

The Green Finance Knowledge Gap: Workshop Summary

THE SCIENTIFIC, SOCIAL AND ECONOMIC EVIDENCE NEEDED TO UNLOCK PRIVATE INVESTMENT IN UK FARMING AND LAND USE

Introduction

This document is a summary of a virtual workshop (24 April 2024) as part of the Land Use for Net Zero (LUNZ) Hub's Green Finance Topic Advisory Group. The workshop addressed the critical knowledge gaps which hamper the expansion of high-integrity, fair Green Finance in UK farming and land use, and looked to establish how LUNZ can support the growth of private investment in high-integrity UK nature projects.

In advance of the workshop, participants were asked via online questionnaire areas to identify the critical knowledge gaps, the results of which can be found [here](#) along with the slides from the workshop.

Conclusions of the workshop highlighted that:

- Farmers and investors have different but sometimes overlapping needs which should be resolved. The LUNZ Hub has a clear role here both via the Green Finance Topic Advisory Group (TAG) and the other Advisory Groups which can reflect the farmer perspective.
- Whilst the workshop did identify gaps in research, it also became clear that there is need to apply existing knowledge and understanding, and to better communicate it to the various groups of stakeholders.
- The financial literacy and understanding of, and trust in, financial markets among farmers and the associated community is low. Workshop attendees better represented the farmer perspective over the investor perspective, and further engagement with the investor community will follow on from the workshop.

Participants included leading stakeholders from the Green Finance sector and members of the LUNZ Hub. The following are the key conclusions from the workshop, which will be used to guide the activities of the Green Finance LUNZ TAG.

1. Investor Needs

- Investors are looking to deploy upwards of £100-250 million apiece in the sector in the next 12 to 24 months. Private money is filling the shortfall left by the reduction in public funding (subsidies) going into farming, however private funding needs to see a return on investment, bringing with it a new set of conditions and requirements.
- Investors and aggregators need to be confident that a project's legal conditions and terms are robust and long-lasting. The status quo (whereby projects have individual, unique legal agreements) prevents ongoing investment or the establishment of a secondary, longer-term market (asset managers).
- Robust, independent, defensible valuation models that can rate projects consistently in a liquid market would be beneficial. As it stands, there are 3-4 large rating organisations, however at £50,000 per project, they aren't viable for small-scale UK projects.
- Technology to support the management and storage of data from different sources and for projects over a 100+ year cycle would help the market. These processes need to be highly integrated with verifiers so the data is auditable, searchable and stands up to scrutiny.

2. Farmer Trust

- Market awareness among farmers is low but growing. There is now more caution than there was at the beginning reflecting concerns around high costs, verification, scale, and the need for different baseline assessments for different markets.
- There is a need to conceptualise and demystify the market in very simple terms. Key to this is a) profit level, and b) risk.
- Farmers are going from a direct, government payment scheme into a private sector scheme that they have no experience or trust in. This needs to be addressed - and relates to basic economics but also culture, education and language.
- There is a gulf between the language used by the investor community (seen as cryptic and confusing) and that by the farmers, as well as a misunderstanding about what natural capital is and what it means to individual businesses.
- There are considerable legal concerns - how will farmers be measured and where is the flexibility to reflect circumstances (droughts, flooding) which are out of their control? These are often exacerbated by the complex structure of the industry incorporating tenant farmers, family agreements, etc.
- There is also uncertainty around the relationship between private sector markets and payment for public goods.
- The risk and reward distribution between different players is a source of mistrust. Projects involve the investor, the land manager, and in between, a highly complex supply chain involving predominantly new companies with different models, opportunities and different ways of addressing some of the issues (technology etc) against a backdrop of significant policy change within the industry.
- Investors need to have better emotional intelligence about the farming sector and willingness to empathise with its inherent challenges rather than see it simply as an investment opportunity.
- The Green Finance Institute Hive and the Ecosystem Knowledge Network look to bridge the information gaps between different stakeholders.

3. Landscape Approach

- There is a need to challenge the supposition that a market based 'ROI' approach is the only transaction model, and explore other options, i.e. 'funding' rather than 'investment'. This overcomes many of the market complexities (land ownership, tenancies) and enables farmers to 'get on with it' without the burden of legal, contractual, cost overheads etc. There is interest in corralling corporate ESG/CSR funds into a central 'pot', underpinned by an external framework covering permanence etc.
- To that end, there is a need to understand investor mindsets and establish an investor 'typology' reflecting exactly what they are looking to get out of a project. Some private investors are willing to invest without an obvious ROI.
- While there is a clear need for high integrity in the offsetting and compensatory marketplace, there also needs to be room for a 'lower integrity' market for organisations who wish to just fund a project through CSR or ESG but aren't necessarily looking for specific outcomes and where there might be freedom to contract type of management e.g. Landscape Enterprise Networks, The Wildlife Trusts.
- Farmers want to understand what is the best thing to do on their land and convert that into a series of projects that represent a solution.

