

Biodiversity credits - the new wave of climate finance

Blog post by Alice Brown, Senior Associate, 10 August 2023

Though there is growing momentum globally for governments and businesses to channel financial flows away from nature negative, and towards nature positive activities, we still have a way to go.

According to UNEP's 2022 State of Finance for Nature report, we won't meet global climate, biodiversity, and land degradation goals unless investment into nature-based solutions more than doubles by 2025.

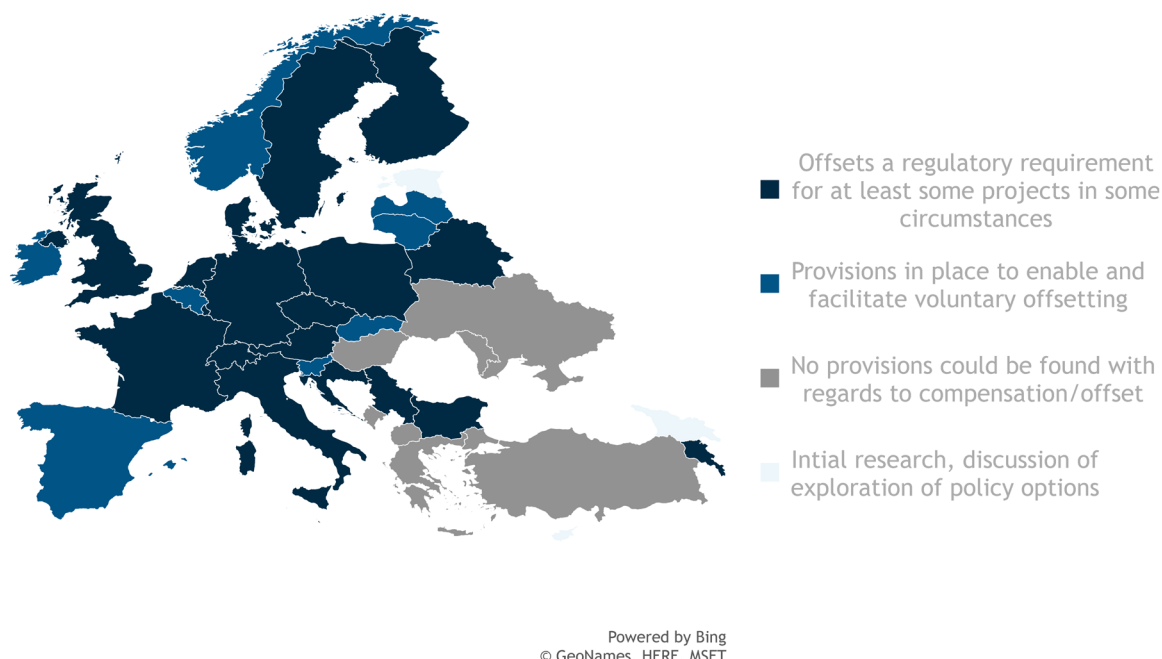
In response, the Global Biodiversity Framework agreed at CBD COP15 set a target to mobilise at least US\$200 billion a year in biodiversity-related funding by 2030. In the same timeframe it also calls for international financial flows from developed to developing countries to increase to at least US\$30 billion a year.

One way to meet these targets is through biodiversity credits. In contrast to carbon or biodiversity offsets used to compensate for damage, credits finance actions that have measurable positive biodiversity outcomes through location-specific conservation and restoration. As can be seen below, there is already a growing voluntary and regulatory biodiversity offset landscape, and we can expect the credit market to follow a similar trajectory.

In a world where finance for nature needs to be scaled up, and quickly, biodiversity credits can offer a bankable opportunity for companies and investors to channel finance into areas and habitats that directly affect or are affected by business operations. In other words, it offers companies the opportunity to safeguard their dependencies and reduce their risks and impacts on nature. In a post COP15 world, this is an appealing and necessary prospect.

Governments and the private sector alike appear keen to take heed of the lessons learned from the voluntary carbon market and create a verifiable, reputable, and equitable biodiversity credit market. In keeping with the rapid market momentum in the private sector, there is already a UN backed group in the Biodiversity Credit Alliance, and well-known carbon credit players Verra and Plan Vivo will respectively launch a biodiversity credit standard this year. The sentiment is that on the supply side finance should be new, not a reshuffle of existing finance. To help achieve this, the newly formed Financial Institutions for Nature Group (G-FIN) is working to mobilise £1bn for nature restoration and nature-based solutions by 2030, partly through biodiversity markets.

Europe: Stage of national biodiversity offset/compensation policy development



On the policy side, the UK and French governments have launched a Global Biodiversity Credit Roadmap for scaling up efforts to develop the market, and the UK government has released its Nature Markets Framework ahead of a biodiversity credit market consultation later this year. New Zealand has also launched a consultation, though trade and forestry groups say they have little faith in the government’s ability to manage a national biodiversity credit system given their past performance on carbon markets. Meanwhile, in Australia, the lack of progress on the Nature Repair Market Bill has done little to slow the growth of the burgeoning voluntary market.

Clearly, despite a lack of an internationally agreed framework or standards, credits have already arrived. Markets are mainly centred in the Global South - particularly Latin America - where the most well-established project to date in Colombia has sold out of their first round of credits.

While many believe a coordinated approach between governments and the private sector is preferable, and that governance and unified standards will build confidence in the market, the issues around government distrust and inertia mean the private sector led voluntary market will continue to dominate for some time yet. Other countries are likely to follow suit as the market gains further traction, and there’s no doubt we are on the cusp of a whole new world of biodiversity finance.