Navigating the Biodiversity Credits Landscape: Risks, Opportunities, and Timelines

Learnings from the ESKEN webinar

Giacomo Ascenzi, UNEP-WCMC

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The Environmental and Social Knowledge Exchange Network (ESKEN) is a workspace for a community of practice involved in the environmental and social (E&S) aspects of financing deforestation-free commodity production, protection of natural ecosystems, forest landscape restoration, and other forms of sustainable land-use.

The ESKEN webinar **'Navigating the biodiversity credits landscape: risks, opportunities, and timelines'** was held on May 25th, 2023, co-hosted by Rodrigo Cassola from UNEP-WCMC and Raphaele Deau from UNEP-CFU. The webinar started with an introductory presentation covering the context, definitions, and relevant stakeholders in this space. This was delivered by **Dorothee Herr**, Senior Associate at NatureFinance.

A panel discussion followed, focused on challenges and benefits of biodiversity credits (and carbon credits with high biodiversity value), covering both demand and supply, as well as the safeguards needed to ensure the robust and fair development of the biodiversity credits market. Our panellists were:

- **Giulia Carbone**, Director of the Natural Climate Solutions Alliance at WBCSD, member of Biodiversity Credit Alliance
- **Richard Diggle**, CBNRM, Business and Sustainable Financing Director at WWF in Namibia
- **Johan Maree**, Co-Founder and COO at ValueNature, member of Biodiversity Credit Alliance

The event aimed to introduce this topic to investors and other stakeholders, and to assist them in understanding whether and how biodiversity credits can be seen as a potential investment opportunity.

The recording of the webinar can be accessed on the Land Use Finance Impact Hub website.

Key takeaways from the webinar

- Albeit biodiversity credits are included in Article 19 of the Kunming-Montreal's Global Biodiversity Framework as a tool to fill the nature finance gap, the discussion on what exactly they entail is still in its early stages. It is driven, amongst others, by the Biodiversity Credit Alliance and the World Economic Forum.
- It is important to acknowledge that projects focusing on biodiversity and nature outcomes can come with carbon co-benefits as well, while it is more commonly known that carbon projects may come with nature benefits. There is also a general need to better account for and value biodiversity contributions to nature, climate and people.
- There are strong parallels with the voluntary carbon credit markets and learning the lessons from carbon markets should be a priority in this space.
- A fully functional biodiversity credits market requires a governance system grounded in integrity, transparency in data collection and methodologies, accountability, stakeholder participation, and a fair distribution of benefits. Indigenous Peoples and

local communities (IP and LCs) need to be included throughout the process, starting from market design.

The future of biodiversity credits

Dorothee Herr, from NatureFinance, provided an overview of biodiversity credits and touched upon essential points to better frame discussions on this topic moving forward. The introductory presentation covered concepts such as:

- The inclusion of biodiversity credits in the Kunming-Montreal Global Biodiversity Framework as one of several instruments to fill the financing gap in nature investments
- The challenges regarding the definition of what constitutes a biodiversity credit in market and unit terms, as well as whether and how it should be differentiated from an offset
- NatureFinance's work on creating a taxonomy for the potential and current suite of biodiversity credits to drive improvement in this space by comparing and using lessons learned from both mandatory and voluntary markets

The presentation then focused on conditions that must be fulfilled in order to ensure proof of concept and scalability for biodiversity credit markets. At the market design stage, and regardless of geographical scope, it is key to have a governance system addressing purpose of projects, integrity principles, product specification, transparency, accountability, the inclusion of IP and LCs, and fair and equitable benefits.

An appropriate governance framework is thus key to ensure a fully functioning biodiversity credits market that delivers timely scale, a fair price to nature's stewards, and credible impact for people, nature, and climate. A growing set of actors is shaping market development on different sides and the Biodiversity Credit Alliance is aiming to bring them together. There are also a few sovereign states – i.e. Australia, Colombia, UK, and USA – that already include forms of biodiversity markets in their legislation.

Finally, NatureFinance has identified three areas that are essential in the roadmap to equitable, nature positive biodiversity credit markets:

- Ambition and quality to scale demand, ensure credibility of supply and create a voluntary bridge
- Exchange and learning on key questions and processes through relevant stakeholder platforms
- Regulatory certainty and innovation in integration of nature considerations into the economy. For example, developments in Science Based Targets Network (SBTN) and the Taskforce on Nature-related Financial Disclosures might create policy-induced demand for biodiversity credits.

