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Innovative Finance for Nature and People:

Opportunities and Challenges for
Biodiversity-Positive Carbon Credits
and Nature Certificates



Summary: Messages and Recommendations

Executive Summary

Forests, particularly primary tropical forests, are critical natural capital for meeting the Sustainable Development Goals, the objectives of the Paris Climate Agreement, and the goals and targets of the Kunming-Montreal Global Biodiversity Framework, especially in ways that benefit host countries and Indigenous Peoples and Local Communities (IPLCs). The One Forest Summit in Libreville on 1-2 March 2023, co-hosted by France and Gabon, provides an opportunity to ensure that these ecosystems are safeguarded and restored for their environmental, economic, cultural, and social benefits.

This report presents the state-of-play, diagnostics, and recommendations for unlocking new financial resources for the conservation, sustainable use, and restoration of biodiversity in a socially inclusive manner, with a focus on two emerging instruments: biodiversity-positive carbon credits¹ and nature certificates². It was developed by a High-Level Working Group supported by an Expert Panel. Taking stock of lessons learnt and suggesting a way forward applicable to all ecosystems, the document pays particular attention to critical forest ecosystems that are irreplaceable for the biodiversity they host, the carbon they store, the water they produce, and their generally overlooked role in keeping the climate cooler through their absorption of excess carbon dioxide (CO₂) in the atmosphere and their separate biophysical regulating effects on atmospheric temperature and circulation patterns.

Concerted efforts are needed to close the significant gap in global biodiversity financing.³ Accordingly, the Kunming-Montreal Global Biodiversity Framework includes a commitment by the Parties to the Convention on Biological Diversity (CBD) to substantially and progressively, increase the level of financial investments from all sources, including public, private, domestic, and international, to \$200 billion per year by 2030, while substantially and progressively reducing incentives, including subsidies harmful for biodiversity, by at least \$500 billion per year by 2030.

Public finance is crucial yet insufficient and not sustainable: it needs to be used wisely to catalyze additional private finance and increased action and effectiveness, and mobilize public resources effectively. A range of innovative financing instruments are being deployed in both developed and developing countries, including efforts supporting forest dwellers, payments for ecosystem services (PES), blended finance, debt-for-nature swaps and other debt instruments, carbon markets and the emerging concept of nature certificates. Among them, the report focuses on (1) the up-scaling of high-integrity, biodiversity-positive carbon credits and (2) the development of nature certificate schemes. Both instruments are generating considerable interest at the moment – both among policy makers and corporates. Target 19 of the Kunming-Montreal Global Biodiversity Framework notably references biodiversity credits among the innovative schemes that should be stimulated, and calls for the optimization of co-benefits and synergies of finance targeting the biodiversity and climate crises. This report maps the emerging landscape of heterogeneous initiatives related to these instruments and provides guidance for their further development.

The Working Group affirms that with clear policy frameworks and signals, good governance, improved institutional capacities, and inclusive and transparent rules of engagement, biodiversity-positive carbon credits and nature certificates have the potential to markedly complement other financial mechanisms towards meeting the goals and targets of the Global Biodiversity Framework and the Paris Agreement.⁴ In particular, they hold promise to address the insufficient pricing signal from current carbon credits, improve effectiveness of the market, and to unlock greater private sector financing for High-Forest Low-Deforestation areas – including highly intact forest landscapes – and related carbon stocks which have been largely excluded from traditional carbon finance to date. Some carbon market experts do not consider these forests sufficiently threatened for credits derived from their protection to demonstrate adequate additionality and qualify as carbon offsets. Others think that introducing such innovative instruments

1 Defined as carbon credits that include additional and specific management actions linked to the enhancement, conservation, and/or restoration of biodiversity and nature.

2 Defined as quantifiable unit representing a biodiversity conservation and/or enhancement claim, which cannot be used as an offset, i.e. to claim the compensation of residual impacts on biodiversity. A nature certificate may enable its final buyer to claim a contribution to nature-positive goals. The terminology is still evolving with frequently used terms ranging from biodiversity credits to tokens, biocredits, and certificates. This report uses the term "nature certificates" instead of "credits" to avoid confusion with offsets, which is a key difference from carbon markets where carbon credits are typically offsets.

3 Figures in this document are reported in US dollars.

4 Good governance, as used in report, refers, inter alia, to (a) clear, secure and equitable land and natural resource rights of ownership, access and control; (b) participatory, transparent and accountable decision-making and resource-allocation processes regarding decisions, investments and actions affecting forests and communities that depend on them; and (c) active efforts to prevent, suppress and sanction crimes and associated corruption having negative effects on forests and forest-dependent communities.



will contribute to addressing current market failures, and notably generate adequate incentives for nature-positive actions at the landscape level.

