

Briefing

The role of the National Wealth Fund in boosting private finance for nature



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Summary

It is now widely evidenced that the UK is one of the most nature-depleted countries in the world and that the trend is continuing. This has serious consequences for the UK economy because nature underpins business activity, yet has declined as a result of economic growth. There is not enough private finance flowing into nature restoration to stem this decline. This is due to a lack of businesses and investors willing to pay for it and the difficulty of demonstrating guaranteed financial returns. A state backed investor, willing to take on risks in a nascent market and accept a lower rate of return than commercial banks, would help to inject more private capital into restoring nature, with the right market design and incentives.

The government has announced that the UK Infrastructure Bank (UKIB) will become the National Wealth Fund (NWF). This restructuring is both a risk and an opportunity for its existing remit to invest in nature-based solutions.

The bank in its current form is an important institution which has some tools to increase finance for nature but reforms are needed to make it more effective. At the very least, its capacity to invest in nature-based solutions must be retained and strengthened as it transitions to become the NWF.

To improve the NWF's role in growing nature markets the government should:

- 1. Adopt the definition of 'nature-based solutions' as infrastructure defined in the UKIB Act in forthcoming legislation for the NWF and, preferably, extend the NWF's statutory objectives to include the UK's biodiversity targets to halt the decline in species populations by 2030 and meet the legally binding nature targets in the Environment Act 2021.**
- 2. Replace the duty to generate a return on investment with a broader set of success metrics, including nature restoration** by amending the NWF's investment principles to deliver against key performance indicators (KPIs) that include a nature positive objective.
- 3. Require the NWF to monitor the impact of its investments on nature** (not just on carbon emissions) and expand its 'do no harm' exclusion to invest in line with the UK green taxonomy (when published).
- 4. Equip the NWF to invest in whatever financial capacity makes most sense.** It is vital that the NWF has the flexibility to create maximum impact,

whether through conditional investment in private funds according to its investment criteria, as is currently the case, or by setting up and managing its own natural capital funds if there are not enough high integrity funds to invest in. This will be more effective if recommendation two above is also adopted.

5. **Increase the NWF's resource for natural capital activity.** The government has said that the NWF will have "increased resources and focus on conducting more outreach". In recognition of the early stage of nature markets and the NWF's existing experience and growing role, the government must expand the fund's natural capital team.
6. **Set up a public platform to aggregate key data on nature markets** as the market develops and as more data becomes available.

Introduction

The UK is one of the most nature-depleted countries in the world which, because our economy depends heavily on nature's services, has serious consequences for the ability to pursue a growth agenda.¹

Analysis by the Green Finance Institute (GFI) has shown that nature loss along supply chains could lead to a 12 per cent drop in UK GDP by 2030.²

This echoes the conclusion of Professor Sir Partha Dasgupta's 2021 review for HM Treasury on *The economics of biodiversity* (the Dasgupta Review) that the economy depends upon the natural world and is bound by its limits.³

The value of nature is not properly factored into our economic system which means there is little to no incentive to stay within natural limits and preserve it. As a result, most economic activity is depleting natural capital at an unsustainable rate.⁴

The government has a set of legally binding targets, including halting species decline by 2030 and a commitment to restore nature, as set out in the Environment Act 2021.⁵ Currently, delivery relies on investment from the public purse but, if nature markets were more developed, there would be more private money to help meet these targets.

The government must enable private finance to substantially contribute to nature's restoration given the Green Finance Institute's estimate of a finance gap of between £44 billion to £97 billion in 2021 over the next ten years (based on public policies like the 25 Year Environment Plan).⁶ In the very near term, supplementing the farming budget with private finance could allow the overall budget to increase without the need for additional public funds.

Alongside public money for nature restoration, one way to address the problem is to facilitate more private finance via 'nature markets' (ie investment in nature restoration), so businesses and investors can gain rewards in financial returns, economic sustainability and environmental benefits. However, nature markets are struggling to develop and deliver at scale.

An earlier Green Alliance briefing set out options to develop the supply side of nature markets.⁷ Here, we look at the role of public financial institutions, like the NWF, in encouraging private finance for nature restoration.

Banking on nature: public financial institutions' role in nature markets

There are many potential levers that can be used to create and scale up a new market for nature, especially one designed to deliver social or environmental impact alongside economic returns. As identified by Big Society Capital's *10 lessons from growing a market 10x in 10 years* report, these include government policy, establishing impact orientated funds, collaboration across the market (including shared data and resources) and a market actor able and willing to make riskier investments with a lower rate of return.⁸ A

public financial institution is well placed to be that market actor. It can act differently to a commercial bank by accepting lower returns and taking on riskier investments to deliver against public policy objectives.

