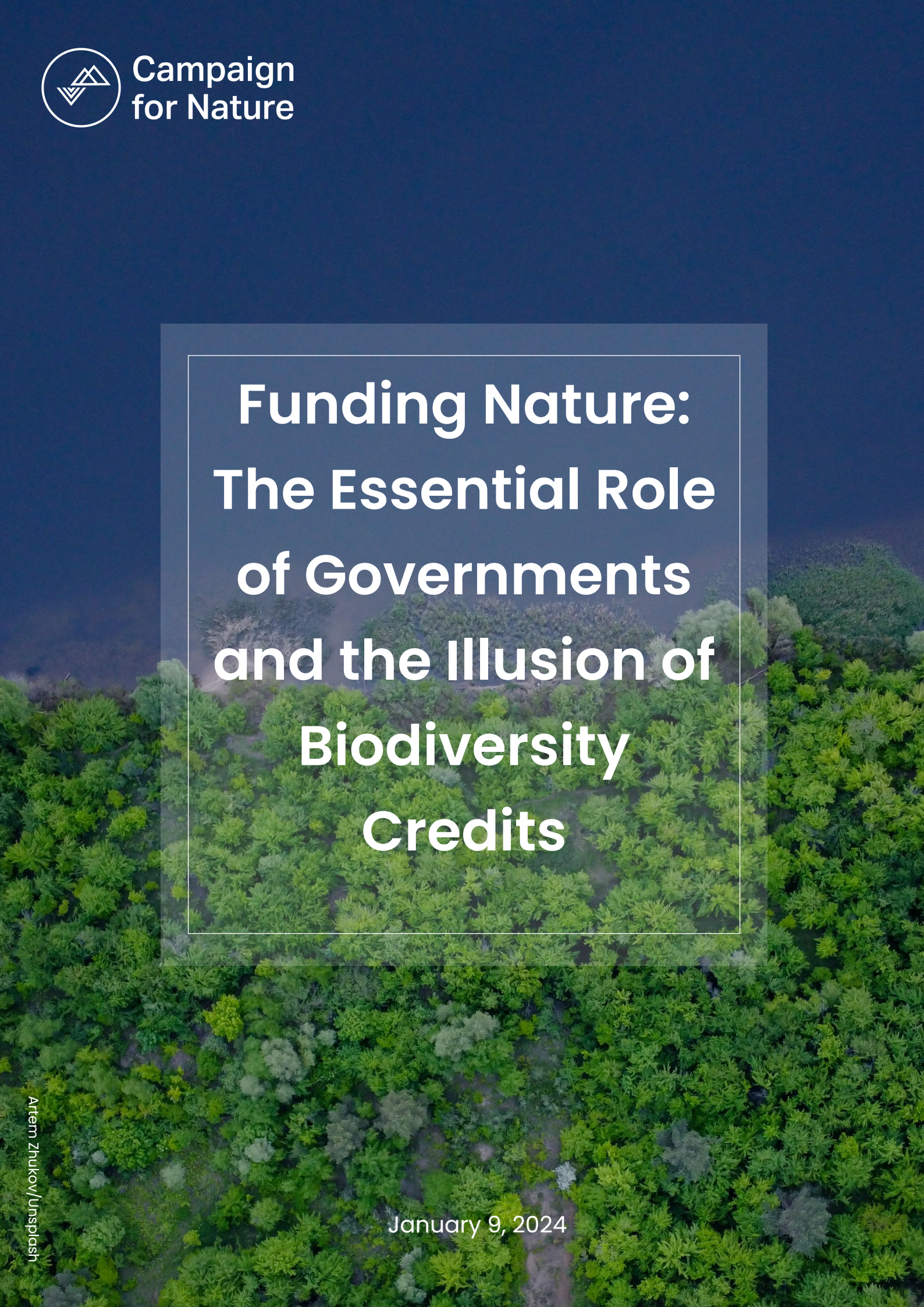
Campaign for Nature

Funding Nature: The Essential Role of Governments and the Illusion of Biodiversity Credits



