



# Demand-side Sources and Motivation for Biodiversity Credits

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Issue Paper No. 1

DECEMBER 2023



# About BCA

The Biodiversity Credit Alliance (BCA) provides guidance for a credible and scalable biodiversity credit market that stands up to the scrutiny of multiple market participants. A key element of developing the biodiversity credits market is working with partners and stakeholders to understand potential sources of demand, and potential demand drivers for biodiversity credits. Together we are working to ensure strong foundations and principles exist for market integrity and quality, which can be applied by all market participants.

## Our Mission

BCA is a voluntary international alliance that brings together diverse stakeholders to support the realisation of the Kunming–Montreal Global Biodiversity Framework, in particular Targets 19(c) and (d), which “encourage the private sector to invest in biodiversity” utilising, amongst others “biodiversity credits ... with social safeguards.”

### Our mission is twofold:



Help steer the development of a voluntary biodiversity credit market by building a framework of high-level, science-based principles.



Provide guidance and encourage best practice for market participants on the application of these principles, empowering them to achieve and maintain equitable, high quality transactions that meet strict integrity criteria.

BCA was launched during the Fifteenth meeting of the Conference of the Parties to the Convention on Biological Diversity (CBD COP 15) in December 2022, in Montreal. Initially BCA was launched as an informal working group of field-based conservation practitioners, researchers, academics, and standard setters, but has grown to include representatives of Indigenous Peoples and Local Communities who form the BCA Communities Advisory Panel (CAP), as well as representatives of the private sector, with the World Business Council for Sustainable Development (WBCSD) as a key partner.

The BCA Secretariat is facilitated by United Nations Development Programme (UNDP), United Nations Environment Programme Finance Initiative (UNEP FI) and the Swedish International Development Cooperation Agency (SIDA).

# How this BCA Issue Paper was produced

BCA Issue Papers are developed to provide background, analysis and research on key topics relevant to the formulation of a market in biodiversity credits. BCA Issue Papers are led by a member of the BCA Task Force and co-created by a dedicated Working Group. The Working Group members are comprised predominantly of the BCA Task Force and the BCA Forum.

The BCA Working Group that developed this issue paper was co-led by the Environmental Policy Innovation Center, represented by Timothy Male and the Biodiversity Credit Alliance Secretariat, represented by Josh Brann. The Working Group for this issue paper included the following institutions (and their representatives): EKOS (Sean Weaver), Plan Vivo (Toral Shah), ValueNature (Johan Maree), World Business Council for Sustainable Development (Giulia Carbone, Peter Beare), United Nations Environment Programme Finance Initiative (Jessica Smith, Romie Goedicke), Scottish Nature Finance Pioneers (Simon Herko), Vibrant Planet (Sophie Gilbert), Terrasos (Mariana Sarmiento), Landscape Finance Lab (Paul Chatterton), Conservation International (Erika Korosi), United Nations Environment Programme (Raphael Deau), Regen Farmers Mutual (Rohan Clarke), and United Nations Development Programme (Maxim Vergeichik). Coordination and editorial support was rendered by the BCA Secretariat (Manesh Lacoul, Katy Baker, Rhea Kochar, Jacques Massardo, and Stella Pongsitanan).

This issue paper was reviewed by and benefited from numerous contributions from the BCA Forum and the Communities Advisory Panel. It was further reviewed and approved for publication by the BCA Task Force.

This BCA Issue Paper may be revised, and new iterations may be published to reflect changes in the biodiversity credit market as they occur.



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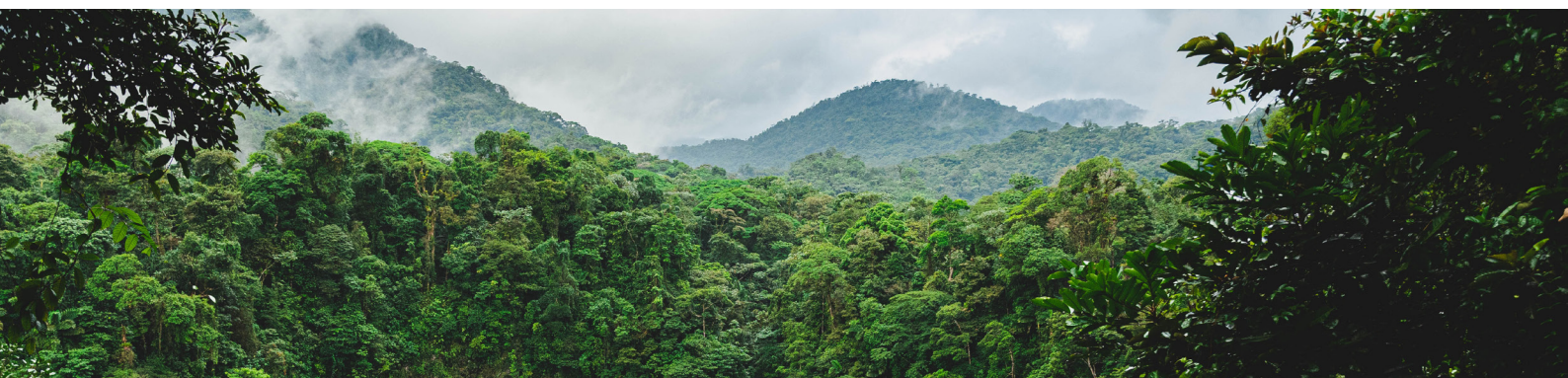


**Suggested citation:** Biodiversity Credit Alliance (BCA). (2023). Demand-side Sources and Motivation for Biodiversity Credits. Issue paper.



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## Disclaimer and feedback

BCA anticipates rapid growth in demand for various types of biodiversity and nature credits that can be purchased to meet nature positive goals. With a better understanding of demand drivers, diverse stakeholders can ensure that potential demand for biodiversity credits is efficiently matched by supply. This issue paper makes a first foray into understanding potential sources of demand for biodiversity credits, demand drivers, and factors that may influence demand.

