

From Carbon to Nature

What the biodiversity markets can learn
from the voluntary carbon market?



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Introduction

The **biodiversity markets** are a means to direct private sector funding towards ecosystem restoration, conservation, reforestation and afforestation, and the sustainable management of ecosystems.

The emerging markets have enormous potential, but risks are involved.

The biodiversity markets have much in common with the voluntary carbon market (VCM).

The biodiversity markets can learn from the VCM, avoid its mistakes, and learn from the good practices of the VCM.

The Compensate Foundation has evaluated over 170 nature-based climate projects. Over 90% of them failed the strict quality criteria.





Nascent biodiversity markets

The biodiversity markets are immature, but they are evolving fast.

The Kunming-Montreal Global Biodiversity Framework, adopted under the Convention on Biological Diversity (CBD), lists **biodiversity credits and offsets** as tools to mobilize financial resources for nature.

Carbon credit standards (e.g., Gold Standard, Verra, and Plan Vivo) are developing biodiversity credit and certificate methodologies.

Individual countries, such as Colombia, Australia, and New Zealand, are forerunners in developing the biodiversity markets.



Nascent biodiversity markets

Biodiversity market-related initiatives



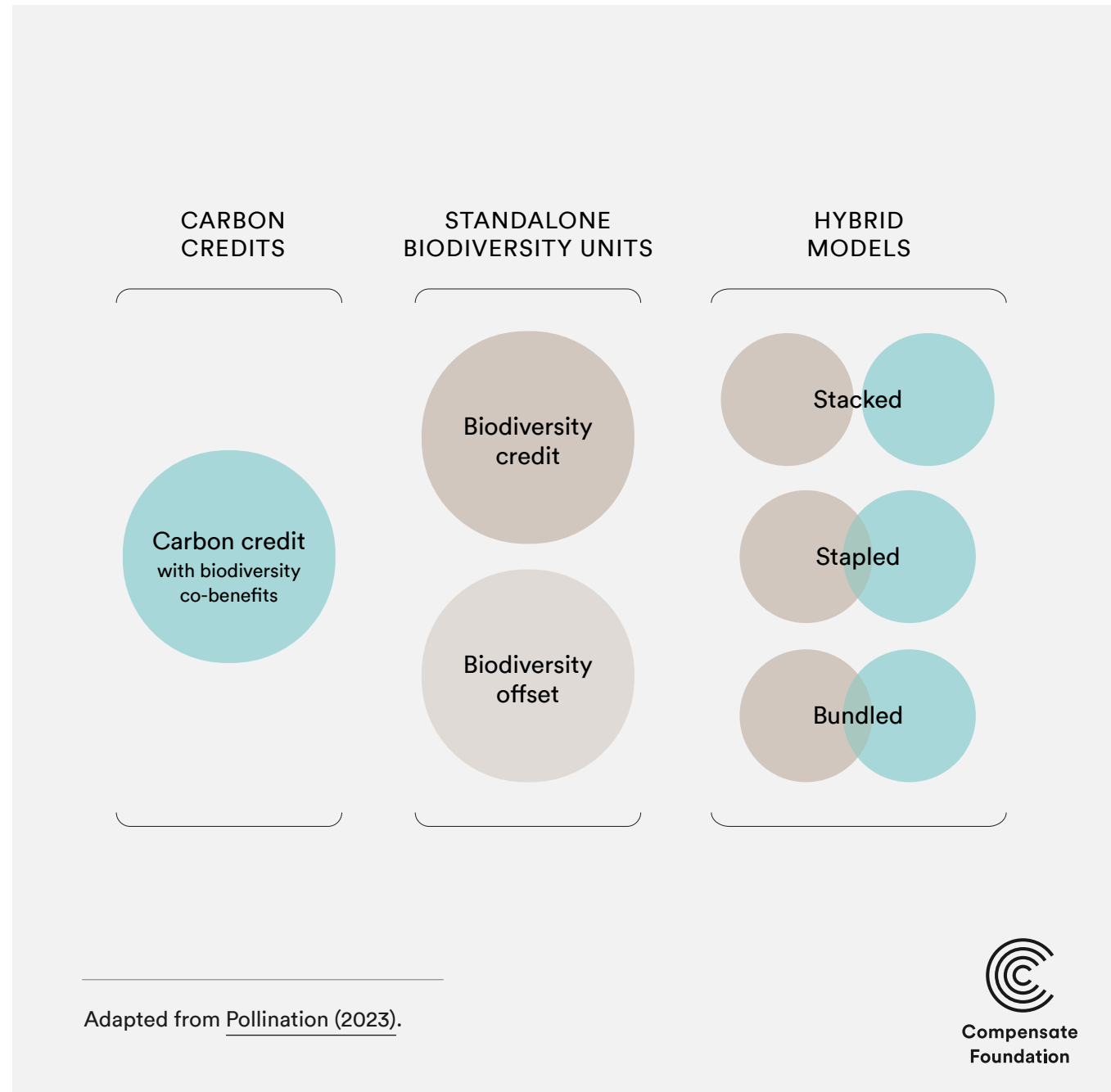
- The UK and France's joint initiative facilitates biodiversity credit development.
- The working group of the Global Environment Facility (GEF) outlines recommendations to develop credit-based biodiversity markets.
- The Biodiversity Credit Alliance brings clarity and guidance for formulating biodiversity credit markets.
- Taskforce on Nature Markets develops a governance framework for building principles-based nature markets.
- The Science Based Targets Network (SBTN) guides companies to set science-based targets for nature.
- The Taskforce on Nature-related Financial Disclosures (TNFD) creates a framework for companies and financial institutions to manage and disclose nature-related risks.
- The World Economic Forum released High-Level Biodiversity Credit Principles in December 2022.