The Working Group highlights the following lessons learnt from carbon markets, biodiversity offsetting mechanisms and national payments for ecosystem services schemes to be considered in the further development of biodiversity-positive carbon credits and nature certificates:

- Integrity, quality, and price per unit are concerns relevant to both the supply side and the demand side. In particular, credit or certificate mechanisms should not undermine the robust implementation of the mitigation hierarchy regarding greenhouse gas emissions and impacts on biodiversity.
- The enabling environment is essential for consistent and durable impact, including adequate legal, policy, and institutional frameworks in countries of both the custodians of biodiversity, climate, and community benefits, and the credit/certificate buyers.
- The full participation and engagement of, and equitable sharing of benefits with, IPLCs is necessary to continue ongoing stewardship of vital reserves of carbon and biodiversity.
- Biodiversity is multi-faceted and measuring it in practice remains complex. Agreeing on practical metrics, building benchmarks, and undertaking of robust measurement, reporting, and verification processes to access finance take time.
- A key lesson learnt from voluntary carbon markets is that biodiversity-positive carbon credit and nature certificate markets are fundamentally public purpose markets that should deliver equitable, nature-positive outcomes as a goal. Corresponding normative market design principles should be developed.
- Scaling up demand is a challenge, and rests upon shared and robust principles for defining and verifying credits/certificates, consensus on the proper use of credits/certificates, mechanisms to safeguard the market's integrity, engagement of new partners, clear long-term demand signals, and policy and regulatory mechanisms, including fiscal incentives, influencing price signals, and others. While some voluntary schemes, including nature-based carbon credits, have markedly grown in volume and have the potential to further grow, large scale has mainly been achieved as a result of regulations or government financing, underscoring their importance in achieving scale.



Recommendations

The Working Group members recognize the local, national, and global environmental, economic, cultural, and social importance of vital reserves of carbon and components of biodiversity, especially in critical forests. The Working Group makes the following recommendations to the One Forest Summit on innovative financial mechanisms, focusing on biodiversity-positive carbon credits and nature certificates:

Recommendations for Governments and Policymakers

- **Recommendation 1: Support the development and scaling up of innovative nature finance, including biodiversity-positive carbon credits and nature certificates, within a comprehensive approach to resource mobilization.** Given the size of the biodiversity finance gap, biodiversity-positive carbon credits and nature certificates are promising innovative mechanisms that should be leveraged along with other instruments to mobilize domestic and international private sector resources. To ensure durability and scaling up, governments are encouraged to promote the convergence of international approaches to carbon credits and nature certificates with national payment for ecosystem services schemes. These actions can contribute towards the mobilization of \$200 billion of financial flows for biodiversity by 2030, agreed as
- part of the Kunming-Montreal Global Biodiversity Framework.
- **Recommendation 2: Provide and maintain clear policies, incentives, and institutional frameworks** to foster demand and enhance certainty and accountability in approach. Target 19 of the Kunming-Montreal Global Biodiversity Framework calls for stimulating innovative schemes, including biodiversity credits. Governments are encouraged to support policy and legal reform, institutional strengthening, and relevant public infrastructure (hard and digital) investments needed to protect and manage the forest and other ecosystem assets. It most notably includes eliminating, phasing out, or reforming negative incentives, including subsidies that are harmful for biodiversity and increasing those that are positive for biodiversity. Support for capacity building and technical assistance for governments to develop and maintain these policies, incentives, and institutions are needed.
- **Recommendation 3: Clarify the contributions of biodiversity-positive carbon credits and nature certificates to the implementation of the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework at the national level, and contribute to major global meetings on finance and sustainable development.** Such work can be spearheaded at the national level as countries develop their own climate and biodiversity



ambition and means to support them, articulating how credits and certificates may be part of the suite of solutions and contribute to the implementation of Target 8 of the Global Biodiversity Framework by fostering positive impacts of climate action on biodiversity. Globally, the contributions of the Working Group may be further enhanced for international discourse and initiatives as appropriate, such as the Summit for a New Global Financial Pact, and G7 Summit. In addition, the role of innovative financing instruments can be further explored through high level exchanges and technical dialogues at both UNFCCC and CBD sessions, with engagement of Parties and relevant institutions. The Governments of France and Gabon may wish to continue their engagement by hosting such exchanges, where the GEF and the Working Group members may be invited to contribute.

- **Recommendation 4: Pilot and test biodiversity-positive carbon credits and nature certificates as part of national biodiversity and climate strategy and plans.** Countries are encouraged to utilize bilateral and multilateral support opportunities, including those from multilateral development banks, the Global Environment Facility, Green Climate Fund, and others, as well as philanthropic support, and continue to build on these experiences to move from the pre-market phase and pilots towards a critical mass of trades. Recognizing the need for urgency of

action, piloting investments at different scales and modalities, informed by success stories, may serve as a trigger for meaningful and comprehensive scaling.

- **Recommendation 5: Promote effective market governance for nature certificates and enhance the existing carbon governance to include biodiversity elements.** High integrity markets are those that are well governed. Success in nature certificate markets delivering on their public purpose will come down to how they are governed. Good governance should be the precursor for discussing more technical items such as methods and measurements. Full engagement of actors including governments, IPLCs, private sector, philanthropies, and multilateral and bilateral financing partners should be encouraged.