Any feedback should be shared with Josh Brann <joshua.brann@undp.org> and Manesh Lacoul <manesh.lacoul@undp.org> as representatives of the BCA Secretariat.

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# Introduction

The following issue paper presents basic information about the potential sources of demand for biodiversity credits (regulated and voluntary), attributes of credits that may influence buyer behaviour, as well as standards and principles, that are likely to be important to some or all these demand sources. It is based on desk review, evidence gathering, and the collective experience of current BCA Task Force members.

The paper is intended to serve as a preliminary foundational summary of potential demand as a basis for further work, and includes discussion and recommendations for the BCA and wider participants of the biodiversity credit market. The definitions used in the paper are as per the BCA Glossary of Terms developed by the Working Group on Definitions (in progress). The current working definition of a biodiversity credit is a certificate that represents a measured and evidence-based unit of positive biodiversity outcome that is durable and additional to what otherwise would have occurred.<sup>1</sup>

To support the constructive development of the biodiversity credit market, BCA is seeking to clarify basic information on potential, non-exclusive motivations which may drive buyer interest. This will help BCA and partners facilitate the development of credits, and a credit market, with the qualities that suit buyers' requirements. BCA also seeks to understand risks that are most pressing in potential buyers' minds so that it can support the development of protocols that avoid or reduce risks. The paper also categorizes sources of potential demand for biodiversity credits across a spectrum including purely voluntary to purely regulatory drivers. It is critical for BCA and its members to have an accurate perspective on these issues to provide a useful contribution to the design and scaling of voluntary biodiversity credit supply.

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<sup>1</sup>Biodiversity credits are not inherently defined by the purpose of their use by the buyer. One use case for biodiversity credits may be in the context of jurisdictional offsetting schemes. National (or sub-national) jurisdictional offsetting schemes typically present a legal requirement for a land-use or resource-use permitting process, based on a direct like-for-like ecological equivalence principle. In this context, national jurisdictional offset requirements could represent a driver of demand for biodiversity credits. This paper includes discussion on sources and drivers of demand for biodiversity credits that could relate to their use in offsetting schemes, alongside their voluntary use (including for achievement of corporate nature targets set in line with SBTN guidance on Science-based Targets for Land).

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# Why Biodiversity Credits?

Biodiversity credits provide a potential mechanism to finance conservation, restoration and interventions addressing drivers of biodiversity loss, such as habitat degradation and destruction, overexploitation, and pollution. Biodiversity credits represent an opportunity to access new sources of finance to conserve the life-supporting value nature provides through a wide range of ecosystem services, including carbon sequestration. While nature has intrinsic value, the ability to financially value nature is part of the necessary vision for addressing the nature crisis. Biodiversity credits can provide a simplified, accessible, and easily transacted mechanism for businesses and other actors to contribute to nature and internalize costs to nature, as part of corporate nature positive strategies and targets, and as part of the mitigation hierarchy.

Biodiversity credits also have the potential to secure a long-term investment to effectively finance conservation; depending on the structure of a specific biodiversity credit unit, it can ensure the maintenance of conservation, and the ability to generate ecological processes that can affect biodiversity, climate, and other ecosystem services in the medium and long term. Market observers note that “Complementary to a... voluntary carbon market, a well-designed biodiversity credit scheme could potentially unlock significant private financing in conservation investments.”<sup>2</sup>

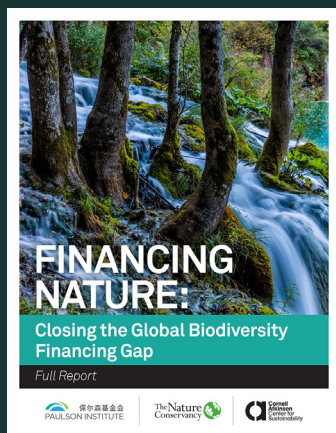
The recent UNEP report on the State of Finance for Nature assessed that “Private financial flows to [Nature-based Solutions] (NbS) of US\$ 26 billion annually constitute 17 per cent of total NbS finance. Sustainable supply chain investments are the largest private finance component, channeling about US\$ 8 billion per year (5 per cent of total NbS flows) followed by biodiversity offsets at US\$ 6 billion per year and private payments for ecosystem services and impact investments, each contributing US\$ 3 billion per year.”<sup>3</sup>

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<sup>2</sup> Glover, P., et al (2022) [Biodiversity: Concepts, themes and challenges](#). Credit Suisse Research Institute Center for Sustainability.

<sup>3</sup> United Nations Environment Programme (2022) [State of Finance for Nature. Time to act: Doubling investment by 2025 and eliminating nature-negative finance flows](#). Nairobi.

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Click to read/download the full report.

As of 2019, current spending on biodiversity conservation is between \$124 and \$143 billion per year, against a total estimated biodiversity protection need of between \$722 and \$967 billion per year. This leaves a current biodiversity financing gap of between US\$ 598 billion and US\$ 824 billion per year.<sup>4</sup>

2020 REPORT FINANCING NATURE:  
CLOSING THE GLOBAL BIODIVERSITY FINANCING GAP

The Global Biodiversity Framework (GBF) provides a strong justification for closing this gap. Target 19c of the GBF specifically relates to increased private sector finance to support biodiversity, and target 19d specifically calls out biodiversity credits, stating that finance should be mobilized by, “Stimulating innovative schemes such as payment for ecosystem services, green bonds, biodiversity offsets and credits, and benefit-sharing mechanisms, with environmental and social safeguards.” BCA aims to help meet this challenge by supporting increases in private finance for biodiversity.

Biodiversity credits could also support multiple nature-related objectives, providing the means to cost-effectively help reach climate net zero targets, Land Degradation Neutrality targets, and Global Biodiversity Framework targets. Biodiversity credits could simultaneously contribute to the implementation and achievement of biodiversity National Biodiversity Strategies and Action Plans (NBSAPs), climate Nationally Determined Contributions (NDCs), and land restoration Land Degradation Neutrality (LDN) targets. Biodiversity credit projects could be structured to address priorities and targets identified in these national-level strategies, which are structured to reflect global targets (based on a country’s particular context).

