

Natural Capital Market Framework

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Natural Capital Market Framework

Contents

[Cabinet Secretary's Foreword](#)

[Executive Summary](#)

[Section 1: Attracting more high-integrity private investment in Scotland's natural capital](#)

[Mobilising investment into Scotland](#)

[Current context for Scotland's voluntary carbon market](#)

[Current context for Scotland nature and biodiversity market](#)

[Investment outlook](#)

[Seven key interventions by 2026 to increase high-integrity investment](#)

[Section 2: Supporting responsible, values-led, high-integrity natural capital investments](#)

[Principle 1: Investment that delivers integrated land use](#)

[Principle 2: Investment that demonstrates engagement and collaboration](#)

[Principle 3: Investment that delivers public, private and community benefit](#)

[Principle 4: Investment that is ethical and values led](#)

[Principle 5: Investment that is of high environmental integrity](#)

[Principle 6: Investment that supports diverse and productive land ownership](#)

[Section 3: Supporting Scotland's land managers in natural capital markets](#)

[Conclusion](#)

Cabinet Secretary's Foreword

Scotland's beautiful and diverse natural environment is at the heart of our identity, economy, and communities. It underpins our economic and social prosperity and can be described as our natural capital (Dasgupta Review, 2021). This natural capital – our biodiversity, forests, fisheries, clean and healthy air, water, seas, and soils – is immensely valuable. The monetary worth of Scotland's natural capital is estimated at £230 billion, yet its true value is incalculable. Our natural capital provides the essentials that make our lives possible and worthwhile: food, water, energy, medicines, building materials, recreation, flood resilience, pollination, carbon sequestration, and resilience to the increasing impacts of climate change.

Historically, natural capital has often been overlooked in decision-making, leading to the degradation and sometimes even loss of our natural assets, reducing their ability to provide the benefits that underpin our society and economy. As part of Scotland's National Strategy for Economic Transformation (NSET), to support a wellbeing economy, the Scottish Government is committed to developing a values-led, high-integrity market that promotes responsible private investment in natural capital.

The Scottish Government already invests a significant amount of public money to maintain and enhance our natural capital, including investment in the creation of woodlands, the restoration of peatlands, and the protection of biodiversity. However, no government can meet the scale of the challenge alone. It is a public and private responsibility.

Responsible, values-driven, high-integrity private investment in Scotland's natural capital through the Peatland Code (PC) and the Woodland Carbon Code (WCC) is already supporting our response to the twin crises of climate change and biodiversity loss. This market framework outlines the steps the Scottish public sector will take before the end of this parliamentary term to:

- build on current activity and attract greater responsible private investment into high-integrity natural capital markets (section 1);
- ensure that private investment in natural capital benefits local communities, supports Scotland's environmental objectives, and follows Scotland's principles of responsible, values-led investment in natural capital (section 2);
- and enable Scotland's farmers, crofters, and land managers to be rewarded for providing nature-based benefits by participating in high-integrity natural capital markets (section 3).

Executive Summary

Scotland's natural capital¹—its biodiversity, forests, peatlands, air, water, and soils—underpins the nation's economy and well-being.² As the world faces the twin crises of climate change and biodiversity loss, private investment in Scotland's natural capital is essential to complement government efforts in restoring and protecting these vital resources.

Scotland's natural capital market framework (market framework) aims to foster responsible, values-led private investment that supports Scotland's transition to a net zero and climate-resilient economy while delivering benefits to local communities. It embeds Scotland's six principles for responsible investment, including integrated land use, engagement and collaboration, community benefit, and high environmental integrity. These principles are designed to ensure that investments in natural capital markets meet the highest standards, delivering measurable environmental and social outcomes.

This market framework provides guidance to investors, land managers, communities and other market participants. It provides links to tools and resources to develop natural capital projects that attract responsible private investment. It also highlights key interventions and developments expected by 2026 to strengthen Scotland's position as a leader in high-integrity natural capital markets. Through this market framework, the Scottish Government seeks to align investment opportunities with national priorities, ensuring that the benefits of natural capital are shared by all.

There are many opportunities for investment in natural capital. Some of these are at a very early stage of development so this first market framework for Scotland is focused on:

- the expansion of high-integrity voluntary carbon markets via the Woodland Carbon Code (WCC)³ and Peatland Code (PC)⁴;
- the development of high-integrity opportunities to invest in Scotland's nature and biodiversity;
- applying our six principles for responsible investment in natural capital, including the expectation that projects generate tangible benefits for local communities;
- actions anticipated before the end of Scotland's current parliamentary term in 2026.

¹ Natural capital is the renewable and non-renewable stocks of natural assets, including geology, soil, air, water and plants and animals that combine to yield a flow of benefits to people. Adopting a natural capital approach enables us to understand the role of our natural environment, alongside its intrinsic value, as an asset that underpins our economy and society.

² [Publication of Scotland Natural Capital Accounts: 2023 - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/scotland-natural-capital-accounts-2023/pages/introduction.aspx)

³ [Home - UK Woodland Carbon Code](https://www.gov.scot/publications/woodland-carbon-code/pages/introduction.aspx)

⁴ [Peatland Code | IUCN UK Peatland Programme \(iucn-uk-peatlandprogramme.org\)](https://www.iucn-uk-peatlandprogramme.org/)

This market framework will be regularly updated to ensure that natural capital markets in Scotland continue to serve the evolving needs of its environment, investors and communities, including farmers and land managers. Future versions may expand the scope to address other emerging natural capital markets such as marine ecosystems, water quality, flood resilience, climate adaptation, principles for inseting and sustainable agriculture. The Scottish Government encourages investors and land-managers to use this market framework as a reference for responsible investment in natural capital, and to collaborate with us in this effort. Wherever appropriate, this market framework aligns to other UK and overseas efforts to develop high-integrity natural capital markets. For further advice or to get involved, please contact our programme team.⁵

⁵ Private Investment Natural Capital: PINC@gov.scot

Section 1: Attracting more high-integrity private investment in Scotland's natural capital

Mobilising investment into Scotland:

The Scottish Government is clear that delivering climate and nature targets will require public and private investment on an unprecedented scale over many years, at a time when public finances are extremely stretched. We are also clear that such investment has the potential to generate significant economic growth and create new jobs and industries right across Scotland. We understand that to attract the necessary investment and to realise associated economic and environmental opportunities, private investment is essential and that the providers of this finance require a competitive reward for the risks that they take.

In November 2023, the investor panel, co-chaired by the former First Minister and the Chief Executive of Noble & Co, made recommendations to the Scottish Government for mobilising capital to finance Scotland's transition to net zero.⁶ Most of these recommendations are relevant to developing natural capital markets. In its response to these recommendations,⁷ the Scottish Government and its agencies committed to exploring new approaches for attracting the scale of capital required.

Furthermore, the Green Industrial Strategy was published in September 2024 and sets out the economic opportunity of net zero in Scotland. It describes economic priorities and provides clarity to industry, business, investors and workers about where policy and levers will focus.⁸ Likewise, the third Scottish National Adaptation Plan⁹, also published in September 2024, emphasises investment in nature recovery will be key to building our resilience to the locked-in impacts of climate change.

Scotland has its own national development bank, the Scottish National Investment Bank (the bank). One of its three missions focuses on driving green and sustainable investment to support Scotland's transition to a low carbon, net zero economy. In its first three years the bank has, delivered £0.65 billion of impact investment and crowded in another £1.4 billion of private investment into net zero (addressing the climate crisis, through growing a fair and sustainable economy), place (transforming communities, making them places where everyone thrives) and innovation (scaling up innovation and technology, for a more competitive and productive economy). It plays a critical role in enabling the delivery of commercial investment and mission impacts by providing long-term, patient debt or equity. The bank has already invested in woodland creation¹⁰ and will continue to work closely to support the development of high quality private investment in natural capital.

This section of the market framework describes the specific context for Scotland's carbon and biodiversity markets. It provides an investment outlook and details seven key interventions designed to drive high-integrity investment.

