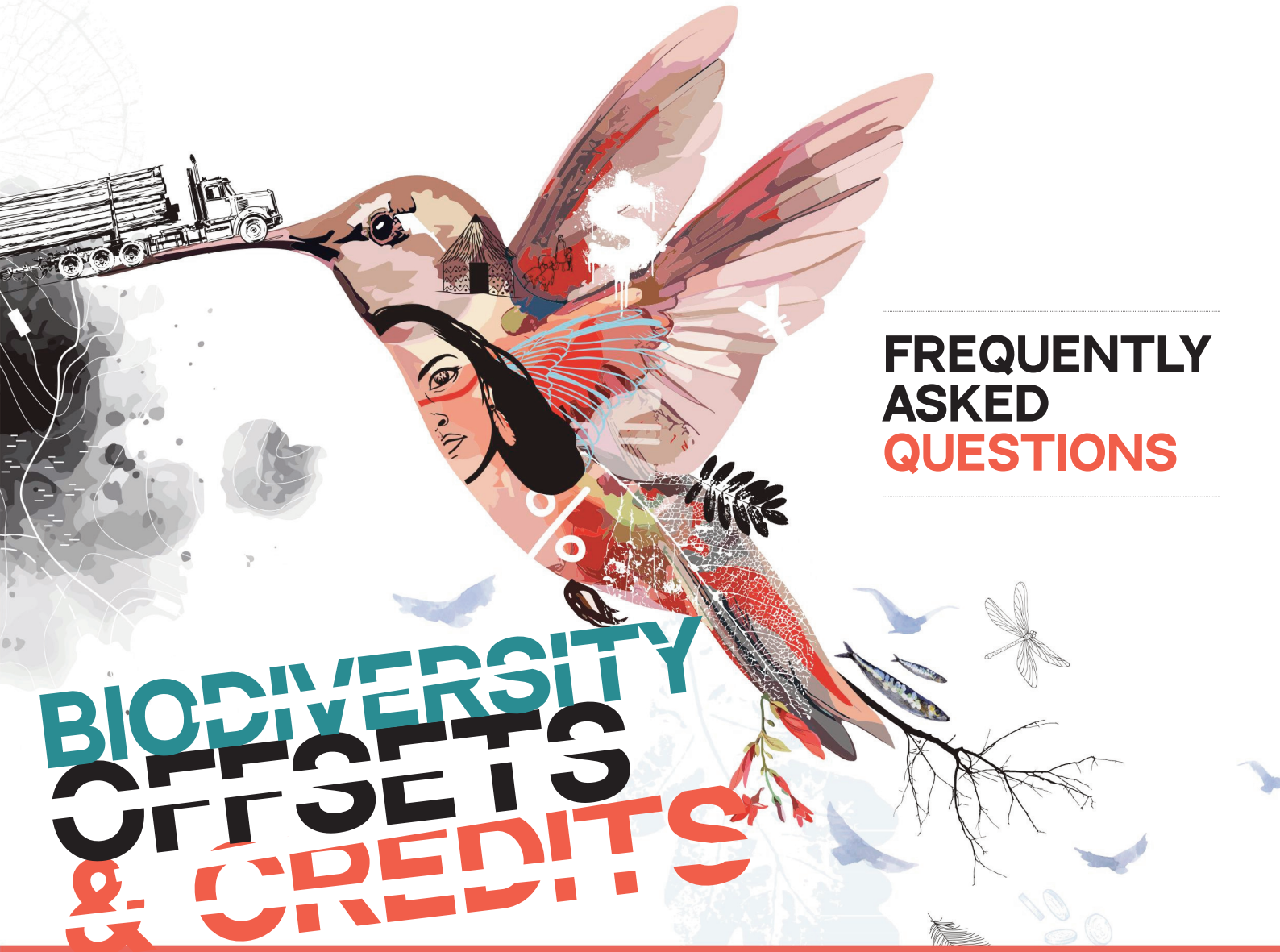


FREQUENTLY ASKED QUESTIONS

BIODIVERSITY OFFSETS & CREDITS

Biodiversity offsets and credits are currently being promoted as mechanisms to channel financial resources towards biodiversity protection. At the same time, a growing body of evidence shows that biodiversity offsets, which are modelled after problematic carbon markets, could lead to significant social and environmental harm. Moreover, biocrediting systems are unlikely to be effective in terms of either protecting ecosystems or raising reliable additional funding for biodiversity conservation.