In 2021, the UK government set up the UKIB, a public financial institution with a mandate to assist in meeting UK climate goals and promoting economic growth.⁹ It had a strong steer from the Treasury to invest in nature-based solutions.¹⁰ Before this, in November 2014, under the Conservative-Liberal Democrat coalition government, a different public financial institution, the British Business Bank, was founded to help small and medium-sized enterprises access finance to drive sustainable growth.¹¹

As it came to power in July 2024, the Labour government announced it would establish a National Wealth Fund (NWF). It has since confirmed that the UKIB will operate as the NWF, or “the UK’s impact investor”, extending its mandate and working alongside the BBB.¹² Legislation (amongst other documents) will be brought forward to implement this.

The NWF aims to catalyse more private investment in areas that align with the government’s missions and where an undersupply exists. It is broadly geared towards boosting green industries and supporting the UK’s industrial strategy. Crucially, the government has said that the NWF will continue to invest in the former UKIB’s priority sectors, which includes natural capital.¹³ Legislation, and the government’s strategic steer, will need to embed this to ensure it is a meaningful commitment. And, considering the Green Finance Institute’s assessment of nature’s value to the economy, the natural capital remit needs strengthening.¹⁴

What is the wealth in the National Wealth Fund?

How the UK's National Wealth Fund (NWF) has been conceived appears to ignore the Dasgupta Review's definition of wealth, which sees 'inclusive wealth' as the stock of assets in the economy that deliver social worth, including natural assets.¹⁵

Measuring wealth this way is fundamental to the idea of sustainable development, because it accounts for the assets (including nature) which all economic activity relies on and, crucially, it measures their depreciation rather than just the flow of goods and services derived from them.

Moreover, the 'wealth' of a national wealth fund usually refers to the establishment of financial assets that can be used to support future generations. For instance, the Government Pension Fund of Norway is built on oil and gas revenues and it finances the Norwegian welfare state.¹⁶

The NWF is designed to build up physical capital, which should generate returns, but it seems to disregard the importance of building up the stock of natural capital for a sustainable economy and it does not deliver inclusive wealth, as defined in the Dasgupta Review.

The government should create a new duty for the NWF to maintain and restore the UK's natural asset base (ie, nature), recognising the importance of investing in the building blocks of the economy on which prosperity depends. This reflects one of the Dasgupta Review's key insights: that natural assets underpin the functioning of the economy and require investment to maintain and restore them.

How does the new National Wealth Fund work?

The UKIB was originally designed to partner with private sector and local government to deliver two strategic objectives: to help tackle climate change, particularly meeting the government's net zero emissions target by 2050, and to support regional and local economic growth through better connectedness, opportunities for new jobs and higher levels of productivity. This was its mandate. Its investment strategy has adhered to a triple bottom line: investments must achieve one or both strategic objectives, generate positive financial return and demonstrate additionality (ie value added).

When it comes to deciding what projects or funds to invest in, the bank has followed four investment principles, one of which was an expectation to crowd in significant private capital over time.¹⁷

The government set out five priority investment areas for the bank: clean energy, transport, digital, water and waste. Nature-based solutions were included in the definition of infrastructure and, therefore, were to be considered in the bank's approach to these priorities.¹⁸ Now that the bank has become the National Wealth Fund, its mandate and principles will

remain the same until new legislation, a new framework document and a statement of strategic priorities are published and in force.

The NWF is to be operationally independent from the government. The Treasury will be its only shareholder and provided £22 billion initial financial capacity under the Conservative government for the UKIB.¹⁹ A further £5.8 billion has been promised for the NWF by the new government.²⁰

The NWF differs from a commercial bank in that it aims to deliver against public policy objectives and a return on investment for the exchequer (at portfolio level). Theoretically, it has a higher appetite for risk.

Despite its remit, investment in nature markets by the UKIB has been slow to scale up. It has made one natural capital investment since its inception, a bridging loan to the Highland Rewilding restoration project in Scotland (see below). But there is untapped potential now for the NWF to do much more.

Highlands Rewilding: the first natural capital investment deal²¹

The first foray into natural capital investment by UKIB was to support a Scottish nature restoration project called Highlands Rewilding.

The bank provided a £12 million bridging loan in May 2023 to facilitate the acquisition of the 1,300 hectare Tayvallich Estate.

Highlands Rewilding's aim was to transform the estate into a thriving ecosystem by restoring temperate rainforest and marine habitats and adopting regenerative farming.

The project is still in its early stages, but has plans to deliver carbon sequestration and new employment opportunities for the local community, as well as boosting local biodiversity.

UKIB recognised the project's potential to generate valuable data and insights that could provide market information for future natural capital investors. With this in mind, the bank has supported the project to develop its data and research platform.

This is an example of a loan working towards several different objectives within the UKIB remit: sequestering carbon through nature-based solutions, making data on nature markets publicly available and developing economic opportunities for local communities.