<sup>4</sup> Deutz, A., Heal, G.M., Niu, R., Swanson, E., Townshend, T., Zhu, L., Delmar, A., Meghji, A., Sethi, S.A., and Tobin-de la Puente, J. (2020) Financing Nature: Closing the global biodiversity financing gap. The Paulson Institute, The Nature Conservancy, and the Cornell Atkinson Center for Sustainability.

There currently exist rich biodiversity assets which are owned, could become owned, and/or directly affect Indigenous Peoples and Local Communities (IPs and LCs). These assets play a critical role in mitigating climate change risks and along with the involvement of IPs and LCs, may significantly enhance the reputation and credibility of the biodiversity credit market.

The Voluntary Carbon Market (VCM) plays an important role in addressing climate change, and the development of an emerging biodiversity / nature credits market should learn from the many lessons associated with the development of the VCM. On the supply side, new products, such as voluntary biodiversity credits, must draw on the clear principles and quality that now underpin and provide a solid foundation for the VCM. These principles include additionality in regulated markets, measurement and verification, the delivery of positive biodiversity outcomes for nature, and fair and just outcomes for IPs and LCs in their role of custodians of nature. On the demand side, it is equally critical that buyers apply the use of biodiversity credits in a credible and transparent manner.

Biodiversity credits offer a non-offset driven opportunity for companies to demonstrate nature-positive strategies linked to investments in biodiversity and ecosystems that will support society in addressing the nature crisis, thereby contributing to long-term business viability, as well as opening new business opportunities. The emerging biodiversity credits market must incorporate lessons from the experience of the carbon market, or it will risk having low integrity and low quality credits, weak demand, poor supply, slow uptake, high costs, lack of outcomes, and potentially market failure. At the same time, biodiversity and greenhouse gas emissions are fundamentally different, and a biodiversity or nature credits market will require novel approaches. The inclusion of inputs from IPs and LCs may be one of the critical factors to be considered. It is also especially important to have a benchmark standard that defines the integrity of biodiversity credits projects and associated outcomes, as well as systems that enable purchasers to make credible claims.



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# Potential Sources of Demand for Biodiversity Credits

## Voluntary footprint compensation driven by shareholder and stakeholder pressure

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Through the development of supportive guidelines and frameworks, such as the **Taskforce on Nature-related Financial Disclosures (TNFD)** and **Science-based Targets for Nature from the Science Based Targets Network (SBTN)**, corporate boards, shareholders, and stakeholders are generating pressure on businesses in many sectors to address their direct and value chain biodiversity and ecosystem impacts, known as their “biodiversity footprint”. These pressures may vary within and across sectors, but may become a key driver<sup>5</sup> of corporate interest in addressing biodiversity impact and decline. Some businesses are already quantifying and assessing their biodiversity impacts and dependencies, with the possibility that future financial contributions toward nature could be seen to reduce their impacts or improve outcomes (whether or not these compensatory measures are designed in line with the “equivalence” principle, i.e., compliance-driven offsets).

Biodiversity credits could provide a non-offset driven opportunity to contribute toward positive biodiversity outcomes in instances where it may be difficult to define a direct connection between a company and specific impacts in the value chain. A company may pursue biodiversity credit projects that the company can reasonably argue compensate for damages (after implementation of the mitigation hierarchy), related to its impact and dependencies. A company’s impacts and dependencies, and efforts to address them, are likely to be of interest to its shareholders and stakeholders. Based on a range of potential traceability, voluntary, or regulatory requirements, companies could seek to reduce, or compensate for, negative impacts of their value chains on biodiversity, with such mitigating measures occurring within or beyond their value chain. In addition, companies can be receptive to consumer and employee demands to demonstrate they are contributing to shaping a better world and not just maximizing profit. Credits could offer a mechanism to demonstrate impact.

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<sup>5</sup> Niles, S.V. et al (2022) [The Coming Wave of 'Natural Capital' and Biodiversity Shareholder Activism and Stewardship Pressure on Boards](#). Harvard Law School Forum on Corporate Governance.

## Businesses seeking credit market experience in anticipation of regulatory requirements

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The regulatory environment related to nature impacts is continuing to evolve and develop, at both the domestic and supra-national level, in part driven by multilateral plans and strategies, such as the GBF. Anticipated developments in regulations may be related to offsetting, financial disclosures (e.g., related to implementation of the TNFD framework), or net nature positive business operations. Examples include the **UK's recent regulations on "biodiversity net gain"**, and the **EU Corporate Sustainability Reporting Directive** (see further discussion under buyer motivations, below).

Many companies, especially large or privately held ones, and those involved in markets with long product timelines (e.g., forestry, utilities) make long-term planning decisions. This may include financial institutions. Such companies may anticipate and seek experience with regulatory compliance in advance of regulations becoming material by purchasing or otherwise investing in the development of credits. Even companies with shorter planning horizons exhibit this behavior to avoid surprises and business disruption. These companies are likely to be interested in the details of biodiversity crediting, want closer relationships with credit suppliers, and seek more knowledge and expertise that allows them to understand the market and its evolution. These companies might be more likely to support credit development themselves as an investment, or to speculatively invest in credit purchases in anticipation of future demand and price increases. However, they are also likely to have quite specific interests in terms of ecosystems and types of biodiversity, aligned with the geographic areas where they create biodiversity impacts, and the types of biodiversity they anticipate will be protected via regulation. These companies may also be among the most likely to simultaneously learn from early crediting experiences while shifting business activity to avoid or minimize damage in the first place, such that they become smaller rather than larger buyers of biodiversity credits as regulations emerge.