⁶ [Investor Panel: Mobilising international capital to finance the transition to Net Zero](#)

⁷ [Investor Panel - Scottish Government Response to Investor Panel Recommendations \(www.gov.scot\)](#)

⁸ [Green industrial strategy - gov.scot \(www.gov.scot\)](#)

⁹ [Climate change: Scottish National Adaptation Plan 2024-2029 - gov.scot \(www.gov.scot\)](#)

¹⁰ [Supporting woodland creation in Scotland with Gresham House Forestry Fund | Scottish National Investment Bank \(thebank.scot\)](#)

Current context for Scotland's voluntary carbon market

Carbon credits generated through the WCC and PC form the backbone of the UK's voluntary carbon market, which is currently the main high-integrity natural capital market in Scotland.

The WCC and PC have been in operation for 13 and seven years respectively. They generate high-integrity, independently verified carbon units¹¹ from woodland creation and peatland restoration respectively. Companies can use these units to support appropriate neutrality or net zero claims on their UK-based carbon emissions.

Box 1: Woodland Carbon Code and Peatland Code - analysis of UK land carbon registry data

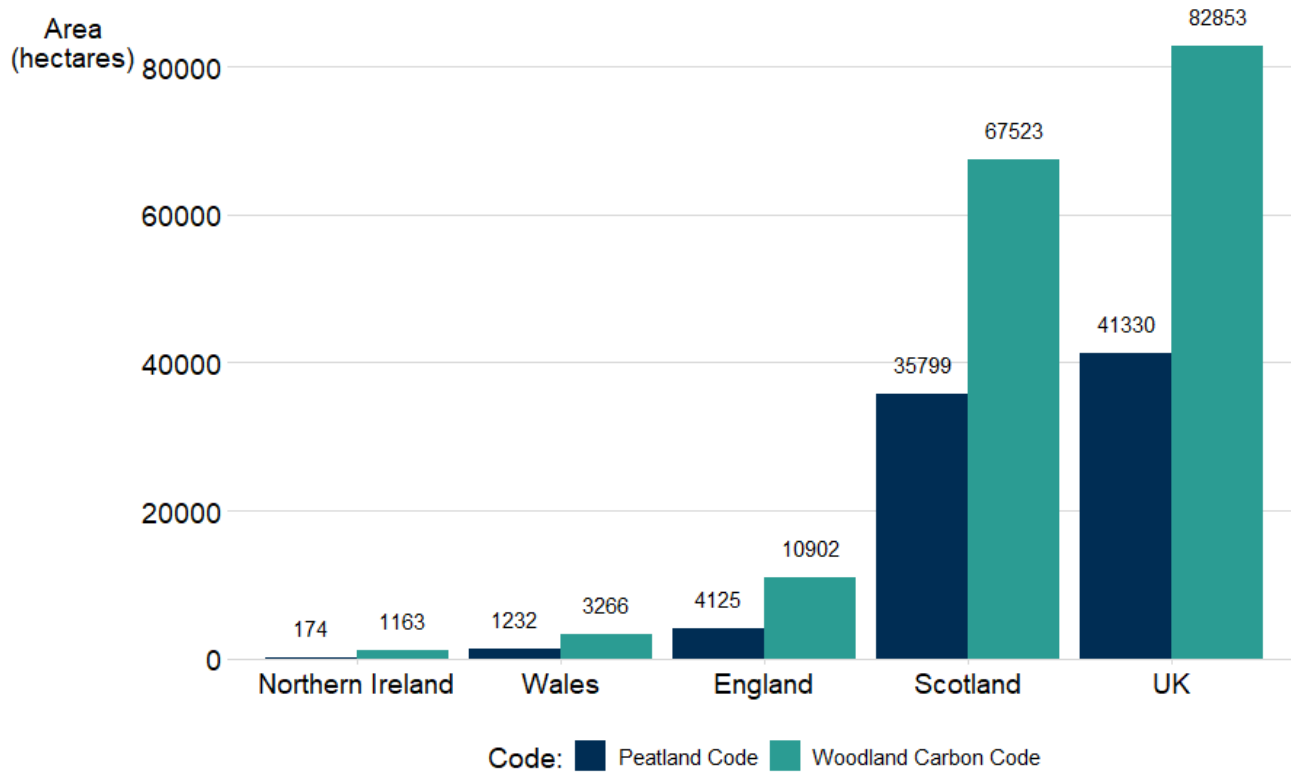
Engagement with both the WCC and PC has increased substantially in recent years with most of the land covered by the projects located in Scotland (see Figure 1). The average area of PC projects is around 3.6 times greater than WCC projects and tends to cover up to 200 hectares. PC projects in Scotland are predicted to prevent 8.36 million tonnes of CO₂e emissions over their project lifetimes, whereas WCC projects in Scotland are projected to sequester 21 million tonnes of CO₂e.¹² Around 1.4 million PC pending issuance units (PIUs)¹³ and 10.6 million WCC PIUs have been issued.

¹¹ The main 'currency' of carbon markets is carbon units, whereby one carbon unit corresponds to one tonne of CO₂ equivalent. Woodland Carbon Units (WCU) and Peatland Carbon Units (PCU) are issued at verification, and therefore the associated carbon is guaranteed to have been sequestered or emissions prevented. When WCUs and PCUs are "retired", the owner of these units can state that they have offset the corresponding mass of CO₂ equivalent. Landowners can also retire their own units, without selling (assigning) them to another party, and therefore offset their own emissions directly (insetting). Businesses can only use PC and WCC credits to offset their land based emissions from activities within the UK

¹² Sources: IUCN (August 2024) and [WCC interim summary statistics](#) (July 2024). Further information regarding PC and WCC projects is publicly available on the [UK Land Carbon Registry](#). Note: the time periods of the sources above are very similar, but not identical. This will have a minor impact on the comparison.

¹³ Pending Issuance Units (PIUs) are issued at project validation. Carbon has not been sequestered or emissions prevented at this point, and PIUs when sold (assigned) represent an advance purchase of a WCU or PCU. PIUs cannot be included in a company's Net Greenhouse Gas Emissions Report.

Figure 1: Total area of carbon projects (hectares) by country – all registered projects.



Sources: IUCN (August 2024) and WCC interim summary statistics (July 2024).

In 2023, the average price of a WCC PIU was estimated to be £25.36 while in 2022 the average cost of a PC PIU was £23.95 (2022). This is significantly higher than average global prices for carbon credits, but it is not yet high enough to be the single source of revenue for most projects. As a result, projects are often built around diversified revenue streams (i.e. nature credits, timber, agriculture, and public grants).

To be registered under the PC or WCC codes, projects must meet additionality requirements¹⁴, including financial additionality tests.¹⁵ When both private investment and public funding are involved in generating WCC or PC credits, this is referred to as ‘blended finance’.

Currently, 88% of validated PC projects in Scotland have received some level of public funding (usually via Peatland Action)¹⁶, with the median public funding amounting to approximately 70% (mean: 56%). WCC projects are also usually supported by public funding, via the forestry grant scheme subject to the additionality test. The woodland carbon market is becoming a major player in woodland creation, approximately a third of woodland creation schemes are currently supported through the WCC. The financial value of the WCC is also increasingly evident and is providing new options for blending public and private funding. For example, in 2024, the forestry grant scheme has introduced a new category for woodland creation schemes exceeding 50 hectares to receive a lower rate of grant intervention.

Current context for Scotland’s nature and biodiversity market

The Scottish Biodiversity Strategy outlines an ambitious vision, with goals to halt biodiversity loss by 2030 and to restore and regenerate Scotland’s biodiversity by 2045. To drive the transformative change needed, it is crucial that Scotland moves from ambitious commitments to concrete actions and investments of sufficient scale and impact. The Government’s biodiversity investment plan will outline actions to facilitate the flow of investment to move towards a nature positive future.

Currently, private investment in Scotland’s nature and biodiversity predominantly flows as a co-benefit from carbon market investment in woodland creation and peatland restoration through the WCC and PC. While these codes focus primarily on delivering high-integrity carbon units, they do encourage co-benefits that often lead to biodiversity improvements. However, the focus of this carbon market investment on land suitable for woodland creation and peatland restoration means there are many other habitats in Scotland that currently do not have a market mechanism for attracting private investment.