What is preventing the NWF from investing more in nature?²²

Nature markets are still in the early phase of development. There are multiple barriers for interested investors, including high transaction costs, policy uncertainty and complexity, a lack of data on project outcomes and market prices, lack of standards and market infrastructure, and novelty risk in an as yet untested market.²³

Knowledge gaps exist on both sides of the market. The finance sector needs to increase its ecological expertise to ensure integrity and additionality of investments, and project managers need to translate outcomes into business cases for investment.

There are also spatial complexities with nature restoration. For example, businesses may want to focus on the restoration of habitats in their supply chains, which may be overseas, while UK-based funds suggest that a local and emotional connection to an area may increase an investor's appetite to pay for restoration there.

The NWF, as an investment bank, is not immune to these barriers and cannot create and scale up a market on its own. Government policy is needed for governance, standards and to create incentives for private investment. The previous government initiated a programme with the British Standards Institute to develop market standards and promised a consultation on the governance of voluntary carbon and nature markets.^{24,25}

One of the biggest investment barriers is the challenge of demonstrating revenue streams.²⁶ Although revenues are generated; for example, the Green Purposes Company and Finance Earth identified returns to investors ranging from two to 12 per cent in five nature-based solutions projects they looked into, not including cost savings and other corporate returns (in these cases, blended public-private finance was used to achieve market level returns).²⁷ And it is difficult to source information, such as evidence of past cashflows or biodiversity outcomes and long term market prices, to build a business case that would satisfy a bank's risk assessment.

It is almost impossible to ascertain whether a project can be financed or can pay a loan back unless it is secured against a physical asset, such as the land itself. The Highlands Rewilding investment was a loan secured against the value of the land (see above).

The NWF's role is to catalyse private investment into projects that would not otherwise have been funded.²⁸ It can do this via financing tools originally available to the UKIB, such as first loss guarantees (whereby the bank bears losses up to a capped amount on a portfolio of debt obligations), concessional finance (taking on higher risk or offering preferential terms in pursuit of policy objectives) or cornerstone investment into impact aligned funds (for example, funds designed to create social or environmental outcomes). When the NWF is fully operational there will be further financing tools it can use, detailed in the government's policy paper.²⁹

There is a real need for a public financial institution to use these tools to prove the case for investment in natural capital projects and develop the market by investing early.³⁰ This would address private sector hesitancy about being an early mover (and possibly a subsequent loser) and demonstrate more clearly the returns possible.

How the government should support the NWF's nature role

The NWF's role in the market (to leverage private capital funding for a project) is only one of several levers required to get nature markets off the ground at sufficient pace.

The government is already addressing clearly identified policy issues outside the bank's control, for example around standards and governance and getting natural capital projects investor ready.^{31,32} But the fund's remit to invest in nature must be strengthened to attract sufficient private capital to grow nature markets.

The forthcoming NWF legislation, framework document (setting out its core responsibilities and parameters, and the fund's relationship with the Treasury) and statement of strategic priorities are important opportunities to strengthen its role.

To improve the NWF's role in growing nature markets the government should:

- 1. Adopt the definition of 'nature-based solutions' as infrastructure defined in the UKIB Act in forthcoming legislation for the NWF**, which means it is able to invest in natural capital projects, and is explicitly encouraged to do so in the Treasury's statement of strategic priorities. Preferably, **the NWF's statutory objectives should also include the UK's biodiversity targets** to halt the decline in species populations by 2030 and meet the legally binding nature targets in the Environment Act 2021. This would be an evolution of the role the NWF can play in boosting nature markets and it would help to make natural capital projects more investible.
- 2. Amend its investment principles to deliver against key performance indicators (KPIs) that include a nature positive objective**, rather than a financial return on investment.³³ This would improve the case for investing in natural capital projects by addressing the cashflow barrier to investment.
- 3. Require the NWF to monitor the impact of its investments on nature** (not just on carbon emissions) and expand its 'do no harm' exclusion to invest in line with the UK green taxonomy (when published) to minimise environmental damage beyond fossil fuel extraction.³⁴
- 4. Equip the NWF to invest in whatever financial capacity makes most sense**, eg as a fund manager (like the former UK Green Investment Bank) or through its continued capacity to invest in funds. Although UKIB was criticised by the Public Accounts Committee for being too passive when investing in funds, this is a narrow view of the levers needed to grow a market.³⁵ Investing in impact aligned funds is an important way to scale up and develop industries.³⁶ If future market activity requires it, the bank should be given more agency to blend private finance with its own to fund a portfolio of projects aligned with its objectives. It is vital that the NWF has the flexibility to create maximum impact, whether through conditional investment in private funds according to its investment criteria, as is currently the case, or by setting up and managing its own natural capital funds if there are not enough high integrity funds to invest

in. This will be more effective if recommendation two above is also adopted.