Recommendations for Market-related Institutions (standard bodies, private sector partnerships, project developers, investors, and others)

- **Recommendation 6: Generate and sustain demand incentives for individual buyers and private investors.** More work is needed on how to create markets for nature certificates, to understand drivers of demand. In addition to the role of governments to incentivize corporate demand, non-state actors and partnership can be instrumental in articulating demand generation. For instance, blended finance may be an effective incentive for the private sector.

Future developments linked to Target 15 of the Global Biodiversity Framework to, among others, increase positive impacts of business and financial institutions on biodiversity and reduce their biodiversity-related risks should be harnessed. Progress made in global initiatives such as the Task force on Nature-related Financial Disclosures (TNFD) and the Science Based Targets Initiative (SBTI) already provide relevant insights. The subject of the merits of secondary markets continues to be debated, and their disadvantages compared to their capacity to foster demand at scale require further assessment.

- **Recommendation 7: Engage in collaboration on methodologies, certification standards, and metrics** for simple, cost-effective and scientifically robust measures for carbon and biodiversity. These are needed to ensure rules and requirements for quantifying and reporting biodiversity and carbon benefits are understood and followed, with credibility. Care should be taken that such collaboration will be inclusive to reflect IPLC values, with a view to ensure integrity and quality through a demonstrated participatory approach, maximize demand, and promote equity and additionality, especially to benefit High Forest Low Deforestation areas. As appropriate, innovation and application of technology may be encouraged, including mobile phones, drones, bioacoustics, camera traps, environmental DNA, and distributed ledgers such as blockchain. Scientific and technological cooperation should be encouraged, with participatory and fully transparent approaches with and among countries.

Recommendations for All Partners

- **Recommendation 8: Ensure engagements of, and benefits for, indigenous peoples and local communities** as custodians of ecosystems. This includes requiring that an agreed share of any revenues from schemes in both primary and where instituted, secondary markets reach IPLCs. IPLCs should have meaningful representation in decision-making including free prior and informed consent (FPIC). IPLCs are to be recognized and partnered as project developers and market designers. Capacity building and technical support for IPLCs are needed both to enable their engagement and to learn and share their experiences and knowledge. A participatory approach may also be needed to agree on the value criteria of nature certificates generated in a given location or biome. As mentioned in recommendations for governments and policy makers, policymakers should strive towards political recognition of the IPLC rights and tenure.

- **Recommendation 9: Elaborate and apply integrity principles for both the supply and demand sides of voluntary markets**, including for transparency and sound governance, equity, measurement, reporting and verification, and claim credibility. Both standard development and room for innovation are necessary in the early stages of the nature certificate market development. They both need be taken into consideration for integrity principles.. Examples from carbon markets include the Integrity Council for Voluntary Carbon Markets (ICVM) and the Voluntary Carbon Markets Integrity Initiative (VCMI), and for nature certificates the World Economic Forum (WEF) and other processes. Core principles for the voluntary nature certificate market include that (1) it should be distinct from biodiversity offset mechanisms, which should remain within the remit of regulators, and (2) it should be linked to adequate legal, policy, and institutional frameworks at jurisdictional level.
- **Recommendation 10: Establish and support a global partnership and platform** with relevant actors to: (1) accelerate and scale-up biodiversity-positive carbon credit programs and nature certificate programs that deliver equitable, nature positive outcomes; (2) support identification and inventory of suitable priority areas; (3) facilitate collaboration on methodologies, (4) facilitate cooperation, good practice sharing, and cross-learning among existing and emerging initiatives and institutions; (5) collaborate on good governance and enhanced data quality, and exchange on opportunities and risks of national and international markets; and (6) promote financial tracking and accountability. Such partnership should build on existing and emerging initiatives, connect them, and to encourage wider participation of stakeholders in an inclusive manner. Also, collaboration with Positive Conservation Partnerships may be sought to explore cross-linkages on nature certificates and enabling policy. One Forest Summit has served as an effective catalyst to convene various institutions and thought leaders on this important subject. A global partnership and platform can help sustain this momentum, and help accelerate the engagement of additional public and private partners and IPLCs. **The Global Environment Facility, which has led the High Level Working Group, may be encouraged to support such global platform**, and facilitate its member countries to support programs at the national level.



Acknowledgements

This report was prepared by Paul Steele, Anna Ducros, Sejal Patel and Emilé Newman with support from Cinzia Cimmino and Ranak Maher of the International Institute of Environment and Development (IIED), and Jurgis Sapijanskas and Chizuru Aoki of the Global Environment Facility (GEF). We acknowledge all the inputs from the High-Level Working Group and the Expert Panel led by the GEF

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iiied International Institute
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ONE FOREST
SUMMIT

The Global Environment Facility (GEF) is a multilateral fund dedicated to confronting biodiversity loss, climate change, pollution, and strains on land and ocean health. Its grants, blended financing, and policy support help developing countries address their biggest environmental priorities and adhere to international environmental conventions. The GEF connects 185 member governments with sustainability leaders across civil society, Indigenous Peoples, and the private sector, and works closely with other environmental financiers for efficiency and impact. Over the past three decades, the GEF has provided more than \$22 billion in grants and blended finance and mobilized \$120 billion in co-financing for more than 5,000 national and regional projects.



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FEB 2023
978-1-948690-96-6

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