Access to a broader range of codes and standards – beyond ecosystem or habitat specific carbon codes – will be important for supporting delivery of the Scottish Biodiversity Strategy vision of a nature positive future across all of Scotland’s terrestrial, aquatic and marine ecosystems.

We welcome the development of high-integrity environmental markets. Additionally, the Scottish Government is actively supporting the development of robust and credible pathways for private investment in nature restoration and biodiversity. We believe such efforts can help Scotland make meaningful strides toward its environmental objectives.

Investment outlook

¹⁴ Additionality is a fundamental requirement of any high-integrity natural capital market. Additionality is change that would not have occurred in the absence of management actions, measured relative to the baseline.

¹⁵ For financial additionality tests: The financial feasibility test for the PC states that projects shall have a maximum level of non-carbon income of 85% of the project’s restoration and management costs over the project duration. This non-carbon income could be public grant funding or other private income. The remaining minimum 15% shall come from carbon finance. The WCC has an ‘[investment test](#)’ to demonstrate that, over the project duration, without carbon finance, woodland creation is either: a) not the most economically or financially attractive option for that area of land b) not economically or financially viable on that land at all

¹⁶ [Peatland ACTION | NatureScot](#)

In general, natural capital markets are at an early stage in their development and, globally, their rapid growth has slowed recently, partly due to concerns over low standards in international carbon markets.

Despite the UK's comparative ability to supply high-integrity credits, natural capital markets are still viewed as riskier than other markets due to factors like the lack of comparable insurance options and the uncertainty of carbon pricing. As a result, natural capital projects tend to demand higher risk premiums. In the near term, investment in Scotland's natural capital markets is likely to mainly come from market pioneers or the following sources:

- values driven investors: investors accept a lower rate of return and higher risks for environmental or social impacts;
- philanthropists: wealthy individuals or charitable trust that fund natural capital projects because it fits with their values and objectives;
- off-takers and insetters: companies or land-managers directly fund projects to offset their own impact, either voluntarily or because of regulation;
- diversified projects: investments in projects with multiple revenue streams (for example nature credits, timber, meat or public grants);
- long-term, patient – oftentimes equity – investors: recent initiatives like the UK Government's 'mansion house compact'¹⁷ may well boost investment from pension funds and insurance assets.

Box 2: The Facility for Investment Ready Nature in Scotland (FIRNS)

The Scottish Government and the National Lottery Heritage Fund (NLHF) co-fund FIRNS, delivering £4.7M to support the development of a pipeline of investable, nature-based projects that meet demand from responsible buyers and investors.

The fund, administered by NatureScot and NLHF, and supported by the Green Finance Institute, helps to develop high-integrity natural capital markets by:

1. funding the development of high-integrity natural capital projects to become ready to receive private investment;
2. supporting the development of tools and initiatives that improve the integrity of natural capital markets.

Since its inception in 2022, FIRNS has provided essential seed funding for 35 projects aimed at securing private investment into Scotland's natural capital markets. All funded projects work to Scotland's principles for responsible investment in natural capital. Project partners include private individuals and companies, community organisations, charities and trusts, and public bodies. The 90 plus named organisations are located all over Scotland.

¹⁷ [Mansion House 2023 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/mansion-house-2023)

Seven key interventions by 2026 to increase high-integrity investment:

- 1. To enhance investment in natural carbon, Scotland's private investment in natural capital programme will coordinate a 'peatland pilot' to explore approaches to integrating public and private funding for peatland restoration.**

Scotland's 2 million hectares of peatlands play a vital role as a carbon store and in providing nature-based solutions to climate risks. However, with an estimated 75% of Scotland's peatlands degraded, they currently emit around 6.3 megatons of carbon annually – approximately 15% of Scotland's total emissions.

To help address this, the Scottish Government has set ambitious goals to restore 250,000 hectares of degraded peatlands by 2030, backed by a commitment of £250 million in public funding. This goal and public funding have mobilised a sector but it will require new blended finance approaches that combine public and private funding for peatland restoration to maximise the value of public spending and support increased restoration activity. Private investment channelled via the high-integrity PC has the potential to support private investment.

Scotland aims to restore more peatland to deliver more benefits (carbon storage, and also water management and biodiversity) with the same or less public expenditure by de-risking private sector engagement with peatland carbon markets.

- 2. The planning system helps to secure positive effects for biodiversity from development.**

National planning framework 4 (NPF4) signals a turning point for planning, placing climate and nature at the centre of our planning system and is a significant step forward towards helping to achieve a net zero, nature positive Scotland.

Policy 1 makes clear that significant weight will be given to the global climate and nature crises through planning decisions. Policy 3b for national, major and environmental impact assessment (EIA) developments, sets out that proposals will only be supported where it can be demonstrated they conserve, restore, and enhance biodiversity, including nature networks, so that they are in a demonstrably better state than without intervention. It further states that, wherever possible, measures for enhancing biodiversity should be provided within the development site, where the loss of, or damage to, biodiversity is taking place. Where relevant policy tests cannot be fully met onsite, offsite provision may be considered alongside on-site. In these circumstances, offsite delivery should be as close as possible to the development site.¹⁸

NatureScot are developing a biodiversity metric for use in Scotland's planning system. This metric will be based on England's statutory biodiversity metric but adapted for the Scottish context. Once available this will be suitable for use in supporting delivery of NPF4 policy 3b. Early signalling of the proposed metric will be communicated to stakeholders as soon as they are available, to enable preparations for adopting the new Scottish biodiversity metric to begin.

¹⁸ [Biodiversity: draft planning guidance - gov.scot \(www.gov.scot\)](https://www.gov.scot/biodiversity-draft-planning-guidance)

3. The WCC and PC will be developed to increase investment in both carbon and biodiversity.

The Scottish Government, through FIRNS, is funding initiatives to explore the potential to add biodiversity and [community benefit indicators to the WCC and PC](#). Such indicators could help to differentiate projects based on their ability to deliver genuine, measurable benefits to communities and biodiversity. Success in this area will increase transparency, elevate standards, build trust among investors, buyers, and communities, and potentially boost project revenue. Similarly, Department for Environment, Food and Rural Affairs (DEFRA) is funding a project to develop a Woodland Water Code as a crediting mechanism, integrated with the WCC, to encourage private investment in trees for the improvement of the freshwater environment.

The PC and WCC will also seek further market recognition as high-integrity standards for carbon credits and environmental restoration to further demonstrate their capacity to deliver real, high-quality, and verifiable carbon reduction outcomes. Specifically, the IUCN UK Peatland Programme will seek ISO accreditation.¹⁹ It will also seek ICROA approval,²⁰ and compliance with the ICVCM Core Carbon Principles²¹ for the PC. The WCC, which is already accredited by ISO and ICROA, will also apply for ICVCM Core Carbon Principles certification.

4. To capitalise on the potential growth of voluntary nature and biodiversity markets, the Scottish Government will support the development of an ecosystem restoration code.

Over time, initiatives such as the Taskforce on Nature-related Financial Disclosures (TNFD)²² could increase demand in voluntary nature and biodiversity markets as UK companies increasingly incorporate nature-based solutions into their long-term strategies for financial disclosure, transition planning and supply chain management. To ensure that companies seeking these opportunities have the chance to invest in high-integrity ecosystem restoration and biodiversity initiatives the Scottish Government will explore options for an ecosystem restoration code. This code would ensure the high-integrity governance, measurement, reporting, and verification required to help channel responsible private investment into projects that enhance the structure, function, and resilience of ecosystems. By 2026 the Scottish Government aims to have fully tested options for a new ecosystem restoration code, including its objectives, ownership and governance structure, approach to monitoring, reporting and verification, and the process for nature credit issuance. The new code would be co-developed with stakeholders. The work will be informed by the outputs of the recently completed CivTech contract with CreditNature.²³

¹⁹ [ISO - Certification](#)

²⁰ [ICROA | Accrediting Best Practice in Carbon Offsetting](#)

²¹ [The Core Carbon Principles | ICVCM](#)

²² [The Taskforce on Nature-related Financial Disclosures \(tnfd.global\)](#)

²³ [Home - CreditNature](#)

5. We will assess whether the UK emissions trading scheme (ETS) could play a role in securing more consistent demand for accredited carbon projects.