Framing biodiversity credits to ensure demand and its integrity

Giulia Carbone, from WBCSD and the Biodiversity Credit Alliance, provided her insight into the demand side of biodiversity credit markets, which includes companies and other stakeholders that would be interested in buying credits. She argued that the creation of credits would respond to the need for integrating responses and resources into one overarching solution. At the moment, high-integrity carbon credits with co-benefits on biodiversity and social outcomes are existing. However, viewing biodiversity as a co-benefit of carbon sequestration, rather than as a central elements of a nature-climate solution, can be reductive. Giulia's work at WBCSD includes reframing nature as a solution to the climate change challenge and developing tools to help companies purchasing credits to be able to select them also based on biodiversity and social characteristics.

From the project developer's perspective, biodiversity and forest carbon credit projects have important similarities: they are both designed to protect, restore or improve the management of nature to generate outcomes that often benefit both climate and biodiversity. Thus, Giulia considers biodiversity credits not as a new or different asset class, but a different way to create revenue and open new opportunities.

According to Giulia, variations between credits projects will be seen on the ground. For instance, in a specific project there might be more opportunities to quantify carbon rather than biodiversity outcomes. In another, it might be that landowners, communities and Indigenous Peoples decide that they prefer to generate revenues only through biodiversity and not carbon. They might also simply say that applying two different methodologies and two different types of monitoring systems is too expensive. From a carbon perspective, the Integrity Council for Voluntary Carbon Markets are discussing the possibility of stacking credits as long as the claims are separate from a carbon-related claim.

To ensure integrity on the demand side, companies need to make sure that biodiversity credits are not an excuse to delay action on addressing their own direct and indirect impacts. When it comes to carbon credits, a company's responsibility has been clearly defined by the Science Based Target initiative. However when it comes to nature, we do not have a clear definition of what nature-positive at the individual company level is and SBTN is just starting to generate more resources on this topic. There is a growing consensus however that biodiversity credits should go beyond a company's internal responsibility and extend beyond its own value chain.

Framing biodiversity credits to ensure supply and its integrity

Johan Maree, from ValueNature and the Biodiversity Credit Alliance, explained that biodiversity is more complex to measure and value than carbon. While a ton of carbon is fungible, meaning that it can be compared and traded across different locations, biodiversity is not. However, ValueNature and other methodology developers have come together under the mantle of the Biodiversity Credit Alliance to address this question and advancements have been made trying to come up with a common and scientifically based approach to biodiversity measurements without needing to compare one piece of nature to another.

ValueNature's biodiversity credit projects are developed to return nature to its natural state so that ecosystems can function effectively and contribute to planetary health. They take a biodiversity-first approach: the idea is to reframe the narrative and invest in projects around that put nature at the centre, and then also accounting for the carbon that is captured or avoided through the intervention.

ValueNature is one of founding members of the Biodiversity Credit Alliance, which was initially created for project and methodology developers to share learnings and address supply side integrity concerns, such as transparency in data collection and its use in indexing biodiversity measures. It then expanded to include other players that were interested in developing thinking and creating clarity in the market. There are now working groups on definition and categorization, demand, digital format, and how the market might scale learning the lessons of the carbon credit market. The Biodiversity Credit Alliance has recently announced that they will launch a Communities Advisory Panel tasked with identifying and inviting IP and LCs be part of the process of market creation, a key requisite to supply integrity.

Insights from the Wildlife Credits project in Namibia

Richard Diggle, from WWF, has been working with local communities and conservancies for twenty years in Namibia, with the Wildlife Credits project starting six years ago. It consists of a payment for ecosystem services scheme, rewarding local for their efforts on the ground (e.g. maintaining ecological corridors intact for wildlife to use them). One of the key lessons from this project, and applicable more broadly to the nature credit space, is that legal rights are critical to ensure success. Land rights provide communities with a legal framework to manage and benefit from the wildlife, to keep people accountable and to enter into legally enforceable contracts with terms and conditions.

Good governance is then needed to implement legal rights and enable the correct administration of credit schemes. A governance system should include a government in charge of oversight; community structures in charge of co-developing, managing and benefiting from such schemes; a dedicated fund such as Namibia's Community Conservation Fund; and NGOs providing long-term technical support. It is fundamental to have these structures and strong partnership to ensure impact and scale through good governance, data collection, compliance and – most importantly – community ownership.