## Businesses seeking to comply with supra-national or national regulatory requirements

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As the regulatory environment related to a global shift toward a nature positive economy becomes increasingly material,<sup>6</sup> companies may seek to leverage biodiversity credits as one means of complying with regulatory requirements. The specific regulatory motivation for buyers may vary depending on the nature of their business, their jurisdictional considerations, or other such factors. For example, in response to nature-related financial disclosures required by financial regulatory authorities, buyers may seek to purchase biodiversity credits based on internal insights or to reduce reputational risks related to assessing biodiversity impacts and dependencies. Companies are also likely to seek biodiversity credits for environmental regulations related to offsetting, or other nature positive regulatory requirements; however it is not yet clear if supply of biodiversity credits in the voluntary space can service demand in the regulated space. Whether voluntary biodiversity credits are accepted or not in the regulated national markets hinges on each country's regulations, and will be handled based on the distinct national regulatory frameworks.

## Businesses seeking to mitigate systemic business risk emanating from nature dependencies

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It is increasingly recognized that loss of biodiversity and related ecosystems poses systemic business risks.<sup>7</sup> On the one hand, those risks can affect diversified investors and banks with global exposure to biodiversity risks.<sup>8</sup> Such investors may be incentivized to take action to reduce systemic risks. On the other hand, biodiversity losses may also negatively affect individual companies, who are dependent on certain elements of biodiversity, for example, certain crops (e.g., cacao); deforestation may result in a breakdown of ecosystems and result in smaller crop yields. While individual companies may have little incentive to de-risk their supply chain, multi-stakeholder groups may have an incentive to act jointly to reduce such risks, and they could do so through biodiversity credits.

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<sup>6</sup> For example, see the [European Union's European Sustainability Reporting Standards](#), adopted July 31, 2023, which include a dedicated standard for biodiversity disclosures.

<sup>7</sup> The World Bank Group (2021) [The Economic Case for Nature: A global Earth-economy model to assess development policy pathways](#).

<sup>8</sup> For example, see: WWF (2022) [Seeing the forest for the trees—a practical guide for financial institutions to take action against deforestation and conversion risks](#). Patel, K., World Wide Fund for Nature, Gland, Switzerland.

## Financial institutions and markets seeking nature positive investments

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Financial institutions may seek to purchase biodiversity credits as part of an overall investment portfolio strategy, based on client demand, to provide nature positive exposure as compensation for other elements of their portfolio. Financial institutions, including investment funds of various types, could also influence the market for biodiversity credits, even if they are not direct purchasers. For example, asset managers may encounter client interest in investment portfolios that include companies with nature positive business operations, and thereby may catalyze demand for biodiversity credits from companies seeking investment. Financial institutions may apply investment screening tools based on companies' ratings related to their level of implementation of financial or environmental regulations as they pertain to nature positive goals.

Financial institutions such as multilateral development banks could play a role as well, as in the case of the Inter-American Development Bank (IDB), which is aligning its operations with the Global Biodiversity Framework. By instituting nature positive financing requirements, the IDB is driving clients to seek new means of achieving nature positive business operations. In jurisdictions where there are incomplete regulations on biodiversity loss, financial institutions can act as advocates for best practices in their investments, and encourage companies to understand environmental risks and impacts, regardless of country requirements. Shareholders can also help drive quality, with pressure to avoid greenwashing claims. Financial institutions can contribute to establishing market prices for biodiversity credits and support the development of valuation methods. One example is Swedbank, which purchased the first European biodiversity credits in 2023 to support the development of innovative financial solutions and methods to promote biodiversity. As such, financial institutions are likely to have a role in shaping the biodiversity credits market, even if they are not seeking to buy credits themselves.

Financial institutions, and other participants in financial markets, could also influence the development of the biodiversity credits market through speculative investment, anticipating that credits they purchase and hold may increase in value. Speculative investment could come from a wide range of sources. Companies may soon see investments in biodiversity credits as having the opportunity for appreciation, to be later resold on a potential secondary market at a higher price, generating a profit margin.



## Government agencies implementing policies, regulatory measures, or ODA

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Government agencies may seek to either offset or compensate for the footprint of their actions or policies (or argue that they do), or just use biodiversity credit purchases as an approach to achieve policy goals. It is also possible to envisage that some donor governments may wish to use official development assistance (ODA) funds to purchase voluntary biodiversity credits. Alternatively, governments could set up a fee-collecting system that allows developers to pay government in exchange for development permits and obligate the government agency to use the proceeds from the fees in an earmarked way to purchase offsets. For example, domestic obligations to avoid impacts to migratory birds, or pay a fee for those impacts, are being considered in the United States and could allow the fees to be used to protect southern hemisphere habitat used by the same bird species. Based on the complexities of large-scale ecological systems such like-for-like compensation can be difficult to achieve, but efforts in this regard can make positive contributions.

In addition, governments could use biodiversity credits as a tool to replace subsidies or implement existing nature positive government policies. Governments could redirect harmful subsidies from the agricultural sector to protect areas linked to the well-being of their own supply chains, provided that biodiversity credit projects align with local and national conservation priorities.

Governments and organizations could invest resources in the implementation of biodiversity credit systems, as they could be considered an economic development alternative for local communities that currently rely primarily on activities such as illicit crops. Biodiversity credits could also be seen as an option to provide new employment and development opportunities to ex-combatants and victims associated with peace processes, as could be the case in Colombia, a biodiversity-rich country whose government must invest significant amounts of its own resources and international cooperation funding to establish a stable and lasting peace.

In any of these situations, government agencies could use public procurement to acquire biodiversity credits.

## Retail and individual consumer-facing companies and brands providing value for consumers

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Many consumer facing companies and brands provide a direct conduit for consumers to express their preferences for nature positive services and products, and many companies are increasingly ascribing to initiatives such as 1% For The Planet, which shifts a percentage of corporate profits to nature conservation. One small case study is the smartphone case company KaseMe, which works with climate credit generator Ecologi to plant trees and invest in other Gold Standard and VCS certified climate-related impact measures. There are thousands of similar small and medium enterprises currently investing in climate measures on a purely voluntary basis, some of which include nature-based solutions, such as reforestation. KaseMe claims to have directly supported the planting of more than 200,000 trees. It is likely that this voluntary retail demand for carbon credits will also expand to include biodiversity credits, once the biodiversity credit market infrastructure is in place. Such companies see this as an opportunity to communicate their nature positive values, and a vital part of marketing in today's world. As KaseMe's website states, "*We genuinely care about our people, our community and our planet and are committed to always do the right thing.*"<sup>9</sup>

Other types of consumer facing retail mechanisms and opportunities exist to channel consumers directly to their own voluntary carbon offsetting purchase, and similar mechanisms may be instituted by consumer facing companies as part of the biodiversity credit market development. For example, airline websites allow customers to make an incremental increase to their purchase to help compensate for the carbon generated from their flight. Airlines might have lower biodiversity impacts, but similar mechanisms might be put in place by consumer facing companies with higher biodiversity impacts (and/or dependencies).