The Scottish Government, together with the UK Government, the Welsh Government, and the Department of Agriculture, Environment and Rural Affairs for Northern Ireland, recently consulted jointly on whether high-quality, nature-based greenhouse gas removals could be integrated into the UK ETS. The four governments are working together to decide whether or not to integrate nature-based solutions for greenhouse gas removal into the ETS, which could potentially create a more consistent demand for accredited nature-based projects and the valuable environmental services they provide. As this work progresses, the Scottish Government will ensure its six high-integrity investment principles (section 2) are considered and inform future decisions. The four governments will publish a response to the consultation in due course.

6. Scotland's Private Investment in Natural Capital (PINC) programme will support industries with their investments into natural capital

Some industries invest in nature as a condition of doing business. Scottish Government's PINC programme will work with national and local partners, across both the private and public sector to develop sustainable, efficient processes and connect available funds with a pipeline of high-integrity natural capital projects.

7. The PINC programme will promote initiatives contributing to the creation of large-scale investment opportunities.

Scotland boasts a wide array of institutions, strategies, networks, and projects that are well-positioned to identify and develop the large-scale investment opportunities many investors seek. Developing projects at scale offers numerous advantages, particularly in maximising environmental benefits across ecosystems. Moreover, these projects can amplify economic and social gains. The PINC programme will promote private investment in large-scale landscape projects, including:

- **Supporting a project pipeline:** The FIRNS fund supports land-scape scale projects to develop viable business cases. For example:
 - The Leven landscape enterprise network²⁴ uses FIRNS funding in its efforts to match investors with local activities and projects that preserve and enhance the Leven catchment's natural assets. Currently, work is underway to pool private and public investment into the delivery of regenerative agriculture and other activities that improve water quality, mitigate climate change and deliver biodiversity across the catchment;

²⁴ [Leven, Scotland - Landscape Enterprise Networks](#)

- The Edinburgh garden city programme²⁵ uses FIRNS funds to calculate the socioeconomic opportunity of investing in Edinburgh’s nature network and green blue network; Fisheries Management Scotland’s river catchment restoration portfolio²⁶ uses FIRNS funds to explore ways to attract private investment into fishery management plans; and
 - The Eddleston water project²⁷, led by the Tweed Forum, is using FIRNS funds to develop an investment portfolio of natural flood management projects.
- **Regional Land Use Partnerships (RLUPs):** These are collaborations between local and national governments, communities, landowners, and other stakeholders. These partnerships focus on optimising land use across large areas to address the twin crises of climate change and biodiversity loss. Investors and project developers operating within these RLUP areas should engage with the partnerships to align with local land use priorities. Scotland’s first four RLUPs cover: Cairngorms national park, Highland council area, Loch Lomond and the Trossachs national park and south of Scotland (Dumfries and Galloway and Scottish Borders councils).
 - **Regional adaptation partnerships:** These partnerships help to foster the collaborations needed for effective climate adaptation, including action to restore nature. Partnerships help drive adaptation investment for their region and can help investors identify opportunities of significant scale and size. As set out in the third Scottish National Adaptation Plan²⁸ regional adaptation partnerships and collaborations will cover all regions in Scotland by 2029. Their work includes the identification of natural capital enhancements. Notable examples include ‘Climate Ready Clyde’²⁹ and ‘Highland Adapts’³⁰.
 - **Nature Networks:** Nature networks can help investors to identify local priorities and are embedded within the policies of the NPF4. A nature network is a high-quality, well-connected area designed to support wildlife and biodiversity, help mitigate climate change, and help create climate-resilient places. There is a target to establish nature networks in every local authority area by 2030, improving ecological connectivity across Scotland. They will play a crucial role in delivering the Scottish Biodiversity Strategy and the 30x30 commitment to protect or conserve at least 30% of our land and sea for nature by 2030.
 - **Scotland’s investment portfolio:** In 2025, NatureScot will produce a prospectus of the known landscape scale nature restoration projects in Scotland, informing investors of Scotland’s priority landscape-scale nature restoration projects, including the Flow Country and Scotland’s rainforest. The work will also help project developers and agencies identify where there are geographic gaps in nature restoration activity and to generate new projects and partnerships to fill those gaps.

²⁵ [#FIRNS Edinburgh Garden City Programme – Water of Leith Catchment | The National Lottery Heritage Fund](#)

²⁶ [240514-River-Catchment-Restoration-Project-Overview.pdf \(fms.scot\)](#)

²⁷ [The Eddleston Water Project – Tweed Forum](#)

²⁸ [Climate change: Scottish National Adaptation Plan 2024-2029 - gov.scot \(www.gov.scot\)](#)

²⁹ [Climate Ready Clyde | Building a more resilient, prosperous and fairer Glasgow City Region](#)

³⁰ [Home - Highland Adapts](#)

- **Publicly owned land:** The Scottish Government, NatureScot, and Forestry and Land Scotland (FLS) are collaborating on a project to strengthen the role of publicly owned land in advancing Scotland’s land use policy goals, particularly in addressing climate change and biodiversity. Public land, including the Scottish Crown Estate, makes up 11% of Scotland and has an important role to play. This project aims to develop a framework of policies, financial mechanisms, measurement, data, and governance that will collectively accelerate land use policy delivery at the pace and scale needed to significantly contribute to Scotland's climate change and biodiversity targets. A key focus will be on exploring financial mechanisms to support nature-based projects on public land, including opportunities for responsible private investment.
- **Nature Investment Partnership:** The nature investment partnership³¹ continues its efforts to attract private investment into landscape scale nature restoration projects in Scotland, including the ‘Wild heart expansion project’³² in the Scottish Borders.

³¹ [Nature Investment Partnership: FAQs | NatureScot](#)

³² [Wild Heart Expansion Project – Tweed Forum](#)

Section 2: Supporting responsible, values-led, high-integrity natural capital investments

Integrity is the foundation of natural capital markets. Scotland, and the UK more widely, is very well-positioned to supply high-integrity carbon credits thanks in part to the science-based, government-backed WCC and PC. However, recent concerns about low standards in international carbon markets – particularly those that reward avoided emissions – highlight the risks of low integrity, which can hold back investment and damage efforts to restore nature.

Feedback from market participants shows a clear demand for guidance on "what good looks like." This section sets out actions to provide that guidance, reducing risks for investors, the public, and communities, while supporting increased investment. It outlines Scotland's policy direction and assists land managers, financial investors, and other market participants in aligning with its principles for responsible, values-led, high-integrity investment.

Definition of high-integrity

Scotland's 2022 interim principles for responsible investment in natural capital³³ were widely welcomed. The Scottish Government now confirm these principles as Scotland's criteria for responsible investment in natural capital. The following principles outline the expectations for investment in Scotland's natural capital:

- principle 1: investment that delivers integrated land use;
- principle 2: investment that demonstrates engagement and collaboration;
- principle 3: investment that delivers public, private and community benefit;
- principle 4: investment that is ethical and values led;
- principle 5: investment that is of high environmental integrity;
- principle 6: investment that supports diverse and productive land ownership.

The market framework now explains why each principle is vital, outlines the responsibilities of market participants, and details Scotland's role in fostering market development aligned with them.

³³ [Principles for Responsible Investment in Natural Capital - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/principles-for-responsible-investment-in-natural-capital/pages/10.aspx)

Principle 1: Investment that delivers integrated land use

What is expected

Scotland's land is a vital resource for its economy, environment, and communities. An integrated approach to land use is essential to maximise its delivery of environmental, social, and economic benefits. Stakeholders, especially land managers and communities, have emphasised that this approach mitigates risks and ensures projects are appropriately located:

- investment and management decisions should demonstrate consideration of positive and negative impacts across four capitals (natural, social, economic, human);
- carbon management³⁴ should be integrated with delivery of wider environmental, social and economic outcomes, such as biodiversity improvements, resilience to food supply and natural flood management;
- investment and management decisions should recognise and respond to local circumstances, acknowledge the suitability of land for particular uses and seek to protect and enhance existing natural capital.