Unit-based market models

Carbon credits with biodiversity co-benefits are traded on the VCM. Biodiversity-positive carbon credits' main 'product' is climate impact, but they also deliver added nature benefits.

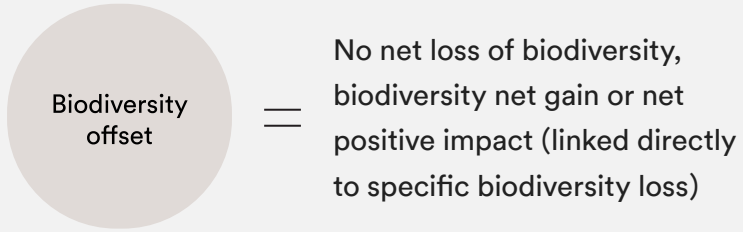
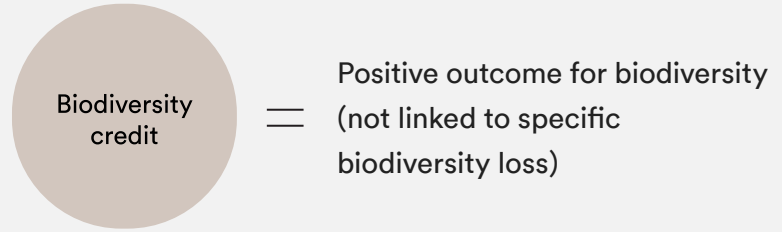
Standalone biodiversity units encompass two different approaches: **biodiversity offsets** and **biodiversity credits**.

Hybrid models combine standalone carbon credits and biodiversity credits into hybrid units. The main approaches to do this are **stacking**, **stapling**, and **bundling**.

