

5x Defining Characteristics of the Biodiversity Market Today.

1. Demand: Growing momentum yet limited corporate commitments.

The biodiversity credit market is gaining traction, driven by global goals, incoming regulations, and voluntary frameworks. However, concrete corporate commitments remain limited.

- **Global Goals:** The Kunming-Montreal Global Biodiversity Framework (GBF), particularly Target 19 on resource mobilization, positions biodiversity credits as a critical tool for financing nature-positive outcomes, creating a foundation for future investments.
- **Regulation & Frameworks:** Policies like the EU's Corporate Sustainability Reporting Directive (CSRD) mandate businesses to disclose their biodiversity impacts, while the Taskforce on Nature-related Financial Disclosures (TNFD) provides voluntary guidance for assessing and mitigating nature-related risks. Together, these frameworks push companies to act on biodiversity and explore credits as a solution for residual impacts.
- **Voluntary Guidance:** The Science-Based Targets Network (SBTN) offers businesses a roadmap to align their operations with biodiversity goals, increasing interest in credits as a tool for meeting targets and demonstrating measurable progress.

While momentum is growing, examples of corporate action remain limited. Notable early commitments include AXA's €1.5 billion pledge to biodiversity projects and Swedbank's purchase of Europe's first biodiversity credits in 2023. However, challenges like the lack of standardized methodologies, unclear claims guidance, and pricing uncertainty continue to deter long-term commitments.

2. Supply: Pilot stage, concentrated in biodiversity hotspots.

Despite rising interest, the supply of biodiversity credits is still in its infancy, with most projects in the pilot phase. These projects are small-scale efforts focused on innovation and testing methodologies.

- **Scale of Supply:** A 2023 Nature Finance report estimates \$8 million pledged to biodiversity projects, covering approximately 800,000 hectares globally—an area roughly the size of Delaware. This small scale underscores the significant potential for market expansion.
- **Geographic Concentration:** Most pilot projects are located in Latin America and Africa, biodiversity hotspots rich in ecosystems but facing severe threats like deforestation and habitat loss. These regions are attractive due to their abundant biodiversity, urgent conservation needs, and lower land and operational costs.
- **Pilot Stage Dominance:** Pilot projects are designed to test methodologies and quantify outcomes, but this phase inherently limits the number of credits available for purchase. Addressing challenges like standardization, demand clarity, and infrastructure development is critical for scaling the market.
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3. Core market infrastructure is being built.

The foundational infrastructure for biodiversity credits is rapidly developing, addressing challenges like fragmented methodologies, the absence of a universal biodiversity unit, and inconsistent governance frameworks. These efforts aim to create a transparent, consistent, and scalable market.

Standardizing Methodologies and Metrics

The current diversity in methodologies and metrics limits comparability and creates confusion. Initiatives are underway to reduce fragmentation and variability, setting the stage for a more credible and scalable market.

- **Biodiversity Credit Alliance (BCA):** Developing global principles to ensure scientific rigor, consistency, and transparency in biodiversity credit projects by reviewing and standardizing metrics and methodologies.
- **Plan Vivo Foundation:** Using the PV Nature standard, which tracks biodiversity uplift through metrics like species richness and conservation importance, ensuring a replicable framework for credit issuance.

Defining a Biodiversity Unit

The absence of a universal biodiversity unit complicates trading and price stability. Key approaches include:

- **Species-Centric Units:** Advocated by Savimbo, focusing on specific species' contributions to biodiversity.
- **Ecosystem-Based Units:** Used in Verra's nature credits, measuring changes in ecosystem conditions for a broader assessment of biodiversity gains.

4. Opportunities for efficiency through carbon market integration.

The biodiversity credit market benefits from its close relationship with the carbon market, leveraging shared methodologies and participants to accelerate development:

- **Bundling or stacking:** Developers are adapting carbon methodologies to incorporate biodiversity outcomes, enabling the bundling or stacking of biodiversity and carbon credits to meet broader environmental goals.
- **Building on existing infrastructure:** Drawing lessons from the carbon market's growth, the biodiversity market is fast-tracking the creation of standards and infrastructure.
- **Learning from Carbon Market Challenges:** By addressing issues like greenwashing and inconsistent MRV standards early, the biodiversity market has the potential to build a more robust framework from the outset.

Integration increases the accessibility of biodiversity credits for companies already engaging in carbon markets.

5. Integrity, equity and trust is a defining focus area.

Integrity, equity, and trust are the bedrock of a successful biodiversity credit market. These aren't optional extras—they're essential to ensuring the market delivers real benefits for nature and the communities that depend on it. Without them, the market risks failing its purpose and losing credibility.

Recent milestones reflect the growing emphasis on integrity, equity, and trust in biodiversity markets. At COP16 in Cali, Colombia (2024), negotiators reached a historic agreement to establish a permanent body for Indigenous Peoples and Local Communities (IPLCs). This development acknowledges the vital role that IPLCs play in conserving biodiversity and integrates their traditional knowledge systems into global conservation strategies.

By embedding these principles, biodiversity markets can become credible, equitable, and effective tools for protecting nature.