Artem Zhukov/Unsplash

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The governments of the world agreed to close the estimated $700 billion annual biodiversity funding gap in the Kunming-Montreal Global Biodiversity Framework ("KM-GBF") at COP15 in Montreal in December 2022. The targets in the KM-GBF call for reforming $500 billion of harmful subsidies by 2030; increasing finance for nature to $200 billion annually from all sources by 2030, including public and private, domestic and international; and increasing international biodiversity finance from developed to developing countries to at least $20 billion annually by 2025 and $30 billion by 2030. The latter is the most imminent target in the KM-GBF.

As governments seek to fulfill their promises in the KM-GBF, efforts are underway to identify new sources of finance to help fill the enormous gap and there is increasing focus on the private sector as a source of funding. This paper provides a critique of recent efforts to promote biodiversity credits and other forms of private sector "innovative finance" as the priority potential sources of new biodiversity finance, and makes the case that it is in fact governments which hold the key to unlocking the resources necessary to close the biodiversity funding gap.

Biodiversity credits [1] ("BCs") have generated significant recent interest, with new reports from the World Economic Forum, IIED/UNDP, the Global Environment Facility, NatureFinance, Pollination and others; the launch of International Advisory Panel on Biodiversity Credits by the UK and French governments; the creation of the Biodiversity Credit Alliance, multiple inputs from NGOs; attempts by Verra and others to develop a BC framework; and BCs becoming a central topic of presentations and conversations at recent nature finance conferences.

Campaign for Nature shares many of the goals that BCs are attempting to achieve, including increased private sector funding for nature and paying for quantified long term biodiversity and community outcomes. We also share the frustration of governments from the Global South who have had Official Development Assistance ("ODA") promises unmet and are seeking new means to raise funds to protect the most important areas of biodiversity in a world ridden with debt distress and an inequitable global financial system.

However, we have substantive concerns about how to create a BC market with integrity and don't believe that such a market will scale to significant levels, especially if it remains voluntary. As significant of a concern - or perhaps even more so - is the risk that the increased attention on BCs will distract governments from their urgent finance responsibilities agreed to in the KM-GBF.

[1] *For the purposes of this paper, biodiversity credits, sometimes referred to as "nature credits" or "nature certificates" are defined as investments in nature's conservation or restoration and not as offsets for damage and therefore beyond the mitigation hierarchy of "avoid, minimize, restore, offset." The many concerns with biodiversity offsets, while related, are not discussed here.*

The following outlines in more detail these potential issues and implications of BCs and the growing interest in them, along with our recommendations for how governments should prioritize their efforts to close the biodiversity finance gap.

The Risk of Government Distraction

Our urgent concern is that inflated claims regarding the potential scale and projected rapid growth of voluntary BCs could lead to an abdication by governments of their public responsibilities, allowing them to think that somehow "innovative finance" from the private sector will play a significant role in meeting the financial promises made in the KM-GBF laid out above. This is particularly concerning regarding the fast approaching 2025 deadline for developed countries to provide at least $20 billion annually to developing countries.

Fundamentally, it is critical that our governments start to recognize biodiversity as the public good that it is, like law enforcement or defense[2]. Public goods must be funded by governments or incorporated into private investment decision-making through public policy, regulations, and incentives.

There is also an opportunity cost to governments and non-governmental groups pursuing BCs, particularly in the resource-constrained environmental community. Time and capacity spent working on complicated issues around BCs – including definitions, measurement and verification methodologies, and governance – is time and capacity not spent advocating for increased public funding and changes to government regulations, policies, and incentives that will drive increased private sector funding and ensure governments deliver on their promises in the KM-GBF.

Some say that a focus on public sector nature finance ignores the general downward trend in aid and that there is a need to focus on biodiversity credits and other "innovative finance" from the private sector to ensure the significant increase in nature finance agreed at COP15. However, this focus of government and expert resources and capacity on the market to close the finance gap creates a self fulfilling prophecy. If we don't push for public funding increases, it won't happen. As with all public funding and aid, budgets are only increased with increased public demand and political leadership.