A joint civil society statement summarizes the concerns around these mechanisms and calls for a stop to the promotion, development and use of biodiversity offsetting and crediting schemes. These concerns include greenwashing, human rights violations, conflicts over tenure rights, land grabbing, community displacements, and impacts on ecosystem integrity and food sovereignty. At the same time, market-driven failures are perpetuated, with little or no revenue accruing to communities on the ground.

Instead of these false solutions to address the biodiversity crisis, what is needed is the prioritization of transformational change in tackling the underlying causes of biodiversity destruction.

These FAQs aim to explain further the concepts, assumptions and key features of biodiversity offsets and credits.

WHAT ARE BIODIVERSITY OFFSETS?

01

Biodiversity offsetting mechanisms are designed to compensate for adverse and supposedly unavoidable impacts on species, and for terrestrial, coastal or marine habitat destruction, at a particular location and time. Conservation or restoration actions calculated as being equivalent to the destruction are implemented elsewhere to compensate for the destruction.

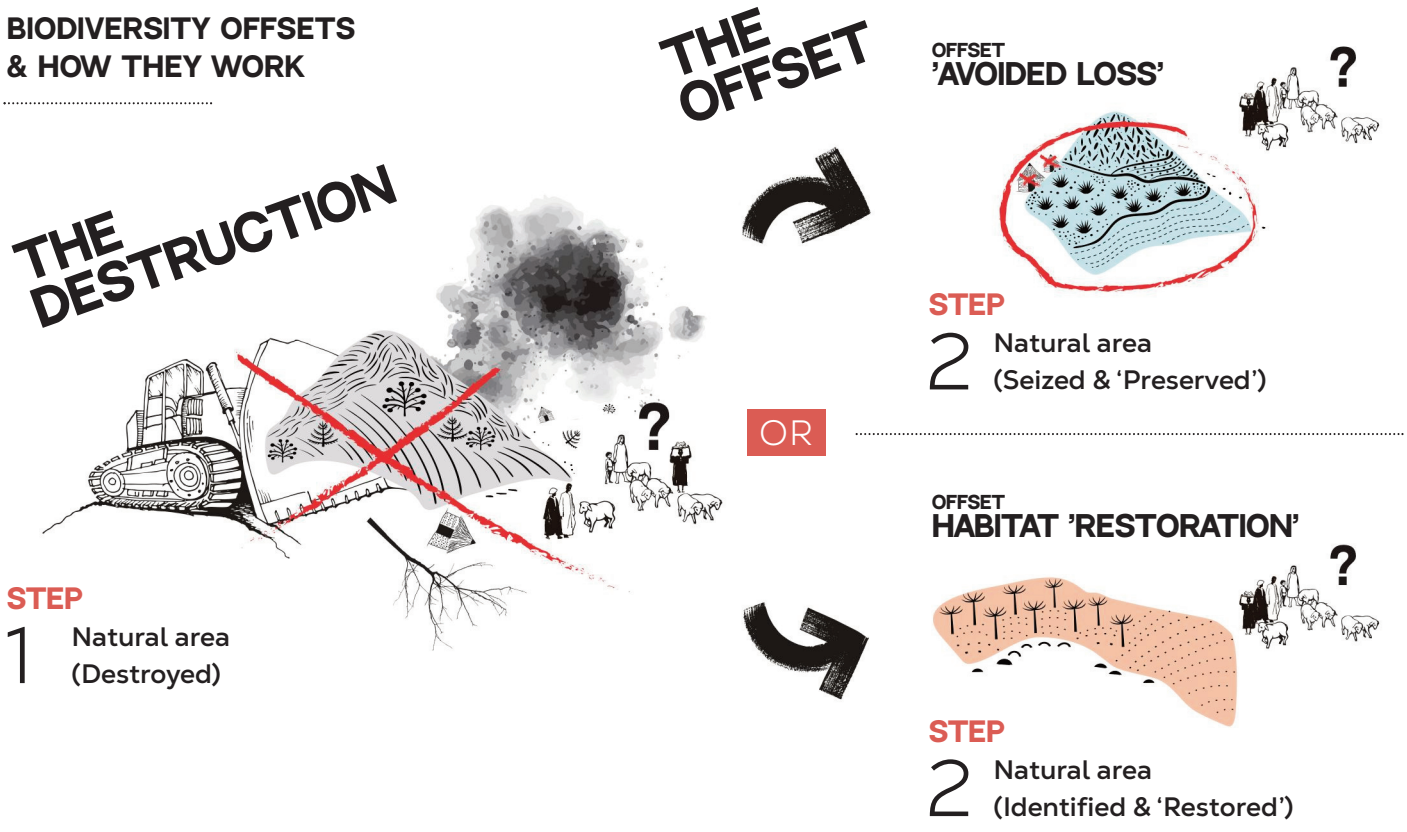
There are two alternative ways of offsetting. The first is through conservation actions, which aim to compensate for the loss of one biodiverse area by claiming to prevent another potentially threatened area from degrading. These offsets are often called 'avoided loss' of biodiversity.