Such retail and individual consumer facing market opportunities could provide a significant source of demand for biodiversity credits.

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<sup>9</sup> <https://www.kasemedesign.com> (as accessed July, 2023).



1% For The Planet

Click to visit the website.



KaSeme

Click to visit the website.



Ecologi

Click to visit the website.

## Philanthropists, including foundations

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Individual, corporate and finance sector philanthropy is a multibillion-dollar force in ecosystem and biodiversity conservation that continues to grow annually. Philanthropy likely represents the “most voluntary” purchase of biodiversity credits, decoupled from any formal consideration of impacts that the buyer might cause to biodiversity (i.e., its biodiversity footprint).

Philanthropists and foundations typically seek to allocate their financial resources in ways that fulfill their organizational mission and generate meaningful stories, through investments that align with their interests in terms of specific regions, ecosystem types, or specific conservation issues (e.g., poaching). However, philanthropists, like many actors, may also be motivated to support biodiversity partially in compensation for their own actions. These buyers are likely to seek projects that generate multiple benefits: create gains for charismatic megafauna, create jobs for community members at the same time, or yield other environmental benefits, such as carbon sequestration. Some may also be interested in strengthening protection of the rights of IPs and LCs, including by strengthening their land tenure security, given its importance for conservation and biodiversity protection. The philanthropy sector continues to seek clearer evidence that financial support produces tangible results in the form of in-situ ecological impacts.



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# Buyer Motivations and Factors Potentially Affecting Biodiversity Credit Demand

The following motivations and factors are not intended to be a comprehensive assessment of all possible influences that could affect buyer decision-making. This is a preliminary stocktaking of some possible factors that biodiversity credit project developers and biodiversity credit buyers may need to consider when entering the biodiversity credits market. As with all of the content in this paper, the identification of these factors is based on a desk review and input from BCA members. Given the nascent status of the biodiversity credits market (as of Q2 2023), it is not possible to analyze actual current motivations and factors influencing the market. The following motivations may all affect voluntary credit demand, but their relative importance will differ among businesses (and governments) and across the sources of demand described above.

BCA conducted a **survey** of potential biodiversity credit purchasers (in late May–early June 2023) to better understand motivations and factors that may influence demand. The main findings from this survey will be produced separately, but a few are included as an **appendix** to this paper.

## Quality and integrity

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A great deal of literature exists on carbon credit markets, and objectives and criteria to categorize the quality and integrity of voluntary credits; some of this literature also covers or is relevant to biodiversity credit markets.<sup>10</sup> However, credit quality and integrity (both of which can encompass a range of factors) are only two of many attributes that are likely to be important to purchasers. Many companies have previous experience with carbon markets and will want to avoid reputational risks they may associate with them.

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<sup>10</sup> For example, see: EDF/WWF/Oeko-Institut (2020) [What makes a high-quality carbon credit?](#)  
GEF (2023) [Innovative Finance for Nature and People: Opportunities and Challenges for Biodiversity-Positive Carbon Credits and Nature Certificates.](#)  
Nature Finance (2023) [The Future of Biodiversity Credit Markets: Governing High-Performance Biodiversity Credit Markets.](#)



## Supra-national and national financial regulations related to disclosures

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**The European Union's Sustainable Finance Disclosure Regulation, Corporate Sustainability Reporting Directive**, and related actions, will drive thousands of companies and financial institutions to assess and report on their relationship to biodiversity and nature more broadly. Such financial regulatory requirements may contribute to companies seeking no net loss or net gain outcomes from their direct operations and/or supply chain. The EU is expected to be the first market to impose these rules and will serve as an example for other national and supra-national entities. Additionally, the reach of these regulations is not just limited to EU companies doing business in the EU; they also apply to multinationals operating in the EU, or transiting products or services in the EU, and their global value chain footprint, including impacts outside the EU. The UK Financial Conduct Authority, the US Securities and Exchange Commission, and financial regulators in other parts of the world (e.g., Asia) may also develop similar regulations.

In addition, guidance and policies from EU financial institutions may affect companies that operate entirely outside of the EU but seek investment from EU-based entities, as compliance with EU regulations will be the only way to access EU investment. Thousands of companies are likely to seek biodiversity outcomes, as per a variety of standards, including the TNFD framework, to be finalized in 2023, and guidance from SBTN. Through the implementation of the TNFD framework (either voluntarily, or through regulatory requirements on financial disclosures), companies will assess their impacts and dependencies on biodiversity and nature. With an improved understanding and accounting of their impacts and dependencies, companies may take this opportunity to develop nature-related strategies that could include the deployment of biodiversity credits as one mechanism for implementing their strategies.

## Supra-national and national environmental regulations related to footprint compensation

Countries like the US, Colombia, South Africa, Canada, and Australia have significant restrictions on domestic biodiversity impacts, and either already have existing mitigation banks (**as in the US**) or are close to creating rules governing the offsetting of impacts that cannot be avoided. These kinds of jurisdictionally limited mitigation banks are slowly spreading and may be the best contexts in which to tailor biodiversity conservation initiatives to national and domestic stakeholder priorities, including sustained consultation with Indigenous Peoples and Local Communities. Such regulatory biodiversity offsets can catalyze biodiversity credit demand for regulatory jurisdictionally limited offsets. Voluntary credit development should not be allowed to undermine mitigation banks that are effective in satisfying national policy requirements and domestic needs. Conversely, voluntary biodiversity credits and accompanying finance could enhance or expand regulatory mitigation efforts to benefit more species across larger areas.