[2]*Technically, biodiversity includes both public goods, which are non-excludable and non-rivalrous (e.g., flood protection from coral reefs) and common goods, which are rivalrous but non-excludable (e.g., fish in the ocean), but we use the term public goods for simplicity in this paper.*

Private Finance is Essential - But Voluntary Measures are Not Enough

It is clear that significantly increased funding from the private sector will be necessary to close the overall biodiversity funding gap. We believe this funding will need to be driven by changes in government policies, not voluntary measures on the part of corporations and investors, which do not have a track record of providing sufficient funding that doesn't directly generate returns and increase shareholder value. The voluntary carbon market provides a sobering example of the limits to voluntary private sector actions, as discussed below.

Funding for nature from the private sector is necessary and can come in a range of forms but this funding must be driven by government policy, including increased taxes on companies that destroy nature, tax incentives or redirecting harmful subsidies to conserve and restore nature, and mandated changes in business operations through regulations that require investment in more sustainable practices. There are a range of examples of this: a sampling of laws just in the U.S. includes the 1937 Pittman-Robertson Act, 1964 Land and Water Conservation Fund, 1970 Clean Air Act, 1972 Clean Water Act, and 2022 Inflation Reduction Act. Other examples include the Biodiversity Net Gain and Environmental Land Management initiatives in the U.K.; the fossil fuel tax in Costa Rica; the carbon tax in Colombia; the International Finance Corporation's "no net loss" policy in its Performance Standard 6; and the 2023 EU Regulation on deforestation-free products, among many others.

A Voluntary BC Market has Intractable Challenges

To date, only $8 million of commitments or pledges for biodiversity credits have been reported. While the WEF is planning to demonstrate demand through the launch of a "Frontrunners Coalition" and BC auction later this year, there are no reports of any material corporate commitments to purchase biodiversity credits. In fact, Unilever and Nestle have both said they are not exploring the use of biodiversity credits. Potential corporate buyers have also been noticeably absent in the groups developing BCs. If a corporate buyer cannot use BCs as offsets, BCs are likely to fall under corporate philanthropy budgets or communications and marketing budgets. While we believe companies should increase their philanthropic support for nature, it is important to keep the potential increase in context: corporate philanthropy is less than 6% of

[3]*Corporate philanthropy in the U.S. totaled $29.5 billion in 2022. Environmental and animal organizations have consistently received about 3% of overall giving, so if corporate giving is allocated in the same proportion as overall giving, corporations would have provided less than $1 billion to environmental and animal organizations. Only a fraction of this amount would have gone to biodiversity and only a fraction of that would have been spent on biodiversity outside the U.S.*

Without mandated compliance, BCs are unlikely to grow to generate material funding for nature, based on the history of the voluntary carbon market. After more than two decades of development, the voluntary carbon market totaled only $1.9 billion in 2022. If the BC market grew to that amount, it would still represent only 0.3% of the biodiversity funding gap and less than 1% of the total of $200 billion of financial resources in Target 19 of the KM-GBF.

In a voluntary market, it is difficult if not impossible to guard against greenwashing. This is tied to issues of credibility of BCs, but is also impacted by the fact that in a voluntary market, corporate engagement is at least in part driven by branding and marketing goals (and again, is often funded from marketing budgets). The history of the carbon offset markets suggests that companies will make overly broad claims related to the purchases of BCs (more on this below).

Challenges Regarding BC Integrity

There are other issues with BCs that would have to be addressed in order to ensure that BCs have integrity and deliver on their promise of achieving positive biodiversity outcomes. However, we should reiterate that the points above show that there are inherent problems with voluntary BC markets, and no amount of attention or progress on the following substantive issues will be sufficient if it is not coupled with new government policies or regulations to compel corporate compliance.