The second, compensation via habitat restoration, claims to restore degraded ecosystems and to achieve biodiversity levels similar to those measured on the area where the destruction originally occurred. Monitoring, however, is usually limited to a small number of species and habitat features. Moreover, there are no known cases of proper ecosystem restoration to levels close to the original ecosystem, particularly for primary forests.

The hoped-for outcomes of these actions are measured as the compensation project is implemented and are translated into tradable units called credits.

Such approaches however ignore the complexity of ecosystems, the diverse values of nature, nature's contributions to people, and the uniqueness of each ecosystem's features and functions. These attributes are not interchangeable, so compensating for biodiversity destruction in this way is flawed from the outset.

BIODIVERSITY OFFSETS & HOW THEY WORK



WHAT ARE BIODIVERSITY CREDITS?

02

Biodiversity credits are financial certificates deemed to correspond to a certain quantity of species and habitats, whether terrestrial, marine or coastal, that have supposedly been saved from destruction or restored by a landowner/project developer. These credits can be priced and sold to organizations and individuals, most likely for offsetting purposes.

Other uses of credits include voluntary purchases by individuals, private corporations, and philanthropic foundations aiming to protect biodiversity or to improve their reputation. The purchase of biodiversity credits is seen as one way by which private actors can generate more finance for biodiversity.

Biodiversity credits are also sometimes called biodiversity certificates or nature credits, but there is no substantive difference.

WHAT IS THE DIFFERENCE BETWEEN BIODIVERSITY CREDITS AND BIODIVERSITY OFFSETS?

03

"Offsetting" is one of the possible uses of credits, and one of the possible claims that can be made when purchasing the credits: those purchasing the credits can claim that by doing so, they have compensated for destruction elsewhere and at a different time.

Based on the experiences with carbon credits, it is foreseeable that all uses of biodiversity credits, except for offsetting, will be marginal. Offsetting will be by far the main use of biodiversity credits, as already shown with carbon credits.[1] This is because offsetting is the only use for which there would be a significant demand for biodiversity credits.

WHAT IS THE DIFFERENCE BETWEEN BIODIVERSITY AND CARBON OFFSETS/CREDITS?