The diversity of national regulations focused on no-net-loss or net gain primarily regulate domestic harms and offsets to biodiversity and nature, but some of these have implications for activities and business operations in other countries. For example, evolving EU limits on biodiversity impacts from EU-funded projects affect a great deal of international development and those rules could drive biodiversity credit purchases in any developing country, even though there may be no domestic regulation restricting biodiversity impacts in those developing countries.



# Credit attributes that may influence buyer willingness to purchase

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## Speed and simplicity

Buyers typically want products that take less time to understand and transact, and/or do not require expert knowledge to understand.



## Seller reputation

Buyers often want to know that someone else's brand is vouching for the product, which allows them to carry out less due diligence and avoid reputational risks.



## Transparency on Free, Prior and Informed Consent

Buyers will look for a standard that provides transparency on the existence (or lack of) free, prior, informed consent and effective participation of rights holders, including IPs and LCs, as well as just and fair benefit-sharing mechanisms.



## Liability

Someone other than the buyer should have the liability to fix things if they go wrong. For example, if a seller has an obligation to take additional conservation actions or protect additional land. Liability transfer is one of the most important attributes of large environmental credit markets.



## Reliability risks

Buyers might avoid purchasing voluntary credits that run the risk of inconsistent availability. Supply problems could leave businesses with raised expectations from stakeholders and customers.



## Evidence

Buyers are likely to desire evidence-based quantification of the outcomes, i.e., what the credit represents in biodiversity and social terms based on clear and transparent metrics (with the expectation of positive outcomes), over a well-defined duration.



## Clear rights

There should be transparent, comprehensive, and credible information on land or associated resources tenure rights, including elements such as potential infringement on usufruct rights.



### Geographic location

Although the preliminary BCA survey indicated that buyers do not necessarily prioritize geographic location, some buyers may prefer credits originating in certain geographic areas, such as within landscapes that are part of their value chain. SBTN land target 3 requires that companies engage in landscapes that are material to their operations.



### Relevance

Some potential buyers, such as governments, associations, and scientifically advised individuals, will seek to invest in areas and projects that make disproportionate contributions to biodiversity conservation. This may include priority ecosystems other than forests, such as paramos, wetlands, and water sources, for example.



### Claims

Buyer preferences are likely to strongly relate to the type and scope of claims (and assurance of their integrity) associated with a biodiversity credit that buyers can make to customers, regulatory entities, investors, or others. This may include factors such as whether credits are integrated with other issues such as climate outcomes, and therefore the wider holistic claims that may be made, which would facilitate simplified purchasing decisions for buyers.



### Tradability / transferability

The ability or not for a credit to be tradable or transferable in a secondary transaction may influence buyers' interest or willingness to purchase a credit; buyers are likely to prefer a market with more liquidity than less.



### Auditability

Credit design will need to ensure the ability to bring in a third party to verify that the credit is real and comprises the 'quantity' that it claims to comprise.



### Comparability

While biodiversity has local characteristics, in order to be comparable, credits may need to apply one of a standard set of metrics related to different types of ecosystems, species, and geographic areas.





## Current and future business needs that may influence buyer interest in biodiversity credits

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There are internal and external drivers that may affect businesses' interest in voluntary biodiversity credits. These may include the following factors:



### Enhanced ESG credentials

Publicly listed companies may want to buy credits that can improve their ESG credentials (such as ESG ratings), that in turn improve investors' view of their business (potentially positively influencing share-price, reducing cost of capital, etc.), particularly considering increasing demand for ESG focused funds.



### Storytelling

Purchasers may be interested in biodiversity credits that provide a narrative that they and their stakeholders (customers, shareholders, etc.) are excited about. This could include, for example, linkages to IPs' and LCs' involvement.



### Values

Employees' values and leadership team values matter more than ever to business competitiveness, and buyers may want voluntary biodiversity credits that will reflect those values.



### **Real ecological impact**

Buyers may prefer voluntary credits that they clearly see as providing additional and important value to nature.



### **Affordability**

All else being equal, buyers are likely to prefer lower cost voluntary biodiversity credits, but may be willing to pay more for credits that satisfy regulatory obligations, or that have other attributes that meet business needs.



### **A way to forestall regulation**

Voluntary actions can be taken to demonstrate leadership and proactive approaches, avoiding, or delaying regulation, under the view that voluntary strategies can be more effective and less costly. Buyers may be interested in voluntary credits that allow them to argue that additional regulatory obligations are not needed.



### **A way to avoid public relations crises**

Businesses that have known risks of losing market share or their social license to operate, but cannot eliminate the activities that cause that risk, may consider the purchase of voluntary biodiversity credits to improve their reputation, and provide them with a defensible basis to continue operations. However, purchasing biodiversity credits to meet this need could also come with risks.

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# Considerations for Future Work on Sources and Drivers of Demand for Biodiversity Credits

Claims are an important element of a potential biodiversity credit market. Many aspects of claims are under exploration, investigation, and development by BCA and others. It is anticipated that a key motivation for buyers of biodiversity credits will be the transferred ability to make various types of claims based on the possession of biodiversity credits. Whether for abatement, offsetting, beyond-value-chain, or GBF-aligned contributions, any credit standard will develop alongside TNFD, SBTN, and other frameworks (e.g., ISSB, ICVCM, Green Claims Directive, etc.), which will govern when and how credit buyers can use associated claims responsibly. BCA and many collaborating organizations are working to provide claims guidance in the biodiversity credits market, in association with market participants.