- **Fungibility and Tradeability**

  Currently, there is no globally accepted definition of BCs or what a buyer gets when they buy them and the resulting claims they can make. Unlike the carbon markets, with the fungible unit of a ton of CO_2 or CO_2-equivalent[4], nature is infinitely complex across and within different biomes. We are aware that attempts are being made to come up with a credible fungible or tradable unit of biodiversity that applies within and between biomes, but scientists have expressed concerns about whether this is possible.

- **Credibility**

  BCs suffer from the same dynamics that have undermined the credibility of carbon markets, including problems around additionality, permanence, measurement, leakage, transparency, scalability, double counting, and equity. Problems with the carbon markets have been widely reported and confirmed in peer-reviewed studies and commentaries and there are new reports of problems on a regular basis. Biodiversity credits are unlikely to solve the problems that carbon offsets have been unable to solve over the past two decades.

[4] *And even here, fossil carbon and biotic carbon are not equivalent or fungible.*

And others share this view: the Science Based Target Network rejected the use of BCs in their new guidelines, Fitch and others have questioned the credibility of BCs, and scientists have warned of BCs potentially amounting to "conservation doublespeak," ultimately doing more harm to biodiversity than good.

- **Justice and Equity**
  Introducing middlemen to the funding process and removing the direct link between funders and recipients, who are the frontline stewards of the most important biodiversity areas, risks diluting the funding that actually reaches the ground where it is needed. Experience to date offers sobering evidence: only 17% of the funding in support of land tenure and forestry management for Indigenous People and local communities actually reaches Indigenous-led and local community organizations. Because of global problems with Indigenous land tenure, the communities that are often the most effective protectors of key forest areas may be unable to benefit from biodiversity credits as they are not recognized as owners of much of their territories. For developing countries, selling domestically-generated BCs to international buyers who then take credit for the outcomes they deliver can be seen as selling off their natural heritage. These concerns are shared by many in Global South civil society, who see carbon and biodiversity credits as "neo colonial" false solutions.

- **Double Counting**
  BCs are likely to suffer the same double counting problems as carbon offsets where both a buyer and a seller's host country claim credit for the same biodiversity outcome. This dynamic is widespread in the carbon markets and has not been adequately addressed after more than two decades.

Recommendations for Governments

There is a finite amount of attention and priority that governments can spend on nature finance, particularly in the current climate of polycrises. With the first set of finance targets from the KM-GBF coming up in 2025, it is critically important that governments and those pushing for nature finance to be increased are focused on the actions that can make the biggest, positive impact for biodiversity in order to ensure promises made at COP15 to fully close the biodiversity finance gap are kept.

The global loss of natural areas poses a grave threat to our clean air and drinking water, our food production, the prosperity of our communities, and our ability to protect from severe impacts of a changing climate. Nature is the foundation of our economies and an essential public good. The need for public finance for public goods is widely recognized among economists and sustainable development experts. Societies expect their governments, not the private sector, to provide essential public goods like national education, healthcare, law enforcement, national defense, and roads. Similarly, governments need to provide the funding and policy support for the natural systems that underpin our economies and civilizations. This is implicit in the KM-GBF which is an agreement between governments, not companies.

Our recommendations for how governments should prioritize their time and capacity to close the biodiversity finance gap are as follows:

- **Meet the $200 billion target for financial resources**
  Governments committed to increasing financing for biodiversity globally, including within their own borders, to $200 billion annually by 2030 in Target 19 of the KM-GBF. Governments are the only Parties to the KM-GBF, so it is their responsibility to provide this funding, either directly through government budgets or indirectly through government policies that mobilize private finance. This effort must focus on existing government budgets and new sources of revenue that can provide material increases in funding, not sources like BCs that, as explained above, have limited potential. Two hundred billion dollars represents only 0.2% of current global GDP of $100 trillion.