04

Carbon offsets correspond to actions deemed to reduce, remove and/or sometimes avoid greenhouse gas emissions, whereas biodiversity offsets correspond to actions deemed to avoid the destruction of biodiverse habitats and species or to restore and recreate them.

While carbon offsets/credits are a simplification of six main greenhouse gases into one unit, biodiversity offsets/credits require simplifying millions of species and their interactions with their habitats into a few units, which is even more of a delusion.

1 https://greenfinanceobservatory.org/wp-content/uploads/2023/11/Verra-consultation-v6.5.pdf

HOW DO BIODIVERSITY MARKETS WORK?

05

Different markets may have different features, but they generally function as follows: Private project developers will undertake conservation or restoration actions at specific locations. Third-party auditors will then come and assess the project and its impact against a certification standard. The standard may have been developed by the offsetting industry or some governmental forum or regulation. Auditors are usually selected and paid for by the project developer. Once the project is certified, the developers will then issue and sell corresponding biodiversity credits.

Individuals, private corporations, financial institutions or governments can purchase the credits for the various reasons described above, with offsetting the likely main use by far.

In some cases, credits can be bought and sold an unlimited number of times, enabling financial institutions to gamble on their future price in the hope of making a financial gain.

WHO ARE THE ACTORS, WHO BENEFITS?

06

Private corporations with destructive activities will benefit the most from biodiversity credit markets. They could use these markets to claim falsely that biodiversity destruction is being addressed, but in reality, biodiversity-harmful activities would continue. At the same time, such markets would detract from the need to establish and enforce more robust action, such as tighter environmental regulations that would curb these corporations' activities and their profits. In addition, offsets allow the companies responsible for destruction to evade their responsibility, by claiming that they have paid someone for remedial action.

Intermediaries such as certification companies, some international conservation organizations, consulting companies, banks and investment funds will also benefit greatly from these markets through the fees and commissions that they charge for their services.

Some governments could benefit greatly from these markets, insofar as these markets successfully hide their political inaction to address the biodiversity crisis. At the other end of the spectrum, some governments, particularly in the Global South, may feel compelled into accepting such schemes, pushed by the lack of grant support to meet their biodiversity goals.

It is not clear if Indigenous Peoples, peasants, pastoralists and other small-scale food producers, and local communities will benefit from these markets: while they may provide small additional revenue in some cases, these revenues are likely to be extremely volatile as they are tied to financial market fluctuations, and exposed to changes in regulation. Moreover, the so-called "biodiversity cowboys" could make the biggest profit from their private offsetting ventures from territories they have no legal right to, and then fail to share this revenue with those who protect and live on the land. In addition, rights holders entering these schemes will likely see their land locked up for decades for uses that are no longer decided by them. This risks conflicts over tenure rights and the use of lands, fisheries and forests, likely threatening food sovereignty and self-determination, as well as driving land grabbing, community displacements, increasing land inequality and human rights abuses.