5. **Increase the NWF’s resource for natural capital activity.** The government has said the NWF will have “increased resources and focus on conducting more outreach to identify expanded project pipelines and structure innovative transactions with project sponsors, industry, local authorities and government departments”.³⁷ In recognition of the early stage of nature markets and the NWF’s existing experience and growing role, the government must expand the fund’s natural capital team to support the diverse skillset and increased resources needed to grow the market.
6. **Set up a public platform to aggregate key data on nature markets** as the market develops and as more data becomes available. This should include pricing on biodiversity net gain and voluntary carbon and biodiversity credit schemes, and it could extend to buyer and seller accreditation.³⁸ Gathering this data in one publicly accessible place would help bodies like the NWF assess the stability of projected revenues to aid their risk assessment.

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Glossary

National Wealth Fund	A wealth fund set up in the UK in 2024 by the government to unlock investment and growth in the UK.
UK Infrastructure Bank	A public financial institution set up by the UK government in 2021 with two strategic objectives: to help tackle climate change and to support regional and local economic growth. It became the National Wealth Fund under the new Labour government in 2024.
Nature market	A market on which nature, eg nature-based solutions to climate change, is valued and traded for money. For example, biodiversity net gain credits can be sold on a nature market.
Public financial institution	An organisation that deals with financial transactions of public money. The UK Infrastructure Bank and the National Wealth Fund are both public financial institutions.
Impact aligned fund	Funds designed to create social or environmental outcomes, for example.

Endnotes

- ¹ September 2023, [State of Nature 2023](#)
- ² Green Finance Institute, April 2024, [Assessing the materiality of nature-related financial risks for the UK](#)
- ³ Gov.uk, 2 February 2021, *The economics of biodiversity: the Dasgupta Review*
- ⁴ Green Alliance briefing, February 2024, [‘Growing nature markets in the UK’](#)
- ⁵ Legislation.gov.uk, November 2021, [‘Environment Act 2021’](#), part 1, chapter 1
- ⁶ Green Finance Institute, etec and Rayment Consulting, October 2021, *The finance gap for UK nature*
- ⁷ Green Alliance briefing, February 2024, op cit
- ⁸ Big Society Capital, [‘10 lessons from growing a market 10x in 10 years’](#)
- ⁹ Legislation.gov.uk, 23 March 2023, [‘UK Infrastructure Bank Act 2023’](#)
- ¹⁰ HM Treasury, September 2023, ‘Statement of strategic priorities to the UK Infrastructure Bank (UKIB)’
- ¹¹ British Business Bank, ‘What we do’
- ¹² Gov.uk, 14 October 2024, *National Wealth Fund: mobilising private investment*
- ¹³ Ibid
- ¹⁴ Ibid
- ¹⁵ Ibid
- ¹⁶ Norges Bank Investment Management, [‘About the fund’](#)
- ¹⁷ UK Infrastructure Bank, September 2023,
- ¹⁸ Ibid
- ¹⁹ Gov.uk, 12 May 2022, [‘New Bill to set up UK Infrastructure Bank announced in Queen’s speech’](#)
- ²⁰ Ibid
- ²¹ UK Infrastructure Bank, May 2023, [‘Private sector case studies: Highlands Rewilding bridging loan’](#)
- ²² Note that ‘investing’ in nature is often conflated with philanthropic donations or buying outcomes, rather than investing for a financial return. We are referring to investment in nature for financial return.
- ²³ UK Infrastructure Bank, November 2022, ‘Discussion paper: our role in natural capital markets’
- ²⁴ Bsigroup.com, [‘The Nature Investment Standards Programme’](#)
- ²⁵ Gov.uk, 15 March 2024, [‘Policy paper: Nature Markets Framework, progress update March 2024’](#)
- ²⁶ Broadway Initiative, October 2023, *The state of UK nature markets 2023*
- ²⁷ Green Purposes Company and Finance Earth, May 2021, [A market review of nature-based solutions](#)
- ²⁸ Ibid
- ²⁹ Ibid
- ³⁰ UK Infrastructure Bank, November 2022, op cit
- ³¹ Department for Environment, Food and Rural Affairs, ‘Nature Markets Framework, progress update March 2024’
- ³² For example, the [Natural Environment Investment Readiness Fund](#)
- ³³ See E3G’s [joint letter](#) to the UK Infrastructure Bank on KPIs for success for more information on how this could work.
- ³⁴ UK Infrastructure Bank, September 2023, *Strategic plan*
- ³⁵ House of Commons Public Accounts Committee, 7 November 2022, [‘Oral evidence: Creation of the UK Infrastructure Bank’](#)
- ³⁶ Ibid
- ³⁷ Ibid
- ³⁸ Gov.uk, 27 July 2023, [‘Guidance: Statutory biodiversity credit prices’](#)