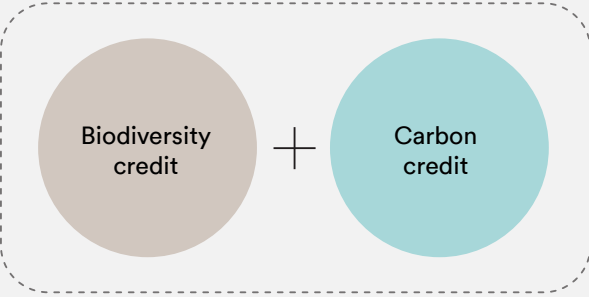


Standalone biodiversity units and hybrid models

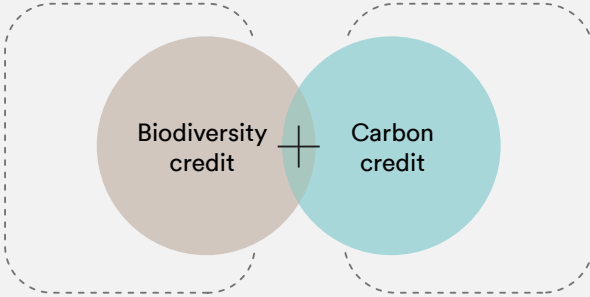
Standalone biodiversity units



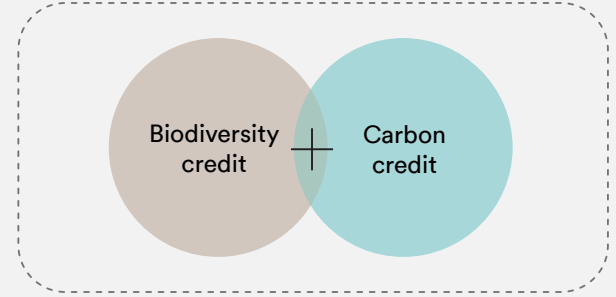
Hybrid units combining carbon and biodiversity credits



Stacked
Separate units generated by the same project / land



Stapled
Combined unit generated by different projects / lands



Bundled
Combined unit generated by the same project / land

Biodiversity credits

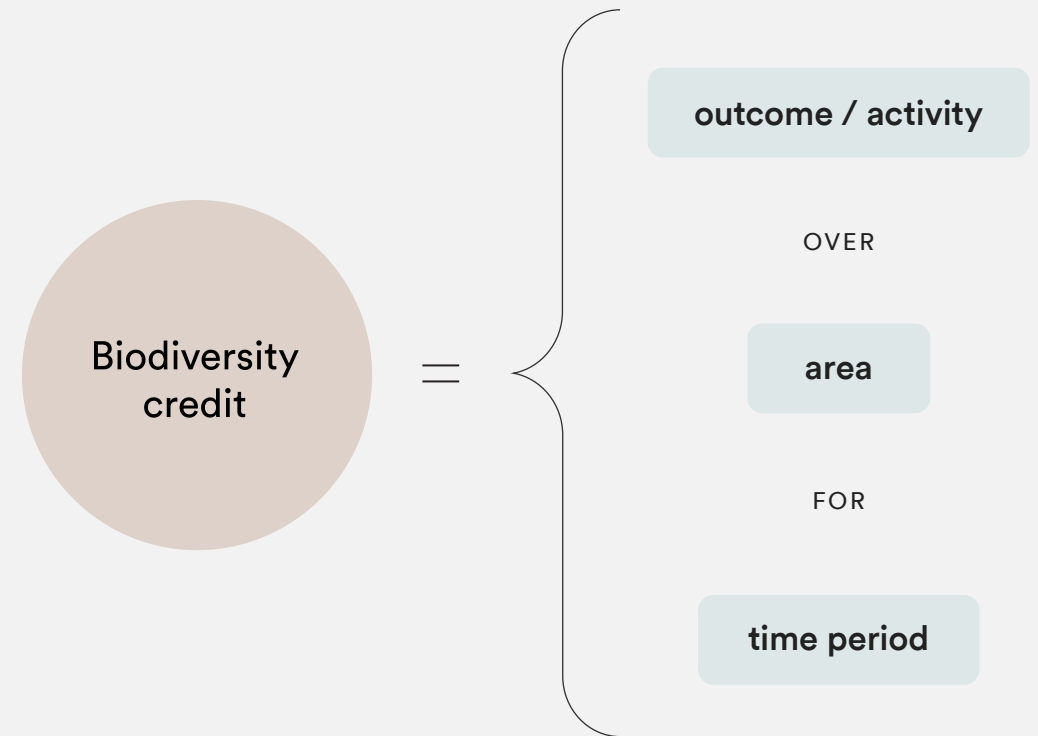
A **biodiversity credit** is a measurable, verified, and traceable unit that quantifies the benefits for biodiversity.

Typically, biodiversity credits represent a nature-positive outcome or activity over a specific area for a specific time period.

Unlike **biodiversity offsets**, biodiversity credits are not linked with specific projects with negative nature impacts.

Biodiversity credits do not have the in-built principle of counterbalancing or compensating for the harm done.