The balance among motivations and factors for biodiversity credit purchasers is unknown at this stage, and requires additional investigation by BCA and market participants. However, even without more research, buyer motivations must be considered in the development of biodiversity credit projects. For example, buyers' perspectives are important regarding the question of biodiversity credit fungibility.<sup>11</sup> It is a reasonable hypothesis that buyers might not need cross-border fungibility but rather "comparability".<sup>12</sup> In addition, it may be difficult to comply with national or international regulations by utilizing biodiversity credits, due to an inadequate supply of credits that comprehensively meet regulatory requirements. It may be that buyers want a reasonable supply of biodiversity credits to purchase in all the major countries where they have impacts. If methodologies and standards underlying biodiversity credits require distinct credits for each habitat type or species in each country, then the market may not meet buyers' speed/simplicity needs.

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<sup>11</sup> Theoretical fungibility of biodiversity credits relates to their potential replaceability by another identical item, i.e., mutually interchangeable. Kenton, W., Brown, J.R. (2022) per [Investopedia](#), "Fungible goods refer to securities, or other items, that are equivalent or consist of many identical parts such that, for practical purposes, they are interchangeable. Material items, securities, and other financial instruments may be considered fungible goods."

<sup>12</sup> Theoretical comparability of biodiversity credits relates to qualities of being sufficiently similar as to be compared, and serve similar purposes, even if they are not exactly alike. An illustrative example could be the market for cars, where there are individual differences between models from different manufacturers, but where the cars are still comparable by consumers.



Future work may consider how to structure biodiversity credits as part of broader “nature credits” that might include climate and water outcomes. Freshwater-related risks are emerging as another key nature impact that will need to be mitigated, as well as soil health. Considerations include how a nature credit market might be structured so that it is still attractive and simple for corporate buyers, while ensuring a better allocation of funds to conserve and regenerate nature.

Following this foundational paper, BCA will continue to explore and analyze factors related to the potential demand for biodiversity credits, and further development of the biodiversity credit market in a way that ensures quality and integrity in the market, among other key factors. This is also likely to include issues related to many of the credit attributes summarized above, such as simplicity (especially in relation to metrics), claims, verification and certification, and comparability.



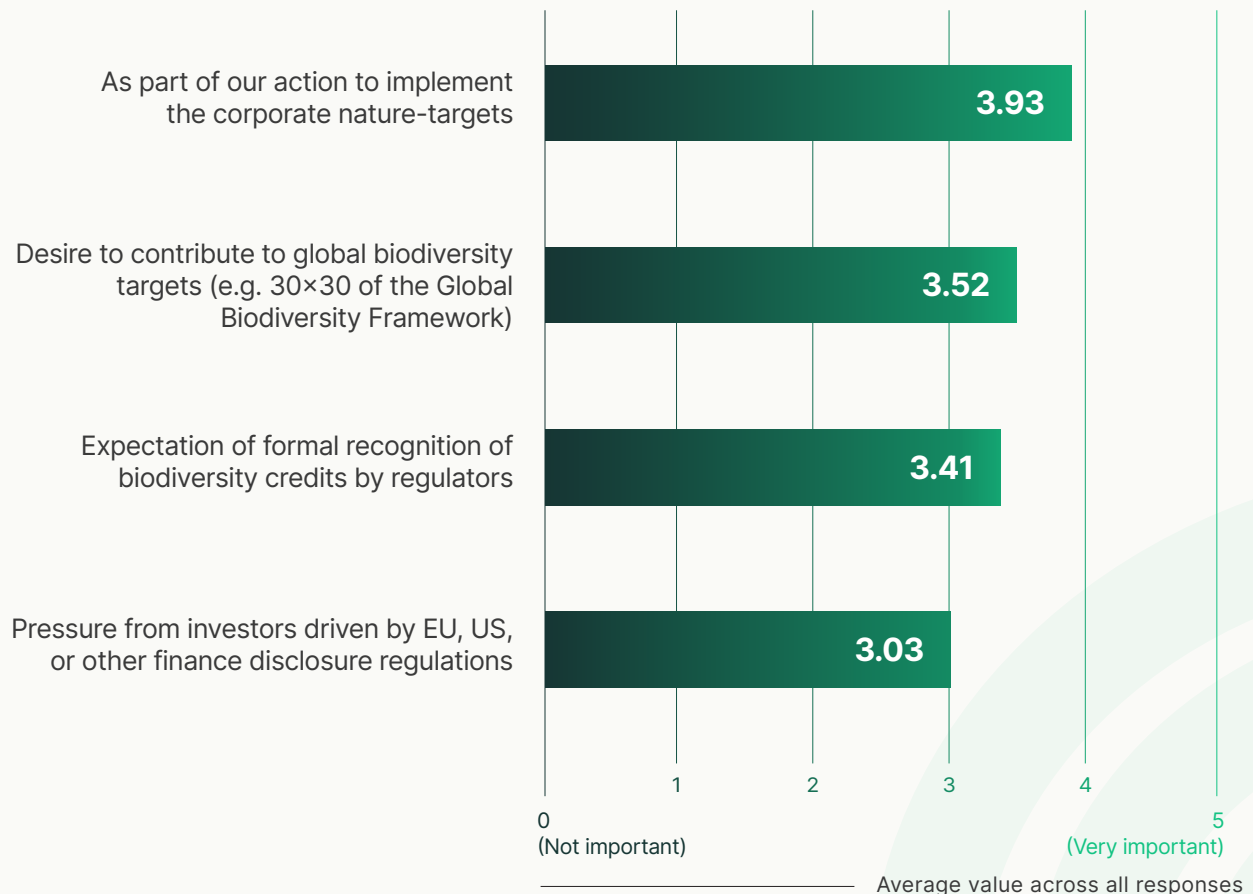


## Appendix 1

# Excerpts from BCA-WBCSD-IIED Demand Survey (Q2 2023)

BCA, WBCSD and IIED conducted a buyer survey in Q2 2023 to investigate buyer demand for biodiversity credits. Attributes of potential biodiversity credits and motivations of buyer demand were some elements explored in the survey. The survey collected 29 responses from companies in a range of sectors. Below is a summary of responses to two of the survey questions that were strongly related to demand drivers and credit factors that would influence demand. The full survey results will be provided in a separate BCA output.