- **Meet the $20 billion 2025 international finance target**
  As the most urgent part of the $200 billion of total financial resources, donor governments agreed to increase international biodiversity finance to developing countries to at least $20 billion per year by 2025. Achieving this target will build trust among countries, provide immediate support to critical conservation and restoration projects, and catalyze additional investments, including from developing countries governments' domestic budgets. With sufficient political will, there is more than sufficient public funding available to meet the $20 billion target. Meeting the existing commitment by donor countries to fund Official Development Assistance at 0.7% of GNI would generate an additional $200+ billion annually. Governments are already spending $1.8 trillion each year on subsidies to industries that are destroying nature; $20 billion is equivalent to only 1.1%, or about four days, of those subsidies, and just .02% of global GDP.

- **Redirect harmful subsidies**

  The biggest contribution to closing the biodiversity finance gap agreed upon at COP15 is to redirect $500 billion of subsidies away from activities that destroy nature. Failure to achieve this target would ensure that a sizable finance gap remains. The first step is for governments to identify their harmful subsidies by 2025, as per Target 18 of the KM-GBF. Government capacity and time should be urgently spent now to achieve that and then galvanize adequate political momentum to redirect subsidies toward the protection, restoration, and sustainable use of nature to meet the KM-GBFs ambitious goals.

- **Unlock private investment through government rules and regulations**

  Dramatically increasing private finance towards biodiversity conservation is essential, but we believe this funding will need to be driven by changes in government policies, not voluntary measures on the part of corporations and investors. As noted earlier, these types of changes in policies could include increased taxes on companies that destroy nature, tax incentives or redirecting subsidies to conserve and restore nature, and mandated changes in business operations through regulations that require investment in more sustainable practices. This could theoretically include creating a compliance biodiversity credit market – although this would require significant work to fully address the substantive issues outlined above and we therefore do not recommend prioritizing this element.

- **Focus on communities and activities that generate biodiversity outcomes**

  There are unlimited opportunities, ready right now, for companies, investors, philanthropists and governments to fund communities and activities that generate measured biodiversity outcomes (e.g. the 108 Conservation Trust Funds that provide funding for terrestrial and marine conservation in developing countries in Africa, Asia, and Latin America and the Caribbean; funds that provide resources to advance community land rights and secure land tenure for Indigenous people and local communities, like The Tenure Facility and CLARIFI, as well as regional Indigenous funds; the Legacy Landscapes Fund, a public-private partnership that provides long-term funding for protected areas in developing countries; and the Enduring Earth collaboration, working to provide long-term funding for protected areas in developing countries).

- **If they must be pursued, then prove that BCs work, and fast**
  If, as some have suggested, the BC train has already left the station, then the onus is on BC promoters to prove that BCs can provide material funding for nature in the timeframes called for in the KM-GBF. A reasonable benchmark would be generation of a meaningful portion of the $20 billion promised by developed countries to developing countries by 2025, delivered through a rights-based approach, while ensuring that this work doesn't distract time and capacity in governments and expert groups from raising the public finance necessary to achieve the overall $20 billion target. If BCs cannot deliver meaningful international funding to developing countries by COP16 (i.e., at least $2 billion) and substantial funding by 2025 (i.e., at least $5 billion annually), in each case with at least 20% of the proceeds going to Indigenous People and local communities (in line with the goal of the Global Biodiversity Framework Fund), then there will be significant questions about whether BCs can ever scale to contribute meaningfully to the finance goals of the GBF between now and the end of the agreement in 2030, a mere six years away.

Conclusion

If governments were to respond to the biodiversity crisis as the emergency that it is, as they have for COVID-19 and the war in Ukraine, they clearly have the capacity to enact the policies and find the funding to fully address it.

The problem is that governments are not treating the biodiversity crisis as an emergency. Therefore it is critical that the environmental, business, civil and private sector communities unite to help shift thinking at the highest levels of governments to recognize and adequately value nature and the services it provides as the basis of our global economy.

Our collective priority must be to campaign for governments to provide additional public sources of finance for nature and to implement regulations, policies, and incentives that will mobilize the private sector finance necessary to close the global biodiversity funding gap.

