LAND USE for NET ZERO >>> HUB

Nature Finance: Incentives and Barriers

Workshop Report, June 2025

On 11 June 2025, the Green Finance Topic Advisory Group hosted a one-day workshop titled "*Nature Finance: Incentives and Barriers*". The event brought together academics, regulators, financial practitioners, and local government and NGO representatives to engage in a debate on the practical and conceptual challenges surrounding the financing of nature- based solutions. The workshop was structured into two sessions: a morning session dedicated to academic research presentations and an afternoon composed of practitioner-led panels.

The academic session offered new insights into the functioning and challenges of nature finance markets, focusing particularly on the Voluntary Carbon Markets (VCMs), inflation dynamics under climate risk, corporate biodiversity awareness, and the integration of Environmental, Social and Governance (ESG) goals into executive compensation.

Research by Dr Ayman Omar (University of Leicester School of Business) conducted in collaboration with Professor Hiro Nakata (University of Tokyo, Japan) showed that VCM developers disproportionately target countries with weaker institutional frameworks or limited financial transparency, especially in forestry and renewable energy sectors. This trend raises concerns about the credibility of these markets and the potential for regulatory arbitrage. This raises an issue that if such practices persist without early oversight, they could undermine both the integrity of the VCMs and their capacity to contribute meaningfully to climate mitigation efforts.

Dr Lisa Sheenan (University College Dublin, Ireland) presenting research conducted with Armin Aminian and Rafael Kothe (both from Otto-Friedrich-University of Bamberg, Germany) which examined how climate-related shocks influence inflation expectations in financial markets. The findings revealed that in low market volatility, such shocks have limited effect. However, in more volatile settings, both short-term and long-term inflation expectations respond strongly, with the short-term effects being more pronounced. This suggests that while climate risk currently has a subdued influence on financial stability, its increasing persistence may pose significant future challenges. Central banks, therefore, need to consider the evolving role of climate risk in shaping inflation dynamics.

Professor Ania Zalewska presented research conducted with Dr Yue Zhang (Sun Yat–sen University, China) which provided insights into factors influencing corporate biodiversity awareness. While mandates of the Chinese central government improved biodiversity awareness of local governments, they had minimal impact on biodiversity awareness of corporations. In contrast, the shareholder engagement by institutional investors with biodiversity priorities proved far more effective in influencing corporate attitudes. The research revealed a disconnect between policy implementation and financial market action, and highlighted the importance of institutional investors in promoting green behaviour.

In the keynote address, Professor Vikas Agarwal (Georgia State University, USA) explored the effects of incorporating ESG goals into CEO compensation schemes based on his research with Juan-Pedro Gómez (IE University, Spain), Kasra Hosseini (Eindhoven University of Technology, Netherlands), and Manish Jha (Georgia State University, USA). Their research highlighted a fundamental trade-off: when ESG goals are included in pay packages, firms tend to reduce the weight of conventional financial performance incentives.

This shift does not come with an overall increase in pay, suggesting that companies reallocate rather than inflate compensation. However, when ESG metrics are vague or overly numerous, the risk arises that managerial focus becomes diluted without delivering substantial sustainability outcomes. Thus, if ESG-linked pay is to be effective, it must be underpinned by well-defined, measurable, and strategically aligned metrics.

The afternoon panels brought together voices from regulatory agencies, private finance, environmental organisations, and project developers. The first panel, titled "Regulating Nature Finance" comprised of Mark Adams from the Joint Nature Conservation Committee, Louise Pryor form the Ecology Building Society, Bart

Reumkens from the Central Bank of Ireland and Melissa Swartz from the Environmental Agency, addressed the complex and often fragmented regulatory landscape. Discussions highlighted the difficulties in mobilising private capital without clear and harmonised taxonomies, and the absence of consistent assessment metrics. Panellists also debated how regulation could be designed to monitor systems rather than individuals, and how different regulators—financial versus environmental—operate with fundamentally different types of risk in mind. There was consensus that there are no universal templates for regulation and that flexible, collaborative frameworks must be developed to suit the distinct nature of environmental finance.

The second panel, “Nature Finance in Action” comprised of Richard Fitton from Finance Earth, Raheem Mirza from Rebalance Earth and Alice Roberts from National Trust, focused on practical experiences and unresolved tensions within the current investment landscape. A major theme was the divergence in risk appetite: financial intermediaries tend to prioritise short-term returns, whereas landowners and community-based actors often pursue long-term ecological outcomes. The panel underscored the importance of developing cross-disciplinary skillsets that enable meaningful communication between environmental experts and financiers. Participants noted the technical and conceptual challenges of creating nature credits, which are more complex than carbon credits and require robust verification systems.

The session also emphasised the urgent need for a shared vision and common language to unify efforts across sectors. Participants identified a persistent gap between capital investment and revenue generation, calling for a clearer understanding of how nature-based investments function in financial terms. Encouragingly, emerging interest from local businesses was noted, signalling a growing alignment between environmental goals and economic opportunity. However, several fundamental questions remain: What motivates investors and land managers? How can we build collaborative networks? How do we reduce avoidable transaction costs and make projects more attractive to mainstream finance?

Overall, the workshop served as a valuable forum for different stakeholders and organisations from across the LUNZ Hub community that deal with issues of financing the net zero whether it is from the perspective of regulating markets as a whole, individual market products and players, or from the perspective of users who need to reach out to and interact with financial intermediaries. The discussions highlighted the importance of integrating financial, regulatory, and ecological perspectives to create credible and scalable solutions.

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