What is happening

- Forestry practice: WCC projects must also comply with The Forestry and Land Management (Scotland) Act 2018³⁵, and the UK Forestry Standard.³⁶ Taken together the act, standard, and Scotland's Forestry Strategy³⁷ provide the foundation for sustainable forest management in Scotland. Recognising wider land use objectives they aim to increase the area of sustainably managed forests and woodlands and deliver more benefits for the economy, the environment, and people.
- The Scottish Land Rights and Responsibilities Statement (LRRS)³⁸: Investment and management decisions should align to the LRRS. It exists by virtue of the Land Reform (Scotland) Act 2016 and it articulates our vision for the ownership, use and management of land. It sets out how the Scottish Government sees the balance between the rights of landowners, managers, local communities and society at large.
- Nature networks: [Nature networks](#) can help investors to identify local priorities. There is a target to establish nature networks in every local authority area by 2030.
- [RLUPs](#) can help to inform investment and management decisions by articulating local land use priorities. RLUPs bring together local governments, communities, landowners, and other stakeholders to consider how large areas of land can be best used to address the twin climate and biodiversity crises.
- [Regional Adaptation Partnerships](#): These partnerships help to foster the collaborations needed for effective climate adaptation, including action to restore nature.

³⁴ Management of land for carbon includes increasing carbon sequestration (trees, hedgerows, saltmarshes) and reduction of emissions, such as peatland restoration or improved soil management.

³⁵ [Forestry and Land Management \(Scotland\) Act 2018 \(legislation.gov.uk\)](#)

³⁶ [UK Forestry Standard.](#)

³⁷ [Scotland's Forestry Strategy 2019–2029 - gov.scot \(www.gov.scot\)](#)

³⁸ [Scottish Land Rights and Responsibilities Statement 2022 - gov.scot \(www.gov.scot\)](#)

- Scotland’s river basin management plans (RBMP) include an integrated assessment of the condition of the water environment across water quality, water resources, physical condition and fish migration. This enables an integrated programme of measures to be delivered to address human pressures causing impacts. The aim of RBMP is to protect and improve the water environment to safeguard the benefits people, wider society and the economy derive from it.
- Several other local networks provide valuable networks and local plans that can be beneficial for developing natural capital projects. For example: national parks, enterprise agencies, common grazing committees, the Integrating Trees Network³⁹, deer management groups (DMGs), and voluntary partnerships like Cairngorms Connect.⁴⁰ Project developers should coordinate with these networks and resources to effectively address local opportunities and challenges.
- NatureScot’s habitat map of Scotland⁴¹ brings together in one place and in one classification system all available habitat and land use data. It could be a powerful tool for those seeking to develop natural capital projects.
- Cairngorms National Park Authority’s peatland restoration planning tool and guide⁴² has been produced as an aid to peatland restoration. It enables agencies, land managers and their advisors to target resources and funding to where they are most likely to be effective in delivering large scale peatland restoration as rapidly and efficiently as possible.

What will be done

- The Land Reform (Scotland) Bill, which is currently being considered by the Scottish Parliament, aims to better ensure that the benefits of land ownership, and decisions about how it is owned, managed and used, are more widely shared. Further information on the content of the Bill and its current parliamentary progress can be found on the Land Reform (Scotland) Bill page of the Scottish Parliament website.⁴³
- Introduction of statutory nature restoration targets: set out in this year’s Programme for Government, the Natural Environment (Scotland) Bill will be introduced this parliamentary year (2024/25). It is expected to contain provisions relating to a framework for statutory targets for nature restoration which could focus attention and drive action of land managers, governments and investors. The Scottish Government is engaging with experts as it develops its suite of targets to ensure targets are based on the most up-to-date scientific evidence.

³⁹ [Scottish Forestry - Integrating Trees Network](#)

⁴⁰ [Cairngorms Connect | Home](#)

⁴¹ [Habitat Map of Scotland | Scotland's environment web](#)

⁴² [Peat restoration planning tool - Cairngorms National Park Authority](#)

⁴³ [Land Reform \(Scotland\) Bill | Scottish Parliament Website](#)

- Scotland's [nature investment portfolio](#): In 2025, NatureScot will produce a prospectus of landscape scale nature restoration projects in Scotland, informing investors of Scotland's priority landscape-scale nature restoration projects and attracting investment to them.
- Promoting best practice: Scotland's PINC programme will use the work of the [public land](#) project and our ongoing work with RLUPs to develop and showcase examples of good integrated land use practices, providing learning opportunities that can inspire other projects.
- Developing a landscape scale natural capital tool for Scotland:⁴⁴ NatureScot is leading the development of a tool designed to support a natural capital approach to land management at the landscape scale. This tool, the first of its kind in Scotland, is being created in partnership with Liverpool John Moores University.
- Nature Networks Tool⁴⁵: As part of the work on Nature Networks, NatureScot and Scottish Wildlife Trust are co-sponsoring a CivTech 8 Challenge looking to address "How can technology help to create a nature network across all of the different areas of Scotland?".
- [FIRNS](#): Investment and management decisions can be informed by the lessons of FIRNS funded projects, many of whom are exploring integrated approaches to land-management. For example: The Flow Country project⁴⁶ explores ways to maximise environmental, economic and social benefits through acting as a project aggregator, allowing smaller land parcels to participate in large scale peatland restoration projects and access finance otherwise not available to them. In turn these projects provide strong commercial benefits to local communities.
- Scotland's river basin management plan (RBMP): SEPA will consult on the significant water management issues for Scotland's Water Environment to inform the review and update of RBMP. Following this consultation, by December 2026 SEPA will consult on a review and update of the RBMP. The consultation and draft update of [RBMP](#) is likely to focus on the need for a more integrated approach to land management.

⁴⁴ [Developing a Landscape Scale Natural Capital Tool for Scotland | NatureScot](#)

⁴⁵ [Nature Networks Tool | NatureScot](#)

⁴⁶ [Green Finance Initiative - The Flow Country The Flow Country](#)

Principle 2: Investment that demonstrates engagement and collaboration

What is expected

Engagement and collaboration with stakeholders and communities increases the effectiveness of natural capital markets and individual investments by bringing higher levels of awareness and support. Local knowledge and expertise improve project proposals. They also attract resources from a wider range of sources, minimise risk to individual organisations, facilitate aggregation and provide mechanisms for fair and equitable sharing of risks and benefits. In Scotland, natural capital projects should:

- engage with local communities in decisions about land and land use change, in line with the Scottish Government's guidance on engaging communities in decisions relating to land⁴⁷.
- collaborate openly with other landowners and public bodies to contribute to a coherent approach to delivering benefits;
- when acquiring new land, investors should seek early engagement with relevant local communities to inform them of future plans, seek their views on those plans based on local knowledge and expertise, and identify opportunities for the delivery of community benefits.

