Defra-LCNR blended finance workshop, 1-2 May 2025
Notes from World Café discussion groups

1. Money for nature: supply, demand, and growth

Conclusions

- More research outputs on risks and shocks (long term)
- Making the nature case for short term growth via increased market activity
- Experimenting with increasing levers to distribute funds more effectively and increase market activity
- Getting better pictures of the complexity of the whole farm business and supply chain and environment subsidy to land managers to producer as well as the food supply chain.
- Awareness of regulation as primary demand driver

Context & challenge

There is insufficient funding for nature/nature recovery, yet current political and economic priorities – particularly a fixation on short-term growth – limit options to address the gap. Traditional funding routes such as taxation or increasing food prices are politically unviable. Meanwhile, nature continues to decline, undermining long-term economic resilience and sustainability.

Policy transitions & cultural shifts

The transition from CAP to ELMS represents a shift from direct subsidy to payment for environmental outcomes. However, this shift is culturally and practically difficult for many farmers. If well-designed, ELMS can succeed – farmers tend to follow clear financial incentives – but the scheme currently operates in a fragmented policy environment and is underfunded. Without additional investment, its full potential won't be realised but where does the funding come from in this climate

Supporting this transition also requires:

- Understanding the whole farm business model.
- Engaging land agents and managers directly to shape culturally sensitive and economically viable schemes.
- Providing long-term certainty and simplicity in scheme design to build trust and uptake.

Aligning nature recovery with the growth agenda

While the Treasury acknowledges long-term GDP risks from biodiversity loss, these are abstract and not part of day-to-day economic decision-making. To bridge this gap:

- Nature recovery must be reframed as *immediately* economically beneficial.

- GDP is a measure of market transactions: public and private investment in nature (e.g. through Biodiversity Net Gain [BNG], green infrastructure, and ecosystem markets) can actively boost GDP.
- Strategic deployment of regulatory levers (e.g. BNG requirements, strengthened enforcement) will drive demand for nature-positive actions.

- Reinforce the systemic long term risks and possible shocks throughout the various stages of the supply change
- Biodiversity footprinting work can be examined to see if it offers opportunities for scope 1 and 2 payments within new regulatory environments

Mechanisms to drive supply & demand

Regulation and incentives are the key to increasing demand:

- Redirect BNG investments into on-farm ELMS-compatible activities.
- Integrate nature finance into emissions markets (e.g. align Woodland Carbon Code with broader emissions trading).
- Leverage business responsibilities (Scope 1 and 2 emissions) to recirculate a small percentage of food costs back to nature-positive producers.
- Ultimate regulation drives demand so this is the main tool at Defra disposal but what is the Overton window for adding or revising regulatory processes.

Improve supply-side conditions by:

- De-risking nature markets for investors. (Supply chain nature related risks)
- Improving communication and transparency in complex supply chains.
- Penalising unsustainable practices and rewarding positive actions to send clearer economic signals. Defra working on things in this area.

Growth scenarios & strategic framing

A “do-nothing” scenario leads to escalating long-term economic and ecological costs. In contrast, scenarios that invest in nature demonstrate:

- Short-term GDP benefits through market activity in restoration and biodiversity services. Nature could be a massive boost to GDP through increased market activity if framed correctly.
- Long-term resilience by avoiding systemic risks associated with nature decline (e.g. food security, flood risk, soil health).

2. Practical delivery and instruments

Discussions started with outlining Defra’s policy levers and how effectively they complement each other. There were mixed opinions on this with points made about the conflicting approaches of subsidies and green finance and parallels drawn with the challenges observed for US schemes.

- We collectively agreed that all the levers are trying to achieve the same objectives of the 25YEP with growth as an additional agenda and that regulation can have a key role to play in driving growth through innovation.

Focusing on green finance we discussed what success looks like for private finance – de-risked, high return, clear standards and transparent reporting. Defra's role in this could be more innovative. We considered whether Defra could act as a broker for private finance deals allowing the deliverables to be packaged and sold at scale.

- Would this provide value for money?
- Does it take away the agency of projects?
- Is the Project Development Phase of Landscape Recovery the right thing to be funding to support blended finance?

Finally, we talked about the role of auctions for each of our levers and the challenges in implementing them.

- Credit auctions, and auctions for NRF were discussed with a proof of concept seen as a key next step.
- How do these auctions scale for delivering the conservation of 10s-100s of species and multiple environmental objectives simultaneously?
- Other possible opportunities would be to target low uptake actions within SFI/CS to find the true price and to tackle streamlining LR projects by selecting the most effective land parcels for delivery.

3. Value for money (VFM)/public vs private discussion group

Overall takeaways

- Policy certainty is very important: regulation can be extremely effective in delivering value for money. If regulation is tight, then it can increase demand for market mechanisms.
- We need to be clearer about what value for money means – it's not the same for all programmes, it includes non-financial returns (and what is this measuring) and who is it for?
- VFM criteria should be linked to monitoring and evaluation frameworks.
- A retrospective review of value for money as applied to different policies over years might generate insight into what was effective, what shifted, what was prioritised.