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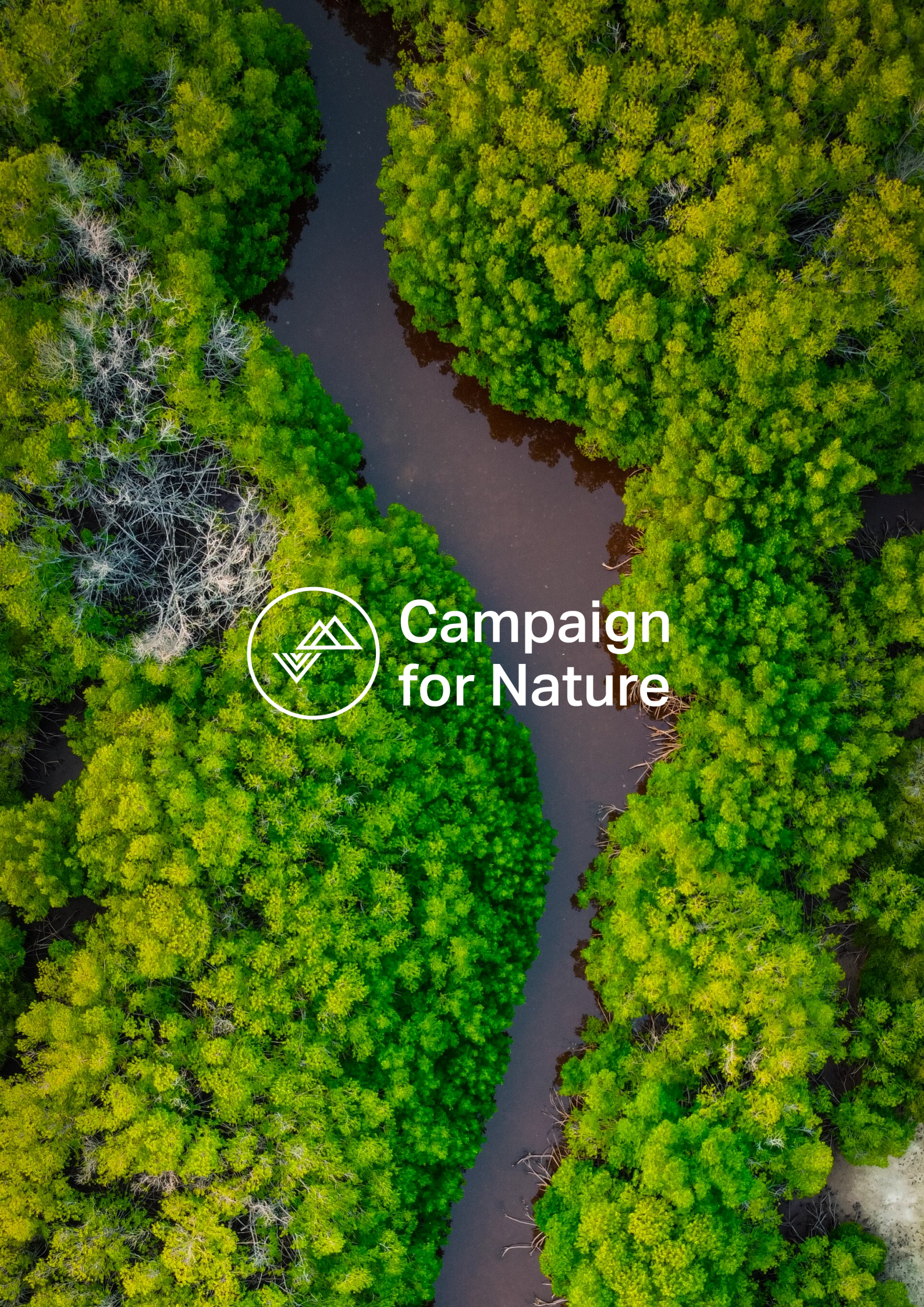
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