

# Executive summary

The UK has made a legally-binding commitment to net zero emissions by 2050. This ambitious target will require the rapid decarbonisation of the entire economy, including agriculture which, while currently accounting for an 11% share of GHG emissions in the UK, is projected to rise to make up a 30% share by 2030 as other sectors reduce emissions more quickly.

Within the 2023 Environmental Improvement Plan, targets have also been set that will need to be delivered on farms in England, including 60% of England's soils being sustainably managed by 2030, and a reduction of nitrogen, phosphorus and sediment pollution from agriculture into the water environment by at least 40% by 2038.

As the agriculture sector in England transitions to emphasise environmental objectives alongside food production, farmers are faced with both opportunities and challenges.

The Environmental Land Management subsidy schemes in England, that will replace the Basic Payment Scheme, will pay farmers and land managers to deliver climate and environmental improvement interventions alongside food production. This will help support the 70% of farm holdings that the new schemes are hoping to cover, **but there is a need for greater financial support for the farming transition.**

To date there has been no estimate on how much the transition will cost. A report commissioned by the Green Finance Institute (GFI) and produced in partnership with environmental economics consultancy, eftec, in 2021, however, found a £3.7 billion financing gap for sustainable soils management and a £19.4 billion gap for protecting and restoring biodiversity<sup>1</sup> to the end of 2030. With farmland representing 71% of the UK's land area, engagement with farmers will be crucial in closing this gap for nature.

The Department for Environment, Food & Rural Affairs (Defra) commissioned GFI as part of a broader work package on financing UK nature recovery to explore how the private sector could provide this financial support through the convening of a Strategic Working Group across farming, finance and the agrifood sector.

## Private sector finance can be mobilised for the transition in several ways:

- **Banks** are exploring the potential to provide loans at discounted rates to farmers that meet environmental outcomes, as well as loans to cover costs required for a farming transition. Many are looking to lend to natural capital projects, and some banks are supporting farmers through the supply of measurement and monitoring tools.
- **Some supermarkets, manufacturers and food and beverage companies** are looking to support farmers within their supply chains to transition by exploring premium payments through certification, insetting payments and other incentives. They too are paying for, or developing their own, GHG emissions calculators and offering payments for basic baselining.
- **Buyers of and investors in ecosystem services** which stem from improved environmental activities on farms are also seeking to pay farmers for carbon improvements (soil, hedgerows, peatlands and woodland), habitat creation and restoration, nutrient reduction and flood risk reduction

For the finance and agrifood sectors, this support is in their own interests. Banks which lend to farmers are increasingly having to report on their financed emissions and impacts on nature. Likewise, supermarkets and manufacturers need to report on the impact of their supply chains on the environment.

However, while the private sector is committed to financially supporting a transition, through workshops and interviews with over 75 stakeholders, significant barriers were identified that are preventing private sector finance from moving at scale.

<sup>1</sup> GFI, eftec, Raymond Consulting. 2021. The Finance Gap for UK Nature

**These interconnected barriers include:**

➤ **Data** – Currently, farmers, land managers and other stakeholders in the agricultural space do not have easy access to important data sets required for decision making. Habitat, environmental and spatial data sets are currently held in multiple digital locations, are of varying quality and are often incomparable with each other due to varying data languages. A digital, standard, accurate and freely accessible representation of field parcels is also not easily available to farmers. The private sector and farmers, therefore, cannot easily source the data required for decision making, reporting, assessing risks and environmental planning, resulting in blockages to private finance flowing into the farming transition.

It is also unclear what data should be collected by farmers and the private sector. UK Government has announced multiple targets, including those set out in the 25 Year Environment Plan the 2023 Environmental Improvement Plan (EIP), but there is lacking a simply articulated vision of outcomes that can direct England’s farmers and the private sector towards data collection.

➤ **Confidence** – Within the farming community, there is an understandable nervousness that, in the push for environmental outcomes and data collection, they will be forced by the private sector to provide commercially-sensitive data, or that they may end up being at a disadvantage.