Context

For now, most investment in nature is from public funding, with private investment focused on compulsory markets. Note that philanthropic investment is often derived from the private sector (e.g. corporate giving).

Defra has hard targets on nature, and needs to show value for money for its public expenditure. This presents significant challenges.

- It is a political choice to determine what level VFM is acceptable.

- Within Defra, landscape recovery projects are the result of negotiation. Projects need to offer good value, but they need to be sustainable too. Defra is making a judgement about the risks in all its landscape recovery projects.

Measuring value for money over time

Landscape recovery projects are long-term: multi-decadal with some benefits likely to emerge in the far future. Understanding value for money over the long term needs broad public and political support. The group used examples to show that for some projects value for money only becomes clear decades after they began: the Elizabeth Line was expensive and disruptive to build, but now it would be hard to imagine how London could manage without it.

- Governments are able to take the long-term view and stick with it (HS2 is an example where this didn't happen). But it's difficult for the policy landscape to integrate these long-term commitments.
- This might be an interesting research topic.

Measurement for policy

Value for money is mainly an issue of measurement for policy. Value for money can come from regulating externalities – e.g. farmers in Maryland sell water quality credits.

- Research could investigate this further.

Policymakers should value the introductory schemes that draw land managers in with low value/easy actions because they can lead to the schemes that bring greater environmental benefit in the longer term.

NOT STRICTLY VALUE FOR MONEY...BUT CAME UP DURING THE DISCUSSION

Discussion on community buy-outs

These are already well-established in Scotland. Here they operate at scale, are effective and are good value (relatively inexpensive). However, for these to be successful there needs to be a lot of collaboration over a long time to build trust (that it takes time could be seen as a good thing). It is important that there's good advice to the communities involved.

Discussion on the impact of the suspension of SFI

The current situation doesn't seem to suit anyone. There was a feeling that SFI offered poor value for money with very little environmental gain. There was a risk that existing agri-environment schemes that hadn't yet transferred to the SFI portfolio could revert to regular agricultural use to generate an income, thus risking many years of environmental gains (note that this is anecdotal at present). The group noted that SFI had been useful for targeting specific farmers/growers who have not been involved in thinking about land use change before.

BNG issue

A concern that BNG has a cascade effect through the nature finance system.

4. Transforming the economy towards financing green (and green finance)

There is broad agreement that we are seeking to reach a point where stable revenue streams are flowing from the private sector towards a range of ecosystems. This blended finance transition needs to be collaborative and to integrate people, nature and climate.

While there may be agreement on the destination, there is currently no roadmap for reaching this point and a fear of transition has been identified. Land managers, landowners, farmers, finance sectors and developers are often particularly reluctant to see increased business burden. Some publics are also concerned that nature will be prioritised over food security. A systems and mindset change is therefore required.

In this discussion we outlined some levers that might enable a transition towards financing green and green finance:

1) **Longterm, predefined and stable government policy** is needed for farmers, land managers and the financial sector to have the necessary certainty to enter into financial agreements for nature. While previously CAP offered seven-year periods of stability, the current EIP targets do not offer adequate policy certainty. It was suggested that cross-party consensus would be needed for this long-term government policy. This includes stable revenue streams flowing from the public sector.
2) **A transition was seen to need ownership, milestones and a narrative**. It was suggested that the government lead the transition initially (as with the renewables transition) and then markets and landowners etc. can take the transition forward as part of private sector leadership. There was discussion around balancing bottom up (community/landowner-led) and top-down governance of blended finance transitions for nature.
3) **Government regulation and compliance were seen as mechanisms to enable effective transitions**. This might include regulating offset markets, pension funds or introducing environmental and carbon taxes to ensure that the polluter pays. It might also emerge through district level licensing that is so burdensome that developers will either decide not to go ahead with projects or agree to pay large fines. Food system supply chains might be transformed through taxing bad practice at the farm level. It was also suggested that government regulate non-market-based activities, creating a carbon market for GDP. Counting biodiversity in GDP was seen as a way to create a growth story.
4) **Mindset changes across diverse publics might be catalysed through advice and capacity building**. There was discussion of the need for financing green/green finance to be demystified and for nature to be considered within the economy. There was a suggestion to run educational (e.g. Masters) programmes for Land Agents.
5) **The Landscape Recovery scheme was proposed as a potential blueprint for future blended finance endeavours and signalling mechanism**. It was also suggested that the Landscape Recovery scheme operate in a more coordinated way with LR project outcomes (e.g. carbon savings) being grouped into a whole package/portfolio. The government could take this portfolio as a value proposition and broker with the private sector.
6) There was discussion about **the need to promote broader notions of circular economy so that transitions can be large scale and coordinated** rather than piecemeal and contradictory. There was some disagreement around whether degrowth could be a useful concept.

The group also considered differences between the renewables transition and the nature finance transition and identified the following:

- Fossil fuel sector is wealthy unlike the farming sector.
- There's no technological learning curve with nature (though a societal mindset shift around nature's value may perhaps lead to similar momentum).
- Renewable energy sources tend to require significant upfront costs but are relatively cheap to maintain. Biodiversity has significant ongoing maintenance costs.