6B/?_gl=1*lw04l4*_up*MQ..*_ga*MTAzMTc5MjEwOS4xNzU0Mjk3MjQy*_ga_8DDVW7KWNP*czE3NTQyOTcyNDEkbzEkZzEkdDE3NTQyOTcyNDUkajU2JGwwJGgw

[22] https://www.unpri.org/news-and-press/the-ici-launches-foundational-guidance-for-private-markets-on-the-voluntary-carbon-market/13008.article

Outcome 3: Access to nature – supporting tourism, recreation and wellbeing

Q13. What measures could be used to increase and diversify funding to ensure our Protected Landscapes are sustainably resourced?

No response.

Q14. Would you support greater application of the beneficiary pays principle in Protected Landscapes?

No response.

Q15. Would you support greater application of the polluter pays principle in Protected Landscapes?

No response.

Q16. What are the benefits, and barriers, to businesses investing in actions which help to contribute to 30by30?

No response.

Q17. In order to support access to green spaces in more urban settings, what measures could be used to increase and diversify funding for local parks and natural spaces?

No response.

Outcome 4: Flood management

Q18. Which of the beneficiary sectors of natural flood management are best placed to contribute to funding it?

Sectors that directly benefit from reduced flood risk and enhanced ecosystem services are best placed to contribute to funding natural flood management. These include water companies, which gain from reduced strain on infrastructure and improved water quality, insurers who benefit from lower claims and risk exposure, agricultural stakeholders whose land productivity and resilience improve and ESG-focused investors who are increasingly backing nature-based solutions. Local authorities and infrastructure planners also stand to gain from long-term cost savings and community resilience. Notably, some members are already investing in companies that have partnered with water utilities (supported by public funding) to pilot nature-based flood risk management. Though still in early stages, this area shows strong potential for scalable impact and financial return.

Q19. What mechanisms could best enable this?

Unlocking broader investment in flood management will require mechanisms that align financial incentives with environmental outcomes. Blended finance models can help de-risk early-stage projects and attract investment. Outcome-based contracts, where payments are tied to measurable flood resilience and ecological benefits, can ensure accountability and value. Catchment partnerships and multi-stakeholder platforms can facilitate shared governance and pooled resources across sectors. Finally, supportive policy frameworks and planning regulations that recognise and reward nature-based approaches will be essential.

Q20. How can mechanisms such as these account for and adapt to the local nature of natural flood management?

No response.

Outcome 5 Sustainable land use and food production

Q21. What policies or financial models have been most successful in improving environmental performance and sustainability within the food and drink sector? Please provide evidence.

No response.

Q22. What further measures would be most effective in incentivising the food and drink sector to reduce its impact on nature and increase its investment in nature recovery?

We note that current land-use in the UK is principally subsidy driven. As identified under the Kunming-Montreal Global Biodiversity Framework, over $500bn annually is spent on subsidies that are harmful to nature. We welcome the Government's Land Use consultation as a valuable step toward identifying the most appropriate uses of land across the UK. It is essential that public subsidies support activities that not only strengthen the UK economy and enhance food security but also avoid reinforcing unsustainable practices. The Land Use consultation will also help to identify where the most appropriate locations for nature restoration projects are, where food and nature should exist alongside each other and where marginal land should be taken out of production. However, we observed that the recent industrial strategy does not adequately address food security or land use and we strongly encourage greater emphasis on these critical areas.

The government should seek to further enable the food and drink sector, particularly agriculture and capitalise on the cost saving benefits brought by new technology and innovation. This will help reduce input costs and improve margins, as well as help identify how land can be farmed in a more nature friendly way, while minimising adverse social impacts for agricultural and rural communities. For those farms that want it, the Government should facilitate nature markets and Private Capital to support farming through a transition to more sustainable and regenerative practices. This can be done, for example, by exploring ways in which carbon and biodiversity credits can be generated alongside food production.

Q23. How can measures best be designed to ensure fair distribution of costs and accountability across the food and drink supply chain, and to avoid putting domestic farmers at a disadvantage?

No response.

Q24. How can measures recognise and mitigate the impacts of the wider bioeconomy on land (for example, the use of natural fibres, timber, paper and pulp)? Which sectors are most important?

No response.

Q25. What measures could be used to increase investment in sustainable timber production and processing, and timber reuse and recycling?

No response.

Outcome 6 International nature finance and access and benefit sharing

Q26. Are you aware of your international nature-related risks, dependencies and impacts, for example, through using frameworks such as the TNFD? If so, how do you manage and address them?