Building a single-value metric for diversity is difficult. This has implications for the markets' very foundations, logic, and integrity. The most biodiversity crediting frameworks and methodologies are in a pilot phase.



Adapted from [Pollination \(2023\)](#).



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Additionality and double counting

Financial additionality signifies the project's inability to be self-sustaining without revenue from selling verified biodiversity units.

Policy additionality means that the project goes beyond the biodiversity policies in place. Thus, the project would not have happened as a result of the existing policies.

Avoiding **double claiming** assures that two different parties are not simultaneously claiming the same biodiversity outcome.

In the VCM, double claiming is tackled by:

- Corresponding adjustments
- Non-offset claims

Double issuance or **double selling** can be avoided by tracking every transaction in a registry.



Baselines, permanence and leakage

Real impacts can only be evaluated against **robust baselines**.

If the baseline setting overestimates the outcomes of the project or the threats in the business-as-usual scenario, the project results in overcrediting.

Risks are involved when project developers set their own baselines. The baseline should be set by an independent third party.

Permanence means that the positive outcomes and impacts of the biodiversity project are durable in the timeframe of decades or centuries.

Leakage refers to the situation where safeguarding biodiversity in the project area leads to losing biodiversity in another.





Monitoring, verification and reporting

Robust **monitoring, verifying, and reporting** methods are prerequisites for credible markets.

For biodiversity markets, it will be critical to describe the projects' benefits to biodiversity in sufficient detail.

Methodological development and agreement on the standardized monitoring and reporting methods across the markets is needed.

The experience from the VCM shows that robust markets cannot rely solely on project developers' data.

Third-party auditing is the only way to ensure monitoring, validation, and reporting are on a solid base.



Community rights and benefits

Biodiversity projects should take community rights at the core of the project.

High-integrity carbon projects yield tangible benefits for local communities, uplifting livelihoods.

Local communities' rights to their own land and natural resources and biodiversity should be acknowledged.

The sharing of economic benefits must acknowledge these rights.



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Stakeholder engagement and grievance mechanisms

Projects of high integrity prioritize transparent and inclusive stakeholder consultation processes.

Project plans should be communicated in local languages and be comprehensively explained to impacted communities.

Access to legal counsel should be provided.

Robust grievance mechanisms guarantee local voices are acknowledged and appropriate actions are taken.



Demand for biodiversity claims

Attractive claims motivate corporate action.

Robust claims are a prerequisite for an appealing and credible biodiversity market.

Developing claims in parallel with the biodiversity metrics and credits is crucial.

It will be a challenge to develop simple and attractive claims that still capture biodiversity's complex nature.

Established frameworks and integrity benchmarks for biodiversity claims have yet to be created.



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Compensation or contribution? Offsets or credits?

The contribution claims are the only feasible option for international biodiversity markets and biodiversity credits.

There is no universal metric to describe an organization's impact on biodiversity or the equivalent gain produced by a project.

Counterbalancing claims should be limited to national or local biodiversity offset schemes.

Offset and contribution claims are different approaches with different logic. The distinction should be made clear.

In the VCM, the overall trend is away from carbon neutrality and towards science-based emission reductions, beyond value chain mitigation (BVCM), and climate contributions.




Fast-evolving regulations on claims

The regulation landscape on environmental claims is fragmented and constantly changing.

In the EU, the upcoming legislation will require strict transparency and accountability from environmental claims to prevent greenwashing.

The biodiversity claims must be clear about whether they are based on biodiversity offsets, biodiversity credits, or other types of actions.

The credit buyers need clear guidance on making the biodiversity claims.



The success of the emerging biodiversity markets will depend on whether they can introduce credible credits and robust yet appealing claims.





Conclusions

- The emerging biodiversity markets provide an additional tool for channeling much-needed private funding to nature conservation and restoration.
- Private and public initiatives are paving the way for rapid development of the markets.
- The priority should be creating necessary institutions, quality assurance mechanisms, and arrangements guaranteeing transparency.
- Building a solid base for integrity and transparency should be done without delay before scaling up the supply and demand.





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The Compensate Foundation is a Finnish non-profit organization working to improve the integrity of the voluntary carbon and nature markets.

This is the summary of the Compensate Foundation's white paper
From Carbon to Nature: What the biodiversity markets can learn from the voluntary carbon market?

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