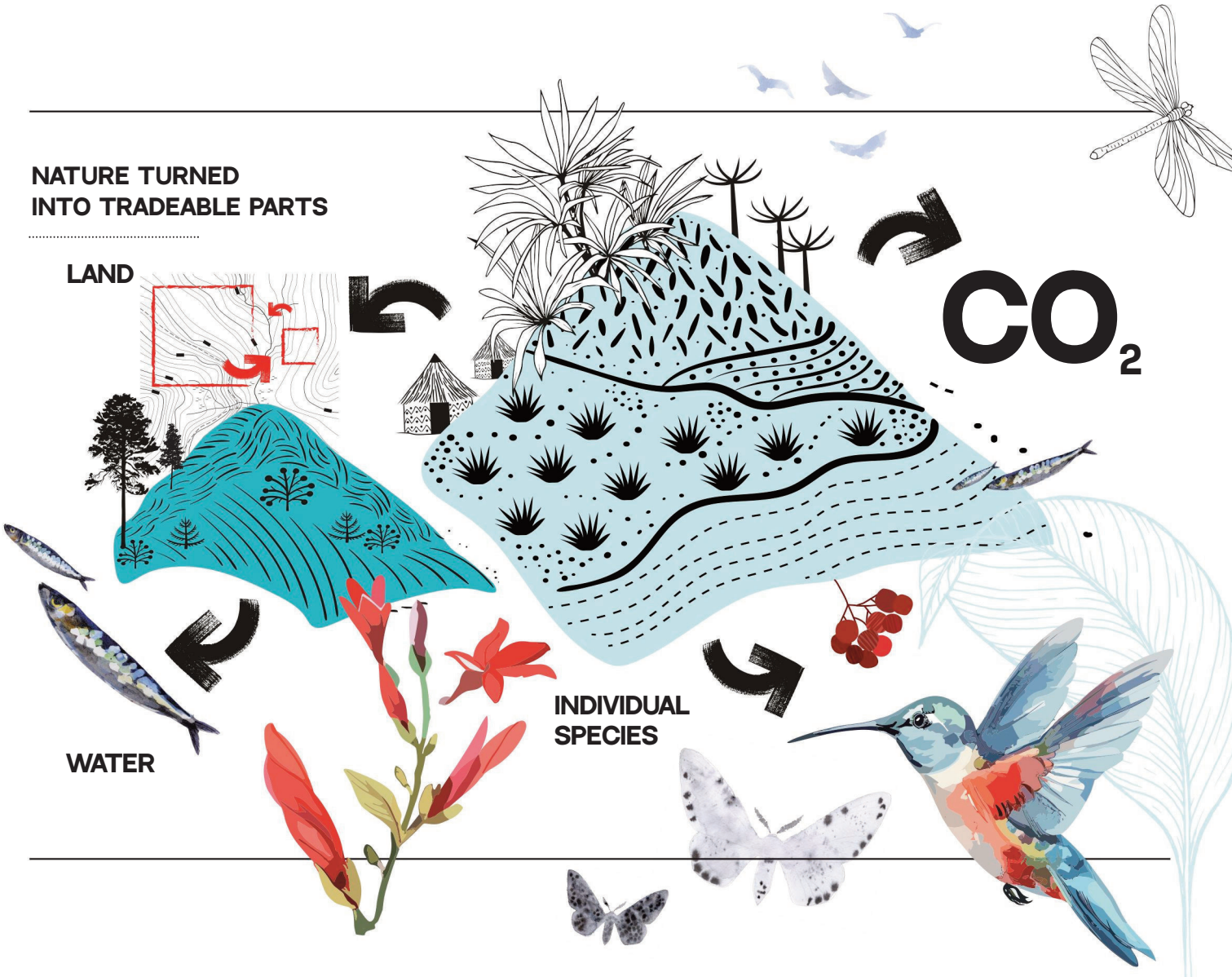
BIODIVERSITY, CARBON, WHAT ELSE?

07

The commodification of nature through privatization, marketization, financialization and other associated processes goes beyond carbon and biodiversity.

For example, the commodification of nature will soon extend to water pollution. Instead of environmental legislation mandating a decline in water pollution, new financial markets trading permits to pollute rivers are being designed and set up in several countries. Such a market was for example launched in the UK in 2023.

In parallel, the market for plastic credits has emerged recently, in a bid to curb plastic pollution by depending on market mechanisms. By the end of 2023, around 160 projects were listed on plastic credit registries, mainly in developing countries.[2] Even though plastic credits don't rely on the commodification of nature, these mechanisms would also enable companies and governments to avoid their responsibilities to address plastic pollution by compensating for their impacts elsewhere.