What is happening

- Forestry practice: WCC projects must comply with the Forestry and Land Management (Scotland) Act 2018⁴⁸, and the UK Forestry Standard⁴⁹. These require people with a recognisable interest in a forestry proposal or its outcomes to be given the opportunity to be involved in its development.
- The British Standards Institution's 'overarching principles'⁵⁰ for natural capital markets require participants to make key information accessible and transparent to local communities.
- There is existing guidance, including: The Scottish Government's 'guidance on engaging communities in decisions relating to land'⁵¹; the Scottish Land Commission's guides 'delivering community benefits from land'⁵² and 'responsible natural capital and carbon management'⁵³; and Adaptation Scotland's Community Climate Adaptation route map.⁵⁴

⁴⁷ [Engaging communities in decisions relating to land - Land reform - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/guidance-on-engaging-communities-in-decisions-relating-to-land-land-reform-2022/pages/1-1-introduction.aspx)

⁴⁸ [Forestry and Land Management \(Scotland\) Act 2018 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukpga/2018/12/section/1)

⁴⁹ [The UK Forestry Standard \(publishing.service.gov.uk\)](https://www.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/671112/uk-forestry-standard.pdf)

⁵⁰ [Nature Markets - Overarching Principles and Framework \(bsigroup.com\)](https://www.bsigroup.com/~/media/BSI/Standards/BSI%20Standards%20Publications/BSI%20Standards%20Publications/BSI%20Standards%20Publications/BSI%20Standards%20Publications/Nature%20Markets%20-%20Overarching%20Principles%20and%20Framework.pdf)

⁵¹ [Guidance on Engaging Communities in Decisions Relating to Land \(www.gov.scot\)](https://www.gov.scot/publications/guidance-on-engaging-communities-in-decisions-relating-to-land-land-reform-2022/pages/1-1-introduction.aspx)

⁵² [Delivering Community Benefits from Land \(landcommission.gov.scot\)](https://www.landcommission.gov.scot/publications/delivering-community-benefits-from-land-2022/)

⁵³ [Scottish Land Rights and Responsibilities Statement 2022 - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/scottish-land-rights-and-responsibilities-statement-2022/pages/1-1-introduction.aspx)

⁵⁴ [Community Climate Adaptation Routemap - Adaptation Scotland](https://www.adaptation.scotland.gov.uk/~/media/Adaptation%20Scotland/Community%20Climate%20Adaptation%20Route%20Map.pdf)

- FIRNS: Investment and management decisions can be informed by the lessons of our FIRNS funded projects, many of which tested optimal ways to develop natural capital projects based on principles of engagement and collaboration. For instance, The Dreel Burn⁵⁵ project seeks a bottom-up approach to project design, to ensure investors respond to the local context by co-designing with the community. The project will develop a sample investment case which considers the co-design of interventions and a community benefit vehicle, project engagement is supported by a community communication and engagement plan.

What will be done

- The publication of good practice guidance on engagement in woodland creation projects by the Confederation of Forest Industries (Confor). The guidance has been developed in collaboration with community representatives and supported by Scottish Forestry.
- Delivery of further training for forestry professionals on community engagement. Scottish Forestry will continue to work with Confor to identify opportunities to run more training events and increase the number of professionals who have undertaken this training.
- Scottish Forestry will continue to work towards strengthening the alignment of its guidance and processes with the Scottish Land Rights and Responsibilities Statement 2022, and improving understanding of engagement requirements and processes in forestry.

⁵⁵ [Dreel Burn project](#)

Principle 3: Investment that delivers public, private and community benefit

What is expected

Community benefits are the intentional social and economic benefits from land that are offered to the local community, on a negotiated basis, for their lasting well-being. They should be delivered in a way that is proportionate to the scale and impact of the landholding or activity, but without unduly compromising the practical or commercial viability of the landholding or activity.

Investment and management decisions should:

- create benefits that are shared between public, private and community interests;
- provide benefits for local communities;
- support community wealth building by reinvesting value in local economies to their long-term benefit.

What is happening

This market framework:

- endorses the Scottish Land Commission's (2023) good practice guidance 'delivering community benefits from land'⁵⁶ and expects natural capital projects to deliver such benefits;
- and recommends the Land Commission's (2023) protocol on 'responsible natural capital and carbon management'.⁵⁷

Advice is available from the Scottish Land Commission⁵⁸ and other experienced parties to support the development of effective community benefit strategies.

What will be done

- Developing minimum standards: The Scottish Government will co-fund and co-lead with DEFRA a project to establish a thematic standard for community benefits as part of the BSI Nature Investment Standards Programme. This partnership project will create an agreed minimum standard for how the UK's high-integrity natural capital markets deliver place-based community benefits. Scottish input will be crucial in aligning this standard with our values-led market vision, our unique land ownership patterns, and our cultural expectations around land use.
- Certifying community benefits: A FIRNS funded project⁵⁹ is exploring the viability of a certification process for community benefits, tailored to the Scottish context. If successful, a tier one certification would enable projects to verify their compliance to the BSI's community benefit thematic standard. Whereas higher certification tiers could verify projects that go above and beyond this standard.

⁵⁶ [Delivering Community Benefits from Land \(landcommission.gov.scot\)](https://landcommission.gov.scot)

⁵⁷ [Responsible Natural Capital and Carbon Management - Good Practice - Our work - Scottish Land Commission](#)

⁵⁸ [Contact us - Useful links - Footer - Scottish Land Commission](#)

⁵⁹ [Holistic Plug-in' Community Benefits Standard for UK Nature Credits. \(natcert.earth\)](https://natcert.earth)

- **Enhancing Transparency:** Scotland's PINC programme will advocate for the UK Land Carbon Registry to further improve transparency on benefits generated for local communities.
- **Exploring assurance:** we will work with other UK governments to explore the development of assurance mechanisms that promote the adoption and application of BSI's standards. This includes its thematic standard for community benefit once it is published. Furthermore, building on our experience with FIRNS, Scotland's PINC programme will explore opportunities to incorporate reasonable and proportionate community benefit requirements into other natural capital funding initiatives.
- **Promoting Best Practice:** Scotland's PINC programme will use the work of the [public land](#) project to develop and showcase examples of good practice, including in relation to the measurement of community benefits and wider social impacts from land and natural capital. This will provide learning to inspire other projects.
- **Natural capital partnership officers:** With the right support, communities can take important steps toward unlocking opportunities of natural capital markets. The Scottish Land Commission will work with partners to pilot a network of 'natural capital partnership officers'. These officers will support communities, landowners, investors, and project developers in implementing community benefits, offering practical case studies, guidance, roadmaps, and draft contracts and agreements.
- **Supporting business cases for community-led projects:** For example, the FIRNS fund supports Dumfries and Galloway Council Solway coast and marine project⁶⁰ to develop a business case for a community stake in the expansion of the Loch Ryan oyster fishery.

⁶⁰ [The Solway Coast and Marine Project \(SCAMP\) Launches Community Collaborations in Stranraer, Annan and Wigtown - Solway Firth Partnership](#)

Box 3: Public, private and community benefit

Public benefit:

A well-designed natural capital project can deliver a range of environmental, social and economic public benefits, including enhanced resilience to climate change, improved carbon management, improved biodiversity and increased community well-being.

Moreover, such projects can deliver significant economic outcomes like enhanced local employment opportunities, particularly in rural areas with sectors such as renewable energy, tourism, agriculture and fisheries all heavily reliant on natural capital. In 2019, the financial value of Scotland's natural capital assets was estimated at £230 billion, with these assets providing ecosystem services in Scotland valued at £15 billion annually.⁶¹ Furthermore, nature-based jobs totalled 195,000 in 2019, representing 7.5% of Scotland's workforce. If investment in natural capital markets were to increase to a level sufficient to meet Scotland's climate and nature restoration goals, it is estimated that approximately 146,000 direct and 197,000 direct and indirect jobs could be created with a significant proportion of this increased prosperity located in rural areas.⁶² By embracing an integrated approach to land use (principle 1) and fostering engagement and collaboration (principle 2), projects are more likely to achieve these diverse benefits concurrently.

Private benefit:

Private investments in natural capital markets must provide the returns required by investors and land managers if they are to be considered attractive and viable investments. Section 1 of the market framework has addressed the necessity of investor returns and detailed our seven interventions planned by 2026 to promote responsible investment. Meanwhile, section 3 of the market framework outlines strategies to support and enhance the involvement of land managers.

Community benefit:

Natural capital projects require long-term land use change with the potential to impact the lives and livelihoods of local communities, both now and in the future. There will be a range of benefits and disbenefits from these changes. As a result, Scottish Government is clear that communities local to a project should be engaged in a meaningful way, and benefit from natural capital markets.

⁶¹ [Scottish Natural Capital Accounts: 2023 - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/natural-capital-accounts-2023/pages/introduction/)

⁶² [Assessing the cumulative and cross-sector economic benefits of investment in natural capital in Scotland \(www.gov.scot\)](https://www.gov.scot/publications/natural-capital-accounts-2023/pages/assessing-the-cumulative-and-cross-sector-economic-benefits-of-investment-in-natural-capital-in-scotland/)

Principle 4: Investment that is ethical and values led

What is expected

To maintain public trust in the integrity of natural capital markets, investment in high-integrity projects must be ethical and guided by strong values. A key element of this is "buyer integrity," which focuses on the conditions under which nature credits are sold and used. High-integrity natural capital markets require credits to be applied correctly—primarily to offset unavoidable, negative environmental impacts (VCMI, 2023).

