

## **International Advisory Panel on Biodiversity Credits – Call for Views**

### **1. What definitions of biodiversity credits and biodiversity credit markets do you find most helpful and why? What role can biodiversity credits (or similar products/models) play in nature conservation and restoration?**

Current definitions of biodiversity credits vary, with no universally agreed set of defining characteristics. Individual definitions are also generally broad or vague. For example, Pollination describes biodiversity credits as ‘schemes that seek to generate measurable positive natural-capital, ecosystem, and biodiversity outcomes, that are, in turn, represented as a token, credit or certificate that can be bought and sold.’ Similarly, a report by IIED and UNDP summarises biodiversity credits as ‘an emerging mechanism to quantify and track biodiversity conservation and preservation efforts and outcomes [...] a unit of biodiversity that is being restored or preserved.’

For markets to operate effectively, there needs to be a single definition which is specific and clearly distinguishes credits from offsets. Furthermore, there needs to be a consistent approach to measuring the cost/value of credits, and how these credits are directly related to the risks or negative impacts on biodiversity. To do so, information of dependencies and impacts at a local level is essential.

Whilst acknowledging the complexity of measuring biodiversity, the variety in the range of schemes available doesn’t make consistency (and comparison) difficult, but there is scope to standardise. As an example, a report by Pollination found that to calculate a biodiversity credit, most schemes reviewed used the formula “biodiversity credit = X outcome over Y area for Z time period” – this could be an effective approach.

A clear and consistent definition is also needed to understand exactly what the term ‘nature-positive’ means. Unlike its climate counterpart ‘net-zero,’ the term ‘nature-positive’ remains undefined - a universal definition should be adopted that is measurable and used across sectors and industries. Current ambiguity and inconsistency around definitions of ‘nature-positive’ means it is not possible to reliably compare or benchmark company behaviour, and leaves companies open to allegations of greenwashing in what they choose to label as ‘nature-positive’ activity. For example, IUCN’s is developing a methodology for a Nature Positive approach where it is defined as “A nature-positive future means that we, as a global society, halt and reverse the loss of nature measured from its current status, reducing future negative impacts alongside restoring and renewing nature, to put both living and non-living nature measurably on the path to recovery. Nature Positive Initiative have also called for a clear nature-positive goal of ‘a measurable absolute improvement in the state of nature against a defined baseline, which will in turn improve nature’s ability to contribute to human wellbeing.’

### **2. What different types of biodiversity credits or related instruments are you aware of? What are the best real-world examples?**

Most biodiversity credit/offsetting schemes are currently voluntary, but a small number are compliance based, such as the UK’s Biodiversity Net Gain scheme. Within this scheme, developers are required to ensure a 10% net gain in biodiversity, through onsite gains, offsite gains and through the purchase of a ‘statutory biodiversity credit’ from the Government. The Government has stressed that these credits are a last-resort option only and have deterred purchase through high prices and the requirement of a Biodiversity Gain Plan to be submitted and approved before development. However, there are issues with governance of the scheme, particularly concerning the disparity between monitoring and reporting units delivered onsite and off. Research of early adopters of the

BNG scheme has found that as much as 27% of all biodiversity units currently used are at extreme risk of not being delivered, due to this gap. Further concerns, from a lack of funding and expertise (local authorities are struggling to hire ecologists) to inaccurate baselines and data manipulation. There is also currently no incentive to provide more than 10% net gain.

There has been a huge increase in the number of schemes available over the last few years, and they all differ hugely in scope, metrics and application. Due to these differences and the ever-growing number of schemes available, it is very difficult to say which are better over the other. Impacts on biodiversity can also be analysed through several different factors: habitat loss, ecosystem loss, pollution, species loss. To sufficiently capture all impacts on biodiversity, it is important that multiple outcomes are measured – not just species or habitat alone, for example.

There has been very little comparison of schemes to date, but analysis by BloombergNEF of eight global biodiversity credit schemes – both private and government-led - rated rePLANET (based in the UK) highest overall, across categories including additionality, permanence and measurement integrity.

In essence, the best example of real-world use of biodiversity credits and offsets is when they are used only as a last resort, after all attempts to avoid damage to (or better, restore) nature have been unsuccessful, in line with the biodiversity mitigation hierarchy. IUCN found that 77% of over 100 countries with biodiversity offsetting regulation (relating to direct development impacts) do not properly enforce the mitigation hierarchy – this urgently needs to change. Ambitious, watertight regulation can and should play a role here.

### **3. How can we ensure that the diverse values of nature are captured through a biodiversity credit market approach, and that these are robust, and evidence-based?**

Firstly, it is important that a clear distinction is made between biodiversity credits and offsets. Offsetting schemes are usually defined as driven by negative impacts on biodiversity in one area that are compensated for by a positive impact on nature in another area, whereas biodiversity credits are usually not linked to negative impacts and are instead designed to promote private sector investment in nature stewardship. Universal definitions of the two terms, and being able to understand the difference between them, is essential to ensure coherence and best practice across companies, regulators and governments. Clarification is also needed on more complicated situations. For example, with the UK's BNG scheme, developers can buy a credit generated elsewhere to offset damage at a specific site. This assumption of equivalence between the two sites is particularly concerning given the uniqueness of ecosystems and their location-specific characteristics – in this case, BNG relates to habitats, but this issue is applicable to species, ecosystems etc. As an addition, should these units still be called a 'credit' as they inherently contradict the definition of one?