## What would drive your company to purchase voluntary biodiversity credits?



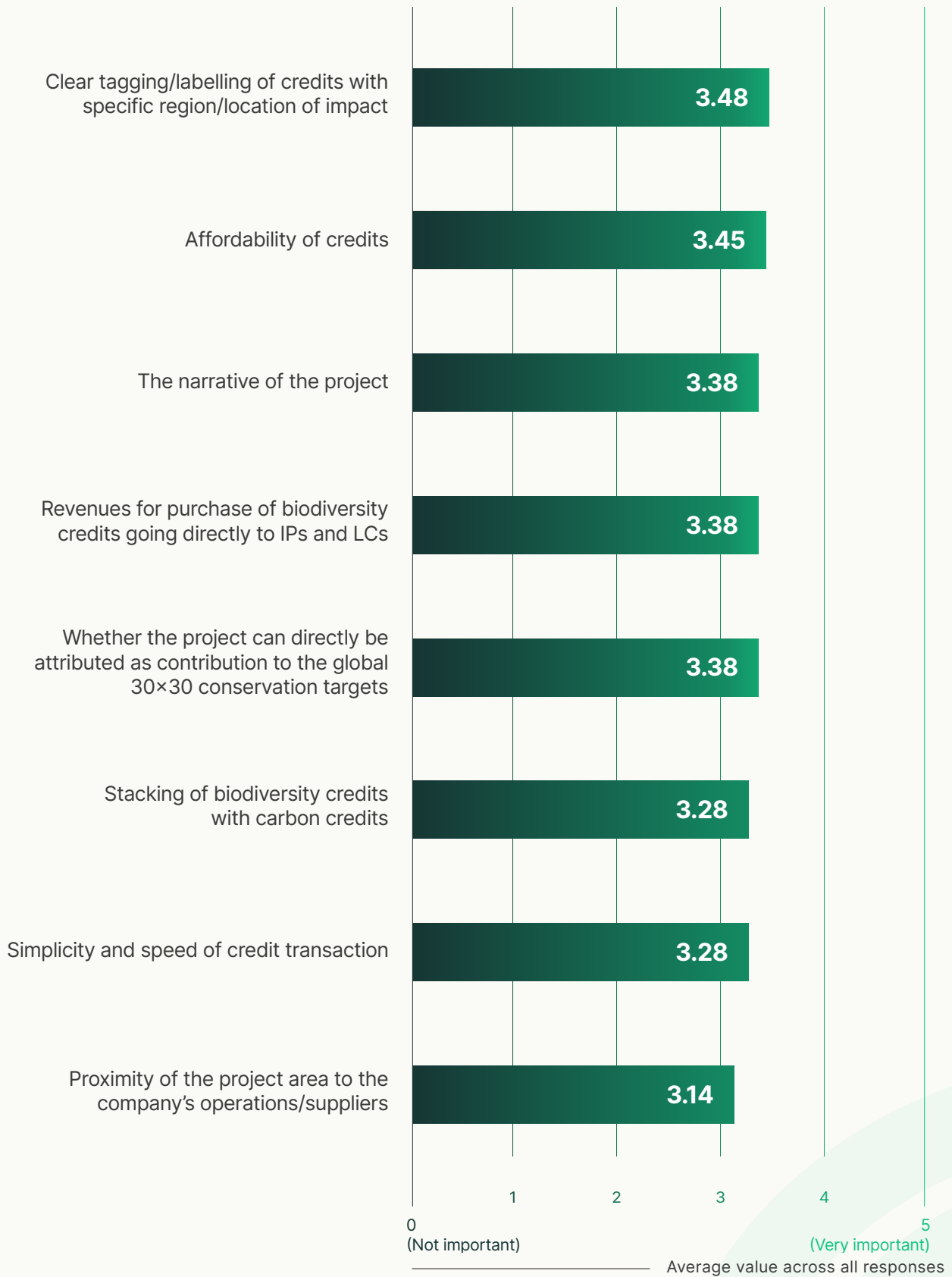
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# How important to your purchasing decision-making are the following potential outcomes from biodiversity credits?



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# Appendix 2

## Acronyms

<b>BCA</b>	Biodiversity Credit Alliance
<b>CAP</b>	Communities Advisory Panel
<b>CBD COP 15</b>	Fifteenth Meeting of the Conference of the Parties to the Convention on Biological Diversity
<b>ESG</b>	Environmental, Social and Governance
<b>GBF</b>	Global Biodiversity Framework
<b>GEF</b>	Global Environment Facility
<b>ICVCM</b>	Integrity Council for the Voluntary Carbon Market
<b>IDB</b>	Inter-American Development Bank
<b>IIED</b>	International Institute for Environment and Development
<b>IPs and LCs</b>	Indigenous Peoples and Local Communities
<b>ISSB</b>	International Sustainability Standards Board
<b>LDN</b>	Land Degradation Neutrality
<b>NbS</b>	Nature-based Solutions
<b>NBSAPs</b>	National Biodiversity Strategies and Action Plans
<b>NDCs</b>	Nationally Determined Contributions
<b>ODA</b>	Official Development Assistance
<b>SBTN</b>	Science Based Targets Network
<b>TNFD</b>	Taskforce on Nature-related Financial Disclosures
<b>UNEP</b>	United Nations Environment Programme
<b>VBC</b>	Voluntary Biodiversity Credit
<b>VCM</b>	Voluntary Carbon Market
<b>VCS</b>	Verified Carbon Standard

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# Appendix 3

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# BCA Vision

BCA's vision is a transparent, trustworthy and efficient global market in biodiversity credits founded on just and equitable principles, and underpinned by innovation.

BCA works to facilitate the transition to a nature positive economy aided by an integrated, efficient and scaled voluntary biodiversity credit (VBC) market. BCA considers biodiversity credits to be an effective complement to, but not a replacement of, the private sector's supply chain transformation efforts. BCA views biodiversity credits as an effective mechanism for advancing the private sector's participation in ecosystem restoration and transformative landscape approaches in line with science-based principles.

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We invite you to join us in achieving these ambitions

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