This lack of trust has resulted in a lack of engagement by parts of the farming community and so it is essential that farmers retain control over their private data, and that the transition empowers farmers rather than threatens them.

There also remains a lack of confidence from stakeholders, that the new environmental markets are high-integrity, and that environmental outcomes of a farming transition are measurable and transparent.

➤ **Implementation** – For farmers to embrace the transition, it needs to work for them – similarly, for the agrifood sector and the finance sector. A number of barriers exist that prevent commitments from becoming realised on the ground. These include: a lack of guidance around tax treatments and whether emissions have to be reduced at a farm-level; the need for aggregation models to enable delivery of environmental outcomes at scale; and a lack of clarity on stacking different environmental credits, certificates or units together and with public sector funding.



To unlock these barriers, the Group identified four key enablers.



### 1. Data Access and Availability

Public field parcel and environmental data should be made accessible and available at a common access point. Farmers and land managers should also be supported in accessing the data they need to help make environmental decisions through access to premium mapping software such as Ordnance Survey MasterMap. This would help farmers, banks and the private sector in sourcing accurate data to integrate natural capital into their businesses and decision-making processes. These recommendations should be implemented UK wide.

### 2. Priority Environmental Outcomes Metrics

There are multiple environmental targets set out by government with differing ambitions and timelines that are resulting in confusion. The private sector and farming community are seeking a clear vision from government so that they know what direction to move and where to invest their time and resources. A government-defined set of simple, priority environmental outcomes, complemented by best-practice measurement guidance, would help clarify for farmers and the private sector the environmental data they may want to collect. Metrics including soil health, water quality and nutrients, net emissions, biodiversity and flood risk have been identified as supporting both government and private sector needs. A clearer vision with a specific set of priority outcomes will also help incentivise and support farmers in this data collection.

### 3. Environmental Markets Guidance and Principles

Providing greater clarity and formal guidance on how environmental markets will operate would help to give farmers and other possible market participants the confidence to engage, and would help support the development of higher integrity markets leading to increased flows of private finance into the farming transition. The role of insetting, the ability to stack or blend ecosystem services, the need for overarching standards for emerging codes, the inclusion of different forms of tenure in agreements and tax treatments of ecosystem services have all been highlighted as key areas for which guidance and clarity should be provided by government.

### 4. Aggregation Model Support

Further funding for early-stage development of aggregation models, the development of a Community of Practice to encourage peer-to-peer learning, as well as the establishment of principles for models would encourage widespread take-up of aggregation models. This would ensure that the opportunities offered by the agricultural transition can be accessed by a variety of farm sizes, and that farmers and land managers can come together to deliver the landscape scale environmental outcomes required by government, society and the private sector.

Within each of these key enablers there is much to consider, such as data privacy, governance, and impacts of costs for government, farmers and the private sector. Cross-sectoral collaboration and open discussions will be essential in ensuring these enablers - and the flow of finance towards the farming transition at scale they are intended to unlock - are delivered. There are further considerations to be made beyond these enablers, as the farming transition begins.

- **The need for a cross-sector working group or forum consisting of the farming sector, finance sector, the food value chain and water utilities**
- **Knowledge sharing among farmers should be supported**
- **Consumer awareness of farmers' delivery of environmental outcomes and the true cost of food needs to be improved**
- **Conflicts of interest within farm advisor roles need to be kept in check**
- **Capacity for monitoring, reporting and verification needs to be built into farm advice**
- **Continued dialogue with the financial sector is needed to ensure that long-term environmental schemes do not impede banks' appetite to lend to farmers**
- **A harmonised approach to a farming transition across the entire UK would create a smoother transition and unlock broader opportunities**
- **The creation of a meta-registry of environmental credits**

Several of these enablers and additional considerations are being addressed by government and the private sector, and there is a willingness on the part of farming organisations, and the financial and agrifood sectors to further work with government to support their adoption. The full set of recommendations with detailed considerations, steps to implementation, case studies and further information can be found in the full report.

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