KNOWLEDGE BRIEF
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BIODIVERSITY CREDIT ALLIANCE

The Potential Role of Governments in Biodiversity Credit Markets

Introduction

Governments play a crucial role in shaping biodiversity credit markets as a potential source of increased biodiversity finance, influencing credits' structure, credibility, and effectiveness. Their involvement can be categorized into three key roles: (1) catalysts of demand, (2) market facilitators, and (3) sources of demand. While these roles provide opportunities to leverage biodiversity finance for conservation outcomes, governments must also navigate risks such as the potential crowding out of public funding and the dilution of regulatory commitments.

I. Governments as Catalysts of Demand

Governments can stimulate biodiversity credit markets by creating regulatory requirements and financial incentives that drive demand among private sector actors, capital markets, and landowners. These mechanisms often combine 'carrot' (incentive) and 'stick' (regulation) approaches. Key examples are listed below.

United Kingdom – Biodiversity Net Gain (BNG): The UK requires developers to deliver at least a 10% net gain in biodiversity through on-site measures or by purchasing biodiversity credits.

United States – Wetland and Conservation Banking: Federal and state policies require developers impacting wetlands to compensate by purchasing credits from wetland mitigation banks, driving a structured biodiversity offset market.

Colombia – Habitat Banking: Colombia has developed one of the most advanced habitat banking systems in Latin America, mandating biodiversity offsets for infrastructure projects and enabling private investment in biodiversity conservation.

European Union – Corporate Sustainability Reporting Directive (CSRD) and Deforestation-Free Regulations: The CSRD requires businesses to disclose nature-related risks, which could eventually contribute to catalyzing investment in biodiversity credits. The EU's Deforestation Regulation also establishes corporate requirements for engagement on and understanding of the impacts of business operations on nature, and measures to mitigate these impacts.

Policy Tools for Demand Creation:

- Providing financial or tax incentives, or subsidies, for biodiversity credit purchases
- Requiring corporate biodiversity risk disclosures (e.g., through CSRD, Taskforce on Nature-related Financial Disclosures recommendations)
- Mandating biodiversity offsets in development projects

II. Governments as Market Facilitators

Governments play a vital role in ensuring that biodiversity credit markets operate with integrity and transparency. They do so by setting regulatory frameworks, defining resource rights, establishing standards, and potentially acting as market insurers or guarantors. To fulfil this role, governments may provide several key functions.

Regulatory Clarity: Clearly defining property rights over biodiversity credits and setting market participation rules (e.g., in Australia's Nature Repair Market).

Market Accreditation and Oversight: Establishing accreditation bodies that certify biodiversity projects to maintain market credibility (e.g., through national biodiversity credit registries or compliance frameworks).

Data Provision and Monitoring: Governments can provide open-access biodiversity data to improve market transparency and credibility, reducing due diligence costs for investors.

Risk Mitigation: By offering partial risk guarantees or insurance mechanisms, governments can de-risk private investment in biodiversity credit markets.

Ensuring Indigenous and Local Community Rights: Governments should set regulatory requirements that protect the rights of Indigenous Peoples, Local Communities and Afro-Descendant peoples, ensuring their meaningful participation in biodiversity credit markets. This includes legal recognition of land and resource rights, free, prior, and informed consent (FPIC), and governance mechanisms that incorporate Indigenous leadership.

Benefit Sharing and Revenue Distribution: To promote equity, governments should establish clear policies on revenue sharing from biodiversity credit transactions, ensuring that a fair proportion of financial benefits reaches Indigenous communities, smallholders, and other local stakeholders engaged in conservation efforts.

Challenges and Considerations:

- Providing strong governance to prevent greenwashing and speculation
- Ensuring coherence between national and international biodiversity credit frameworks
- Balancing regulatory oversight with market flexibility to enable innovation
- Addressing social equity concerns to ensure fair distribution of financial benefits

III. Governments as a Source of Demand

Governments themselves can act as buyers of biodiversity credits, integrating them into policy implementation strategies for nature conservation and sustainable land management, as is demonstrated by the following examples.

Australia – Regional Government Purchases of Reef Credits: Some Australian regional governments have reportedly purchased biodiversity credits (e.g., reef credits for Great Barrier Reef conservation), using the market to meet conservation commitments.

New Zealand – Exploring Government Procurement of Biodiversity Credits: The government has considered leveraging biodiversity credits to support conservation on private land.

Public Procurement for National Parks and Protected Areas: Governments can purchase biodiversity credits as a tool to enhance conservation efforts in national parks and biodiversity hotspots.

Policy Mechanisms for Government Demand:

- Integrating biodiversity credits into conservation funding programs
- Using public procurement to secure biodiversity credits for government projects
- Encouraging local governments to engage in biodiversity credit purchases as part of land-use planning

IV. Potential Risks and Mitigation Strategies

1. Risk of Crowding Out Public Finance

If biodiversity credit finance is used as a substitute rather than an addition to public conservation funding, this could undermine public investment in nature conservation.

Mitigation: Governments should ensure that biodiversity credit markets complement, rather than replace, traditional conservation funding streams.

2. Distraction from Core Government Responsibilities

There is a risk that a focus on market mechanisms might divert attention from essential regulatory and policy measures for biodiversity conservation.

Mitigation: Biodiversity credit markets should be one tool among many, not a replacement for strong environmental regulations.

3. Equity and Social Considerations

Market-based approaches may favor large landowners and corporations, potentially excluding Indigenous communities and smallholders.

Mitigation: Governments should design credit systems with safeguards to ensure inclusivity and equitable benefit-sharing.

V. Conclusion and Recommendations

Governments have a multifaceted role in biodiversity credit markets, acting as catalysts of demand, market facilitators, and direct purchasers. Successful engagement requires:

- **Robust regulatory frameworks** to provide clarity and market integrity
- **Well-designed incentives** to drive private sector participation
- **Safeguards** to ensure biodiversity credit markets are equitable and additional to existing conservation funding

By carefully balancing these elements, governments can support biodiversity credit markets in becoming an effective tool for mobilizing conservation finance, while maintaining their broader responsibilities for environmental stewardship.

About the Biodiversity Credit Alliance

The Biodiversity Credit Alliance (BCA) was established at COP15 in 2022. The BCA is a UN-backed coalition of like-minded organizations **working to shape the future of the biodiversity credit market** by bringing together scientific experts, conservation practitioners, and businesses to establish a **high-integrity, transparent, and scalable** biodiversity credit market. We're focused on ensuring that investments in nature generate **positive outcomes for biodiversity and communities.** By creating clear guidance and supporting market development in line with **principles of integrity, quality, and equity,** BCA helps unlock new funding streams for biodiversity conservation while ensuring credibility and impact. Whether you're a business, civil society organization, government, or land steward, we're providing the insights and framework to make biodiversity credits work effectively for people and the planet.

BCA Mission

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

Our mission is twofold:

- Help steer the development of a 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 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 biodiversity credit 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 remediation and transformative landscape approaches in line with science-based principles.