In voluntary carbon markets, credits should not replace emissions reductions. Instead, they must supplement efforts where buyers already have plans and demonstrable actions in place to reduce emissions as close to zero as possible, in line with the Paris Agreement. Purchasing nature credits for less ambitious purposes—such as offsetting impacts that are avoidable, reducible, or repairable—is considered greenwashing.

- Investors should meet the six UN principles for responsible investment⁶³
- Investment should comply with the values of Scottish Government as set out by our policies on just transition⁶⁴, fair work⁶⁵ and land rights & responsibilities.⁶⁶
- Public sector-influenced funds dedicated to natural capital in Scotland should establish clear ethical contribution policies, as exemplified by the 'Scottish Marine Environment Enhancement Fund' (SMEEF). These policies must outline the criteria for accepting and rejecting contributions, ensuring that donations align with the fund's core objectives and maintain trust in the fund, its projects, and its participants.
- Investment in offsetting should not be a replacement for emissions reductions and should always be made in addition to having plans and demonstrable actions in place to reduce emissions as close to zero as possible, and as part of targets and transition plans aligned with the Paris Agreement.
- Landowners considering the sale of carbon credits should consider their own current and future carbon management needs before doing so.

What is happening

- The voluntary carbon market integrity initiative's claims code (VCMI, 2023) provides a comprehensive framework for high-integrity carbon credit usage. UK companies are encouraged to utilise this code to certify their carbon integrity claims.

⁶³ [Principles for Responsible Investment - PDF file \(unpri.org\)](#)

⁶⁴ [Just transition - Climate change - gov.scot \(www.gov.scot\)](#)

⁶⁵ [Fair Work First Criteria: What It Means In Practice - Fair Work First guidance - gov.scot \(www.gov.scot\)](#)

⁶⁶ [Scottish Land Rights and Responsibilities Statement 2022 - gov.scot \(www.gov.scot\)](#)

- BSI Flex 701 Overarching Principles and Framework (version 1)⁶⁷ sets out principles relevant to buyer integrity including: Reducing environmental impacts principle – purchased units are used to reduce environmental impacts, based on a mitigation hierarchy; claims principle – claims of environmental performance, based on units purchased in natural capital markets, measure that performance in a manner aligned to the measurement processes used to quantify the units for sale; and ethical actors principle - buyers and suppliers provide information to allow market stakeholders to assess their integrity. There are also other guidelines and principles that are relevant to buyers using natural capital markets including the green claims code and environmental reporting guidelines.
- The Scottish Marine Environment Enhancement Fund (SMEEF) has an ethical contributions policy⁶⁸ that defines the criteria for accepting or refusing contributions. This policy ensures that all donations align with the fund's core objectives and do not compromise, or pose a risk to its reputation, financial standing, or that of its partners. The [nature investment partnership](#) is developing a similar ethical framework to guide the investment and to ensure high-integrity.

What will be done

There is a need to consolidate and update standards for buyer integrity and establish effective processes for their implementation. The Scottish Government expects to collaborate with other UK governments to identify the most effective mechanisms for ensuring buyer integrity in nature markets. In the coming months, UK Government will develop and issue a consultation on interventions that could help to strengthen high-integrity voluntary carbon and nature markets to contribute to net zero and wider environmental improvement. The consultation will be led by the Department for Energy Security and Net Zero, DEFRA and HM Treasury. Scottish Government will contribute to any such consultation to seek interventions aimed at securing integrity the demand side, such as means of operationalising the VCMI framework.

⁶⁷ [Nature Markets - Overarching Principles and Framework \(bsigroup.com\)](#)

⁶⁸ [Donate - Scottish Marine Environmental Enhancement Fund \(smeef.scot\)](#)

Principle 5: Investment that is of high environmental integrity

What is expected

Natural capital markets must deliver lasting, meaningful benefits. Environmental outcomes should be verified, long lasting, and offer additional value beyond what would have occurred in the absence of the intervention, with safeguards in place to prevent double counting. Outcomes need to be measured - using consistent and transparent methodologies – and verified such as through the government backed WCC and the PC. Where rights to or control over carbon or other natural capital are transferred to a third party, this information should be made available in an open and transparent way such as through the UK Carbon Registry to enable scrutiny and help maintain public confidence.

High-integrity natural capital markets depend on standards, codes, schemes, and other governance mechanisms to create reliable conditions for payments and investments in natural capital projects. The UK's ability to supply high-integrity environmental units presents a distinct competitive advantage. The work mentioned within this market framework aims to preserve this advantage as a sustainable pathway to attracting increased levels of inward investment.

What is happening

- The PC is a high-integrity mechanism able to steer private investment towards peatland restoration by quantifying and verifying a project's impact on reducing carbon emissions.
- The WCC is a high-integrity mechanism, able to steer private investment towards the creation of high-integrity woodland habitats by quantifying and verifying carbon sequestration.
- BSI Flex 701 Overarching Principles and Framework (version 1)⁶⁹ provides integrity principles and a common benchmark which will be applicable across all UK natural capital markets.
- The market framework also welcomes the work of those developing market infrastructure that could help to increase the flow of private investment into a wider range of ecosystem services. For example, the Saltmarsh Code, currently being piloted with support from Defra, holds the potential to verify and trade carbon sequestered through saltmarsh restoration across the UK. Similarly, we welcome ongoing efforts to implement the roadmap for high-integrity marine natural capital markets⁷⁰ and other such initiatives.

⁶⁹ [Nature Markets - Overarching Principles and Framework \(bsigroup.com\)](https://www.bsigroup.com)

⁷⁰ [Case study: High-Integrity Marine Natural Capital Markets \(thecrownestate.co.uk\)](https://www.thecrownestate.co.uk)

What will be done

- DEFRA funded work with the British Standards Institution (BSI), including version 2 of flex 701 'overarching principles and framework', Flex 702 'supply of biodiversity benefits'. Flex 703 'supply of nature-based carbon benefits' and a thematic standard for community benefit. Together these establish a framework of standards for scheme operation and governance which ensure rigour, consistency, and confidence that environmental units generated through such schemes represent genuine, measurable, long-lasting and verified environmental outcomes. Without this work, complex and inconsistent approaches for codes and methodologies used in natural capital markets could become a barrier to investment and market growth.
- Scottish Government will continue collaborating with other UK governments to explore the development of robust assurance mechanisms that promote the adoption and application of BSI's guidance across the industry, including providing routes for organisations to demonstrate they meet the required standards.
- Scottish Government will actively support the development of high-integrity opportunities for private investment in biodiversity. This includes efforts outlined in Section 1 such as developing the WCC and PC, advancing work on an Ecosystem Restoration Code, facilitating compliance-based investments, the planning system and promoting landscape-scale investment opportunities.

Principle 6: Investment that supports diverse and productive land ownership

What is expected

The Scottish Government is committed to an ongoing programme of land reform aimed at bringing about a Scotland with a "strong and dynamic relationship between its land and people, where all land contributes to a modern, sustainable and successful country, supports a just transition to net zero, and where rights and responsibilities in relation to land and its natural capital are fully recognised and fulfilled". Land, and access to land, is essential for sustainable development, and is key to many important aspects of people's lives - from housing to recreation, from agriculture to mitigating climate change. As highlighted in research⁷¹ by the Scottish Land Commission, concentrated land ownership provides a landowner with a high degree of control over land in an area. This can negatively impact sustainable rural development of local communities, most critically in relation to land availability for affordable housing or economic development. There is a risk that if natural capital markets evolve unfavourably they could contribute to increased concentration of land ownership or negatively impact other industries, employment and communities. Natural capital markets should therefore promote fair, responsible, and productive land ownership and use.

