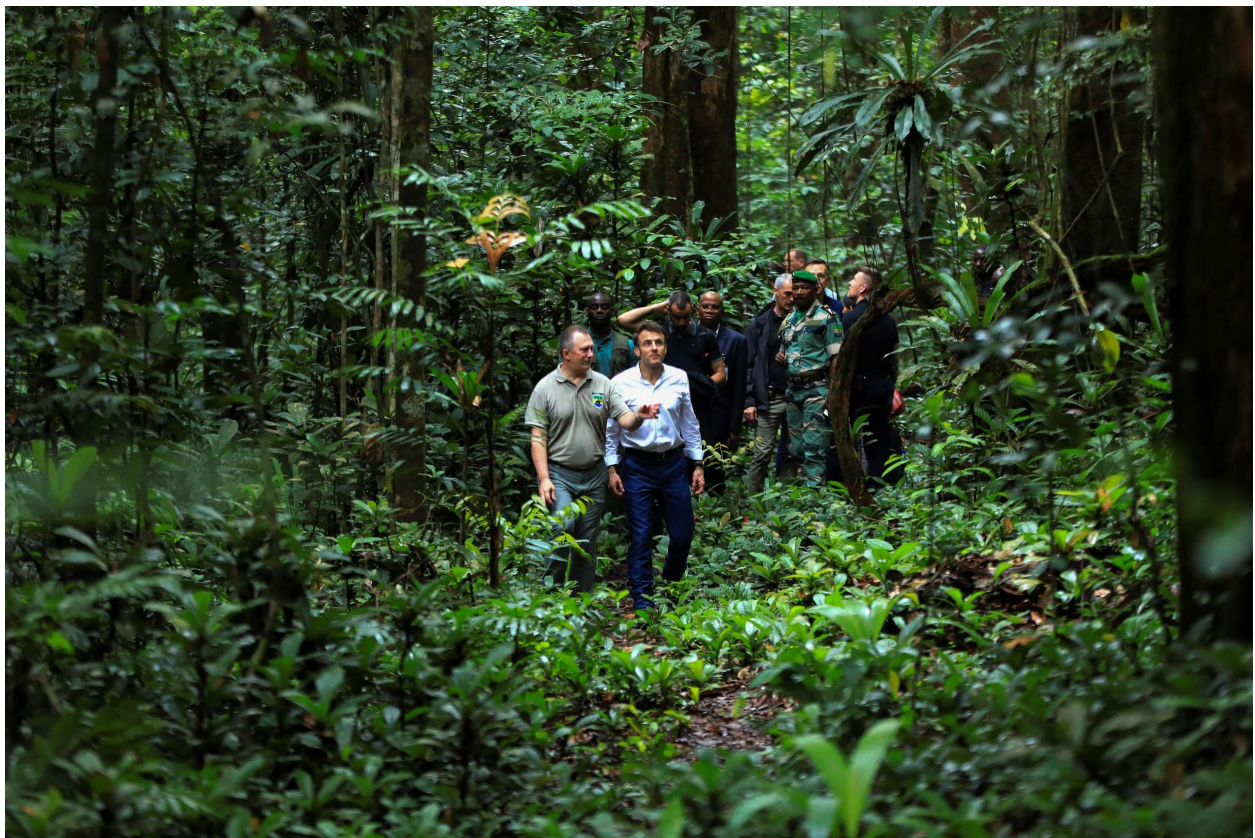


Comment: Let's use the lessons of carbon offsets to build a robust and just system to value nature

By Akanksha Khatri | www.reuters.com | Mar 20, 2023



French President Emmanuel Macron and Gabon's Minister of Water and Forests Lee White visit the Mondah classified forest, on the sidelines of the One Forest Summit in Libreville, Gabon March 2, 2023. REUTERS

March 19 - The world's natural capital, on which humanity depends, has been steadily declining while human, physical and financial capital

have risen manifold over the past 50 years. Sir Partha Dasgupta, author of *The Economics of Biodiversity*, has argued that the world has collectively mismanaged its "global portfolio of assets". And this mismanagement, according to World Economic Forum research, has put more than half of the world's GDP at risk due to its high dependency on biodiversity and ecosystem services. Why, then, are we failing to value nature and reward those who protect it?