We are of the opinion that the consideration of nature-related risks and opportunities makes for smart business strategy and is an important tool to help create value protection and enable value creation. However, this value case, especially in the private markets space, needs to be more clearly presented and understood to enable companies (and the SMEs they typically invest in) to effectively adopt and interact with nature-related disclosures on a more detailed level. Engagement with these topics may also help to establish the business case for private sector investment by corporates into nature-based opportunities. Encouragement and support from Government for companies (including SMEs) to upskill with respect to nature dependencies, impacts, risks and opportunities may help to drive demand for nature investment.

- The government should endorse the TNFD standards for inclusion in the forthcoming UK Sustainability Reporting Standards, but, importantly, nature-related disclosures (including TNFD transition disclosure) should be positioned as uniquely valuable, rather than as an additional reporting obligation. This approach ensures it provides meaningful value to the reporting company by encouraging critical thinking about nature-related dependencies. The integration of nature-related risks and opportunities into regulatory frameworks must, however, be done in a proportionate manner so that smaller companies can assess their nature-related risks and opportunities at minimal cost.
- The government should support the introduction of simplified TNFD guidance and the creation of practical tools (such as prescriptive templates) to assist businesses, particularly SMEs, in navigating nature-related risks and opportunities. Common barriers faced by smaller firms and private investors should be addressed, ensuring the guidance aligns with future regulations by minimising complexity and reducing reliance on costly external expertise. This will help limit resource constraints and expertise gaps while ensuring broader adoption.
- Providing guidance to illustrate the business case and added value of capturing nature-related risks and opportunities, and the broader reporting process, would be highly beneficial for smaller companies.

It is important that any developments in this area recognise existing industry-led progress, such as the Private Equity Sustainable Markets Initiative Taskforce's (PESMIT) work on biodiversity and natural capital, including the report of its Biodiversity Working Group, *Nature Positive: The Next Horizon for Investors*[23].

Q27. What role is global nature playing in your investment strategy? For example, are you exploring investing in international ecosystem services, including biodiversity credit markets, or avoiding certain types of investments due to their impacts on nature? What would help you better integrate nature into investment decisions?

A globally oriented strategy is essential. Although direct engagement with biodiversity credit markets remains limited due to their early-stage development and lack of standardisation, supporting companies that operate across diverse ecosystems worldwide is an effective approach. Some biodiversity investees, for example, have conducted worldwide biodiversity assessments. Therefore, national policies can help reinforce global leadership by enabling domestic innovators to scale and compete in international markets.

Q28. How can the UK help ensure that biodiversity co-benefits are integrated into international carbon markets, and vice-versa? How has your experience with carbon markets influenced your approach to nature markets?

[23] https://a.storyblok.com/f/109506/x/224b218464/nature-positive-the-next-horizon-for-investors.pdf

More importantly, we encourage focus on enabling UK-origin projects and companies to meet best-in-class safeguards and co-benefit standards. Additionally, to a lesser extent, the UK can play a constructive role in reinforcing credibility via VCMI and ICVCM.

Q29. Does the concept of access and benefit sharing apply to your organisation or sector? If so, how do you incorporate benefit-sharing into your business model?

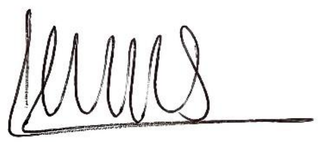
Yes, the concept of access and benefit-sharing is relevant. Members who operate under Article 9 of the Sustainable Finance Disclosure Regulation (SFDR) typically adhere to international norms on environmental and social performance. Benefit-sharing is often embedded within a broader framework of impact risk management, which considers both positive and negative externalities. Rather than relying on simple metrics such as the percentage of revenue shared, members tend to adopt a structured, long-term approach to stakeholder inclusion. This ensures that benefit-sharing is meaningful, equitable and aligned with sustainability and impact objectives.

Q30. What are the key challenges to investing in nature-based opportunities in biodiversity-rich countries? What can policy makers and market enablers do to help scale international nature investment and better connect supply with demand?

Rather than attempting to shape policy in highly varied markets, we believe the UK's most constructive role is to help export innovation and leadership. Supporting UK-based companies to operate internationally, through market entry support, standards recognition and project finance, represents a pragmatic and effective approach.

We are encouraged by the Government's exploration into developing the UK's nature market and the drive to better understand how to support and incentivise businesses to invest in nature recovery. For further engagement or to learn more about how UK Private Capital is approaching nature investments, please feel free to get in touch with Chris Khoury or Harriet Assem.

Yours sincerely,



Lucie Mills, Chair, BVCA Responsible Investment Advisory Group