Richard argued that finance is not flowing to IP and LCs at the scale or velocity that is needed. It is fundamental to recognize the environmental benefits they provide, both locally and globally, by protecting lands, respecting wildlife and using traditional knowledge. In the Namibia Wildlife Credits project, the initial aim was to support their stewardship by creating a wildlife economy via contracts between the private sector and local conservancies in the tourism and hunting sectors. However, Richard thinks that this commercialization of traditional knowledge might not be the answer, as it comes with its own tensions and pressures on natural resources. Therefore, there is now an attempt to channel public funding into this wildlife economy and its management, because of its recognition as a public good which provides both a national and international service irrespective of commercial performance. Retribution to IP and LCs can then best be achieved through a combination of commercialization and public financing.

Reflections from the Q&A session

How do you implement biodiversity credits in a country that has no policy support?

Dorothee emphasized that it is important to look at pilot projects as an indication of initial demand for biodiversity credits – even if there is currently little policy support. Pilot projects are a bit more costly and risky at the beginning but there is potential from these to help build relationship between investors, companies and developers, as well as drive market scale-up and regulatory developments.

What is demand looking like and who's going to buy biodiversity credits in the end? How to prevent greenwashing and how can carbon markets inform developments?

Giulia talks of a couple of companies having expressed interest in biodiversity credits at the moment. Given the urgency of channelling funds into conservation, scaling demand should then be encouraged. At WBCSD, a survey has been launched recently with a subset of their member companies to understand their interest in this topic and explore what beyond value chain mitigation for nature looks like. There is a need to trigger a discussion on what a nature claim should entail, essential to setting the business case for more companies to use it and create the right infrastructure to avoid greenwashing from happening. The Biodiversity Credit Alliance has been doing this, together with other organizations that are working more on the in-value chain work, such as SBTN.

Since claim definition occupies a central role in market creation and is currently being discussed for the more advanced voluntary carbon market, it is important to follow developments closely and draw lessons that could be applied to biodiversity schemes. For instance, at the end of June the Voluntary Carbon Market Initiative is going to issue the claim code of practice, helping to define when a company has all the requirements to be able to make a claim from purchasing credits. The role of investors right now is to be patient, while keeping informed on demand trends and on this topic more broadly, to avoid getting into biodiversity credit projects with the wrong expectations and to be able to perform good due diligence when a project developer comes to them with a project proposal.

On the same topic, Johan follows up by sharing personal insights from project development. First, identifying the interested community and having Free, Prior and Informed Consent is very important and processes will vary from country to country, or even from community to community. For now, given the lack of regulation on biodiversity credit markets, government engagement relies heavily on the legal framework created around the carbon credit market. Considering current off takers, their demand is tied to ValueNature's projects having carbon co-benefits tied into their structure.

How can landscape approaches enable farmers to generate additional value streams via biodiversity credits?

Richard underlines that carrying out projects at a landscape level has benefits in terms of scale, outcome and returns for investors. Giulia adds that this conversation is happening for the voluntary carbon market, specifically when talking about nature and forests protection. REDD+ projects should be designed at the jurisdictional level to avoid leakage, better control your baseline and account for risks to your project. Biodiversity credits are thus likely to have to follow the same recommendations.

How can you ensure that biodiversity credits represent real change on the ground?

Johan talks about being transparent in the data collection process and how it is inputted to create indexes through which biodiversity scoring and uplifts can be determined – i.e. by using blockchain technology. It is also important to use science-based methods and implement remote and in-situ sensing effectively. It is then important to engage with governments to ensure that finance flows to the communities. Richard emphasizes the importance of striking the balance between making the monitoring tools accessible and affordable to the communities themselves but also methodologically robust for the market to want to pay for them.

What do you see as the next development that we should expect in the short and medium term on those new markets?

Giulia foresees a lot of movement hopefully bringing together concepts and processes and leading to resource efficiency and no duplication of efforts. Johan also expects momentum and continued learning from the Biodiversity Credit Alliance and organizations such as NatureFinance. He points to finding a balance between testing and innovation and to creating the necessary guardrails to ensure market functioning. Richard questions the term ‘credits’ in the nature space (nature certificates could be an alternative) and emphasizes the importance of continuing to work on the Namibia project and its positive impacts as the broader market develops. Dorothee concludes by pointing attention on developments that will happen from sovereign involvement.