One reason is that we have prioritised engineering solutions over nature-based solutions. Nature can provide a third of climate mitigation potential and yet receives less than 3% of total climate finance. The situation is even more dire when it comes to climate adaptation, where less than 10% of funding in the least-developed nations harnesses nature. Moreover, we have equated climate change with counting carbon emissions, limiting our ability to address the intertwined crises of biodiversity loss and pollution. Lastly, the carbon market playbook does not work for valuing and investing in standing forests and pristine seas.

At the U.N. Biodiversity Conference in Montreal last year, representatives from countries with large stocks of unspoiled nature in the form of pristine forests and oceans called out the discrepancy in

market incentives which today reward restoration of degraded lands higher than protecting primary standing forests.

In basic economics, unspoilt forest nations, such as Gabon and Ecuador, are providing ecosystem services for the upkeep of a global public good – i.e., stable climate – but not getting rightly compensated for it. The market today is so broken that these high-forested and low deforestation countries could benefit twice over through first degrading land through mining activities and then restoring them afterwards, rather than protecting centuries-old forests and indigenous peoples' rights.



A turtle swims after ocean cleaning at Ancora island in Brazil. Carbon markets tend to incentivise cleaning up degraded environments, rather than rewarding pristine ones. Pilar Olivares.reuters

Biodiversity credits or certificates have emerged as one of the solutions for financing intact nature as they value more than just carbon, and are therefore not bound by the same rules as voluntary carbon credits, such as proving additionality (that carbon reductions would not have otherwise happened).

As a relatively new concept, the biodiversity credits market can learn from what has, and has not, worked with carbon offsets so far, and ensure that both buyer and project developers are held to highest

scrutiny. And perhaps most importantly, here is an opportunity for businesses to signal investment in critical ecosystems not as an offset but as an active mitigation strategy towards nature-related risks.

For example, a [new report by HSBC](#) reveals that \$246 billion of hydroelectricity depends on water provided by threatened tropical cloud forests, making them crucial assets in the net zero transition, yet many of the 25 countries where they are located are amongst the poorest and most heavily indebted economies in the world. The report proposes the creation of cloud forest bonds and a Cloud Forest 25 investment initiative to fund new long-term income streams from the forests, and accelerate the speed and scale of the transformation.

Similarly, if companies sourcing key commodities such as coffee or cocoa invest in not just their supply chains, but in improving entire landscapes, they would help generate benefits such as stable rainfall pattern and healthy soils.

Governments are acting too. In March, at the One Forest Summit in Gabon, [France pledged 50 million euros](#) to a new 100 million euro global scheme to reward countries for protecting their forests and biodiversity. However, it won't be easy. Biodiversity is complex and location-specific, and there is a lot we still do not understand. Unlike carbon, which can be measured and traded across different geographies, there is no single way to measure biodiversity that works for every forest or ocean.



If companies sourcing commodities such as coffee take an entire landscape approach they will help generate wider environmental benefits. REUTERS/Juan Carlos Ulate

Current biodiversity projects are using different measurement methods. For example, rePlanet uses a basket of metrics like a consumer price index, Colombia-based Terrasos uses the concept of a habitat bank, where an area is conserved and restored and set aside for 30 years to compensate for the loss of equivalent natural habitats, but also for aggregating voluntary contributions to biodiversity conservation. If we think of multiple units of biodiversity credits as multiple currency, it will still require a common denominator that allows for these credits to be recognised internationally, and independent auditors that can do robust due diligence.

The World Economic Forum in the coming year will be working alongside many partners, such as the Biodiversity Credits Alliance and Blue Carbon Alliance, to find a solution. This work will incorporate the knowledge and practices of indigenous communities in the conservation and management of biodiversity. By learning from indigenous wisdom, we can gain insights into effective and sustainable approaches, as well as ways to address the social and cultural dimensions of biodiversity loss.

Lastly, for natural capital it is crucial to experiment and build trust among indigenous peoples, local communities, NGOs, governments and businesses. The media has a role to play too, by highlighting stories from communities and scrutinising corporate actions, while exploring the unknowns.

Carbon credits are only one product in a developing market of products to value ecosystem services such as water, land and biodiversity. Like a currency devaluation, the breakdown of a single product does not break the financial market. Let's use the lessons and critiques of carbon credits to help strengthen the market and raising the guardrails by asking greater transparency from both corporates and project developers.

But let's not lose sight of the end goal: safeguarding nature and sharing the benefits in a just and equitable way.