2 Plastic credits at a glance, The World Bank: https://thedocs.worldbank.org/en/doc/411ebaec936068e4bb62a0e40ebce522-0320072024/original/Product-Overview-Plastic-Credits-FINAL.pdf

BETTER THAN NOTHING? 08

Biodiversity offsetting enables biodiversity destruction to continue while giving the illusion that the eradication of biodiversity and degradation of habitats is being addressed; as such, it hides inaction and gets in the way of reaching a critical mass of citizens asking for real action. It is thus worse than nothing.

Government regulations have prioritized the "mitigation hierarchy" over real prohibitions on ecosystem destruction. This system subscribes to the principle that where projects cannot avoid or reduce damage, then offsets could be used as a last resort. In practice, it has led to most projects skipping action to avoid or reduce damage, and proceeding directly to the offsetting option, because that usually costs less and requires less technical capacities.

WHAT ARE THE ALTERNATIVES FOR PROVIDING FINANCIAL RESOURCES FOR BIODIVERSITY PROTECTION? 09

While there is a real need for increased biodiversity finance provision from the Global North to the Global South, the so-called biodiversity funding gap of $700 billion[3] should not be a reason for implementing market-based mechanisms, due to their adverse impacts.

Meanwhile, the UN has identified $1.7 trillion of existing subsidies to harmful activities,[4] and has set a target to redirect at least $500 billion annually of existing harmful subsidies. This means that States actually have the capacity to fund biodiversity conservation and restoration. And even if we wanted to redirect private capital, there are simpler and more effective ways to do so than creating these markets.

Providing biodiversity finance as grants, direct access and adaptive performance-based payments, particularly by supporting initiatives and governance systems led by Indigenous Peoples, are among the most effective, equitable and efficient ways to protect ecosystems and biodiversity. This would also avoid confusion and avoid legitimizing biodiversity credits that could be used for offsetting.

In cases where environmental regulations are violated or environmental damage occurs, those responsible should pay to cover the costs of the destruction of nature. Those payments could be made directly to biodiversity funds, which should be oriented to preserving biodiversity, without being an offset.

Also, crucially, halting destruction does not hinge on money alone, as it must be coupled with political will, democratic governance, and the fulfilment of international obligations. Requiring States and the private sector to uphold the rights of Indigenous Peoples and other rights holders, including land tenure rights, would help prevent biodiversity destruction and potential human rights violations linked to the protection of nature.

3 The $700 billion figure is also contested: https://www.cffacape.org/publications-blog/funding-gap-dangerous-nonsense
4 https://www.unep.org/resources/state-finance-nature-2023

WHAT ARE THE KEY FEATURES OF BIODIVERSITY OFFSETS AND CREDITS? ARE THEY PROBLEMATIC?

10

BIODIVERSITY METRICS:

While there is currently no commonly agreed metric underlying the credits, most frameworks today rely on just a few metrics. This would however over-simplify the complexities of species, ecosystems and interconnections.

PERMANENCE:

The environmental outcomes of the underlying conservation/restoration project must be guaranteed for a period of time that matches the maturity of the destruction claimed to be offset. However, achieving this is almost impossible, given the political, technical and other challenges.

ADDITIONALITY OF THE UNDERLYING PROJECT:

The underlying project must be able to demonstrate that the positive environmental outcomes would not have happened without the project. However, it is only possible to assess the plausibility and probability of such predictions of what would have happened in the future without the offset, but it is not possible to prove the additionality of an offset.

DOUBLE COUNTING:

The credit should not be used several times or by several parties, for example when both a corporate buyer and a government want to claim it against their environmental objectives.

"LIKE FOR LIKE" VS. "LIKE FOR BETTER":

"Like for like" means that offsetting must recreate the same type of habitat/species that was destroyed, whereas "like for better" means that under some conditions offsetting with another type of habitat/species (that may supposedly have more conservation value) is allowed. Both ways open the door for a weakening of environmental integrity, since ecosystem restoration would rarely be able to fully recreate a destroyed habitat, and the compensation of lost habitats or species with others could cause the diminishing or extinction of the habitats or species that were lost.