4. Standards

- Standardisation: There is a clear need for project standardisation to generate trust on all sides and generate comparable information, measurement and communication parameters. Standardisation can drive project rating, evaluation and aggregation.
 - For projects to be investable from the financial market's point of view, codes are needed which have three components: 1) a robust peer reviewed methodology, 2) strong governance and 3) commercially applicable. They also need MRV stage gates - i.e. where the issuances occur and the units are generated and then either be retired or converted from a forward contract into a delivered contract. In the Woodland/Peatland Codes, these 'formal' stage gates are at 5-10 year intervals - which is too long for the average investor who needs to see minimum annualised reports (e.g. via remote sensing) to show progress.
 - The British Standards Institute (BSI) is in the process of developing a UK Nature Markets Principles Standard with the aim to support the establishment of high-integrity nature markets and guard against greenwashing. By working with a BSI accredited scheme provider, farmers and investors can have confidence that projects are reliable and will generate real, verifiable, independently validated units that meet conditions around additionality, permanence etc.
 - [Consultation](#) on the Principles Standard closes on June 7. Carbon and Biodiversity standards are also in development. Finally, there will be individual ecosystem service and habitat-based carbon standards including peatlands, woodland, agricultural soil and salt marsh carbon standard. The Standards are designed for offset markets but should also be usable by insets (within a supply chain).
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5. Monitoring, Reporting, Verification (MRV)

- There are two key unknowns from a farmer's perspective - the natural capital value of their assets and the potential for uplift. This raises the question of how stock/change is measured and audited and the cost and accuracy of different approaches. The recent DEFRA [assessment](#) of on-farm carbon calculators demonstrates the variation in the market, and even for biodiversity (where we have a set metric) there is the option of using an ecologist or satellite technology for condition scoring. This points to a potential role for LUNZ in building confidence and trust in these tools by driving standardisation.
- Market buy-in is largely predicated on the integrity of the measurement, which itself is based on new, innovative and untested technologies - satellite-based, drone, LIDAR, remote and in-field - which deliver different results. This raises doubts about their levels of integrity, and concerns that a project could invest in a technology underpinned by binding contracts, and that the approved methodology could move on.
- A significant research gap is the MRV aspects of green finance and addressing this must embrace granularity - i.e. not just assessing behavioural change but the impact of behavioural change.
- LUNZ needs to reflect that there is considerable variation across the 4 regions of the UK e.g. NI using LIDAR (16 scans PSM over every field in the country). The Northern Ireland (NI) scheme was originally designed to address water quality problems (create runoff risk maps), however LIDAR is also suitable for digitally auditing above ground biomass and can assess change if repeated every 5 years. Farmers trust it, largely because of the high level of resolution, as opposed to codes which work according to a (modelled) average. The measurement work in NI creates a consistent, granular baseline that can provide the foundations for green finance based on an agreed standard.
- Measurement, reporting and verification should be seen as a public good and governments should concentrate on a) funding and b) bringing integrity to the MRV via a single framework, leaving behavioural change up to land managers, and funding this change to the private sector. The European Commission is looking to achieve this through its Carbon Removals Certification Framework.

- While we wait for agreement on MRV, a number of organisations (RSPB, Natural England, National Trust) have been 'getting on with' landscape recovery projects, and a British Ecological Society-led initiative is exploring how this work can progress in a standardised, consistent manner via a best practice manual on monitoring and evaluation. This reflects the desire to achieve multifunctional landscapes (people, nature, climate) as a whole, and not purely for carbon.
 - There needs to be a better understanding of how things work at landscape-scale - e.g. biodiversity projects work better at scale and alongside other biodiverse areas, as opposed to in single, isolated deserts. GIS based knowledge is helping this - strategically placing sites rather than where land is available.
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6. Carbon Sequestration

- Misleading claims about carbon sequestration potential should be easy to counter, especially where projections 'cherry pick' the best performing sites as an indicator. There is a need for honesty about the hugely variable potential of different soils which reflects soil types, climate etc - e.g. the Hillsborough (NI) site has not saturated over 50 years, while Rothamstead saturated after 20 years. Also, peatland management does not sequester new carbon, but reduces a current source of emissions. This is summarised in [this document](#) commissioned by the Welsh government.
 - This note captures what we know about soil carbon, and the caution around over-selling it in the net zero conversation.
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7. Project costs

- If projects don't become commercially viable, they won't be able to support government policy objectives - we will see niche rather than wide-scale adoption.
 - There is a government target of 30,000 ha of new forestry planting each year, but current levels are 14-15,000 ha. A secondary carbon market is needed to provide the necessary incentives. MRV costs (especially verification) can be a significant barrier to a project, especially when they lie only with the land manager/owner, e.g. the costs of MRV under the woodland carbon code means that projects under 10ha are not viable financially.
 - There are ways to spread this cost e.g. under Vera codes for afforestation the cost of the verification is funded by the 10% commission.
 - There is a real need to aggregate small projects into an investable bundle at a scale that reduces costs, diversifies risk and matches that level of investment that financial institutions and larger corporates want to see.
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8. Chair's conclusions

- Farmers and investors have different but sometimes overlapping needs which should be resolved. The LUNZ Hub has a clear role here both via the Green Finance Topic Advisory Group (TAG) and the other Advisory Groups which can reflect the farmer perspective.
- Whilst the workshop did identify gaps in research, it also became clear that there is need to apply existing knowledge and understanding, and to better communicate it to the various groups of stakeholders. A recurring theme was that the market would benefit from universal standards or codes to generate clarity, consistency and integrity, which would help bring down costs for all players.

Agriculture must learn the lessons of other Green Finance markets where stakeholders established separate and incompatible classification systems.

- From the farmer's side, the priority is establishing trust through better communication of the potential benefits of engaging in GF and what is expected of them, as well as many of the broader environmental issues. The effect of low 'financial literacy' is further amplified by both the gaps in the relevant, informative financial information available to farmers, and the language used.

Report by Matthew Orman (Sustainable Soils Alliance) and Professor Ania Zalewska (University of Leicester)



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