The scope of these schemes is also limited. For example, they are inherently based on the assumption that biodiversity loss will happen – some schemes have been found to have prevented a loss of nature that was never going to happen in the first place. Furthermore, biodiversity offsets are only designed to compensate for direct negative impacts on biodiversity, disregarding the fact that companies will have negative impacts on nature throughout their activities and value chains.

Furthermore, without proper governance, there is a risk of companies and certification bodies failing to detect their own non-compliance – whether accidentally or intentionally. Impact attribution also becomes unclear if several companies are impacting one site (either directly or through their supply chain) - who is ultimately responsible? There is real risk in these situations that if accountability is

not laid out clearly, no one will take accountability. This shows a need for regulation, both nationally and internationally, to lay out clear best practice for biodiversity credit and offsetting schemes. Policy should ensure cohesion across schemes, address concerns related to measuring and baselines, and above all provide real gains for nature.

**4. What lessons can be learned from the carbon markets (positive and negative) that should be applied to the biodiversity credit markets, to ensure their ability to: scale, safeguard their integrity, share benefits equitably, and enable overall positive outcomes for people and planet? Please indicate clearly what you think the three most important lessons are:**

More frequent, independent, robust evaluation is required to ensure that biodiversity gains are genuine, an issue that has plagued the carbon credit market. Analysis by the Guardian found that 90% of Verra's rainforest credits do not represent genuine carbon reductions. Separate research by Cambridge University on REDD+ (Reducing Emissions from Deforestation and forest degradation in Developing countries) revealed only 6% were linked to additional carbon reductions through tree conservation, meaning that schemes such as REDD+ massively overestimate the level of prevented deforestation. Despite a huge range of sophisticated metrics available to measure biodiversity, gaps in the methodology (such as self-nominating a reference site) mean that increases in biodiversity are not accurately measured.

Biodiversity credit schemes should contain robust requirements that protect the rights of IPLCs, to avoid the abuse of their rights. Working closely with, and acknowledging and respecting the rights of, Indigenous Peoples and local communities (IPLCs) is essential to ensuring biodiversity credit schemes work for both people and planet. This is particularly important given the fact that Indigenous Peoples' lands contain over 80% of our planet's biodiversity. As such, they are disproportionately affected by biodiversity loss driven by companies and carry the burden of local nature restoration. As far as we are aware, no biodiversity credit scheme is currently led by IPLCs, with an IPLC led voluntary nature credit framework launched by Pollination late last year. A lack of IPLC involvement raises concerns of requirements of the schemes to obtain free, prior and informed consent (FPIC), as well as questions around equitable benefit sharing and joint ownership. A report by Nature Finance on biodiversity credits stated that up to now, public engagement with IPLCs has been 'limited.' This is an area that rapidly needs to improve before the market becomes fully fledged – engaging IPLC will be critical to ensuring the endurance and success of these schemes, whilst supporting communities most affected by nature loss.

**5. Should biodiversity credits combine various activities or outcomes in a single unit? Should they be integrated with carbon credits/vice versa? Which approach do you prefer and what are the advantages and disadvantages of doing so?**

Bundling vs stacking should be addressed, as there are arguments both for and against. For example, bundling (selling multiple ecosystem services, e.g. climate benefits alongside nature benefits, to one buyer) carries risk of becoming unbundled in future, leaving investors at risk, whereas stacking (different ecosystem services are sold separately to several buyers) carries additionality problems – if an investor has paid for land management, any further purchases by other investors are paying for management that would have occurred regardless.

**6. Which actors need to be involved in biodiversity credit market governance? How should their meaningful engagement be secured, particularly that of IPLCs?**

Biodiversity credits can play a vital role in nature conservation and restoration, but it is important that governments lay out clear, robust regulation. Adherence of companies to the biodiversity

mitigation hierarchy is key. Avoidance of negative impacts on nature should be the first step, followed by minimisation, restoration, and then offsetting as a last resort. Only once these have been followed can companies look at enhancing, which is where credits are used. Often, failings of biodiversity offset schemes stem from a lack of incentives to apply the mitigation hierarchy – companies do not see the importance of avoiding impacts first and see credits as an easy option to justify their damage to ecosystems. Lack of regulation contribute to this problem. According to research by the International Union for Conservation of Nature (IUCN), 77% of over 100 countries with biodiversity offset/compensation laws and policies relating to direct development impacts do not properly enforce the mitigation hierarchy.

**7. Markets can be voluntary and/or compliance based. Will there be enough demand to support and scale markets on a purely voluntary basis or is regulation/other types of public sector incentive necessary? Are there other ways to conceptualise biodiversity credit markets other than voluntary and/or compliance that we should consider?**

An argument could be made that offsetting biodiversity loss should be a regulated market, as it concerns a generated loss, however there is scope for a hybrid approach to the market. For example, the BNG scheme in the UK requires a 10% net gain in biodiversity, but then there is no incentive for developers to go beyond 10% - if such an incentive were in place, this could be an opportunity for businesses to realize the opportunities of nature restoration and encourage further consideration of our natural world. Regardless of whether markets are compliance based or not, it is important that all project level methodologies are equally robust.