- Those investing in natural capital projects should consider whether ownership of land is necessary.
- Landowners and managers should consider the impact of natural capital projects on any tenants and engage relevant parties early in discussions about how to manage risks and benefits.
- If a joint venture between landowners and tenants is proposed, appropriate sharing of risks, responsibilities, costs and incomes should be considered.
- Landowners and managers should work with the local community to identify opportunities to share the benefits from the management of natural capital and carbon with them and to support local priorities and aspirations.
- Landowners and managers should have full regard to the Land Rights and Responsibilities Statement.

What is happening

- Full guidance on what is expected of investment and land management decisions can be found in the Scottish Land Commission's (2023) protocol on 'responsible natural capital and carbon management'⁷².

⁷¹ [The Model CHP for the Scottish Government and Associated Public Authorities Sector in Scotland - Word Template \(landcommission.gov.scot\)](#)

⁷² [Responsible Natural Capital and Carbon Management - Good Practice - Our work - Scottish Land Commission](#)

What will be done

- Widening Market Access: The government will support initiatives to remove barriers to market participation for [crofters and tenants](#).
- Land Reform (Scotland) Bill: This Bill, which is currently being considered by the Scottish Parliament, aims to better ensure that the benefits of land ownership, and decisions about how it is owned, managed and used, are more widely shared. Further information on the content of the Bill and its current Parliamentary progress can be found on the Land Reform (Scotland) Bill page of the Scottish Parliament website.⁷³
- Tax treatment: The Scottish Government will work with UK and Local Governments to explore the role of tax in supporting diverse and productive land ownership.

⁷³ [Land Reform \(Scotland\) Bill | Scottish Parliament Website](#)

Section 3: Supporting Scotland's land managers in Natural Capital Markets

This section describes the Scottish Government's support of land managers and details the actions that will be taken to remove barriers to accessing markets. It also describes the policy alignment work needed to incentivise land-manger engagement in natural capital markets.

What is expected

Scotland is committed to ensuring that tenant farmers, smallholders, crofters, new entrants, and land managers have equal access to participate in high-integrity natural capital markets, should they choose to engage.

What is happening

An increasing number of Scotland's farmers, crofters, and other land managers are benefiting from participating in Scotland's high-integrity natural capital markets. Innovations such as the WCC's approach for small projects and group projects⁷⁴, have reportedly increased equitable market access by reducing costs for smaller projects. For instance, grouped projects allow participants to share the expenses of validation and verification. This is a positive development, as it is essential that land managers continue to benefit from delivering nature-based solutions that provide value to wider society.

However, during the development of the market framework, many farmers, crofters, and other land managers highlighted barriers that prevent many from fully embracing the opportunities offered by high-integrity natural capital markets. Commonly cited barriers included:

1. **Hesitancy to engage:** Many land managers are adopting a cautious approach, choosing to "wait and see" due to ongoing agricultural reforms and broader market developments. There is concern that future government grants may cover similar activities, or that current actions could negatively impact future revenue streams.
2. **Barriers to market access:** Several supply-side barriers are preventing landowners from fully participating in these markets, these include:
 - **Landholding size:** The time, cost, and complexity of participating in natural capital markets are particularly challenging for smaller land managers. Large-scale projects tend to be more efficient and attractive to investors;
 - **Tenure issues:** Owner-occupiers face concerns around tax implications, potential complications when selling land, and the long-term impact of nature-based projects on revenue. Tenant farmers, often require landlord consent for participation, and some expressed confusion over diversification rules; long-term projects may be challenging particularly those with short leases. Crofters, particularly those managing common grazings, face particular challenges related to the duration, complexity, and division of risk and reward in projects, along with the lack of established precedents;

⁷⁴ [2. Register your project - UK Woodland Carbon Code](#)

- Land use suitability: some land managers report using parts of their land less suited to food production in natural capital markets, for woodland creation and peatland restoration. Arable, lowland livestock, and dairy farms are seen as less suited to current high-integrity natural capital markets.
3. Risk avoidance: Many land managers are reluctant to engage with market opportunities due to the perceived risks, including the potential for project reversals, anticipated inseting requirements within the agricultural sector, and uncertainty surrounding financial returns.

What will be done

To address these challenges and remove barriers to market access, the Scottish Government will take several actions by 2026:

- The Scottish Government is currently working to establish a robust framework to underpin the future agricultural support regime, with the goal of delivering high-quality food production, climate mitigation, and nature restoration. As we progress through the agricultural reform route map⁷⁵. We will continue to refine our approach to support, ensuring it complements private investment opportunities. To date, specific commitments include:
 - Land managers will be permitted to enter the same land area into both Agriculture Reform Programme agreements and PC or WCC schemes, provided there is no double funding of activities and carbon market additionality rules are met.
 - Flexibility will be built into the Agriculture Reform Programme's framework, allowing for the incorporation of new private investment mechanisms as they emerge.
 - Farm Advisory Services will continue to provide generic one-to-many advice on opportunities for farmers and crofters relating to peatland restoration and preservation.⁷⁶
- Aggregating small projects: We will explore ways to group smaller projects to achieve the necessary scale for market participation. This includes working with the FIRNS-funded Pentland Partnership to test farm clusters and collaborating with RLUPs and public land clusters to foster responsible private investment, landscape connectivity, and knowledge exchange.
- 'Whole farm' approaches: Support is being provided to the Soil Association, through FIRNS, to investigate the viability of a "whole farm" approach that allows land managers to access multiple ecosystem service markets, beyond carbon, such as biodiversity and flood prevention.

⁷⁵ [Agricultural Reform Route Map \(ruralpayments.org\)](https://ruralpayments.org/)

⁷⁶ Current examples of advice provided can be found here: [Peatland Advice](#)

- Additionally, FIRNS funded a project aimed at empowering crofters to participate in peatland restoration, unlocking new income opportunities from carbon credits while contributing to Scotland's climate targets⁷⁷. The project examined innovative delivery models to navigate the complex legal and financial considerations of crofting, a uniquely Scottish system of land tenure.
- Standardised contracts: Through FIRNS the Scottish Government and the National Lottery Heritage Fund are funding a project to develop a publicly available standardised contract and accompanying guidance. This contract, available in 2025, will facilitate agreements between sellers and buyers of PIU and verified PC and WCC Units. The project aims to support market growth by simplifying the contracting process and providing greater confidence in the use of the WCC and the PC. The project aspires to:
 - achieve a fair and reasonable approach to managing risk and liability for both buyers and sellers of carbon units throughout a project's life;
 - remove barriers to participation for smaller-scale and community participants, including crofters and tenant farmers;
 - address requirements of permanence of carbon sequestration and provides confidence of the integrity of the Codes;
 - ensure compliance with the PC and WCC and forthcoming related legislative and regulatory changes that may impact on the Codes and the sector; and
 - provide transferrable lessons applicable to other natural capital markets as they emerge, including biodiversity.
- If the Land Reform (Scotland) Bill is passed by Parliament, we will work with tenant farming and small landholder stakeholders to explore the potential private investment opportunities the Bill creates, including managing land for natural capital.
- By 2026, Scottish Government will also work with stakeholders, to examine how further policy measures – regulatory and fiscal – can support existing policies and interventions to improve a wide range of land management outcomes. This includes the restoration of peatlands and the creation of more woodlands, and exploring proposals for a Carbon Land Tax.

⁷⁷ [Forest Carbon | FIRNS project | Unlocking peatland restoration on crofting and common grazing land, part 2](#)

Conclusion

As Scotland confronts the twin challenges of climate change and biodiversity loss, this market framework offers a clear path to mobilising responsible, high-integrity private investment in our natural capital.

Central to this effort are Scotland's six principles of high-integrity investment, which emphasise integrated land use, engagement and collaboration, community benefit, and environmental integrity. These principles are critical to ensuring that investments deliver the best possible environmental and social outcomes, and the framework outlines the actions we will take to uphold them.

Looking ahead, ongoing collaboration between the public and private sectors, land managers, and communities will be vital. As we continue to refine and expand this framework to include emerging markets like marine ecosystems and sustainable agriculture, Scotland is committed to maintaining and developing values-led, high-integrity market for responsible investment in natural capital to support its response to the twin crises of climate change and biodiversity loss.



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Any enquiries regarding this publication should be sent to us at

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