AVOIDED LOSS OR RESTORATION OR BOTH:

Biodiversity credits can correspond to either avoided loss, when landowners claim that they had originally planned biodiversity-damaging activities in an area of land but will no longer do it, thanks to the payment received from the sale of credits, or credits can correspond to biodiversity restoration actions. Experience from carbon offsets suggests that avoided loss is extremely easy to fudge.

EX-ANTE VS. EX-POST:

While in theory biodiversity credits/offsets are supposed to correspond to measured positive conservation outcomes, some biodiversity credit schemes allow for the issuance of credits before any positive outcome has been measured (ex-ante).

SHARING OF PROCEEDS:

Lack of transparency around the sharing of proceeds from the sale of credits between the various stakeholders is a characteristic of offsetting and contributes to unfair sharing. Publicly accessible sharing of proceeds would contribute to more accountability and fairness. When the process includes Indigenous Peoples and other rights holders, information should be also shared in a culturally appropriate manner.

LOCAL VS. NATIONAL VS. GLOBAL:

Local biodiversity offsetting means that the restoration action takes place near where the destruction took place. National biodiversity offsetting and global biodiversity offsetting, in contrast, allow offsetting to take place in another region, country, or continent. Claims of local offsetting where 'local' is defined far too broadly, at the scale of an ecosystem (e.g., the Amazon rainforest) or a jurisdiction (e.g., the European Union), are also problematic.[5]

SECONDARY MARKET TRADING:

This means allowing the purchase and selling of biodiversity credits an infinite number of times, in order to speculate on their future price. This practice has no conservation benefit at all and should be banned.

COMPLIANCE VS. VOLUNTARY:

Compliance biodiversity markets means that the government has made it a legal obligation for companies that destroy nature to 'offset' their destruction. As such, demand for the credits is guaranteed by law, ensuring benefits to market promoters and financial intermediaries. As offsetting does not offset in reality but enables biodiversity destruction to continue, compliance markets, especially at the global level, are particularly problematic.

WHAT ABOUT INDIGENOUS PEOPLES' AND OTHER RIGHTS HOLDERS' COSMOVISIONS, RIGHTS AND NEEDS? 11

Instruments such as biodiversity offsets and credits simplify the complexity of nature and the different ways of living from, in, with, and as, nature. They fail to take into account the diverse values of nature and its contributions to people, which are embedded in different worldviews and knowledge systems. Translating such diversity into tradeable assets runs fundamentally against different values of nature and cosmovisions, particularly of Indigenous Peoples, that understand nature as our Mother, and not a subject of commodification.

Moreover, biodiversity offsets and credits rarely align with a human-rights-based approach to conservation. The rights of Indigenous Peoples, peasants, local communities, women and other historically marginalized groups are often sidelined, despite their central role in biodiversity protection. Most biocredit systems fail to address human rights obligations and to include social safeguards. At best, this creates legitimacy risks; at worst, it results in dispossession, elite capture, and further marginalization of communities already managing the most biodiverse ecosystems.

Given their complexity and high transaction costs, biodiversity offsets and credits are unlikely to mobilize sufficient resources in a way that is responsive, timely, and accessible for the places and communities where funding is most needed.

5 This excessively broad definition of 'local' is being used by the International Advisory Panel on Biodiversity Credits (IAPB)/Biodiversity Credit Alliance (BCA)/World Economic Forum (WEF) coalition, the main coalition promoting the creation of markets on biodiversity credits.

IN SOLIDARITY

Friends of the Earth International · Indigenous Environmental Network · Global Forest Coalition · Global Youth Biodiversity Network · Green Finance Observatory · TWN Third World Network · Rainforest Action Network · SOMO

LEAD AUTHOR: Frédéric Hache / Green Finance Observatory. **CONTRIBUTING AUTHORS:** Lim Li Ching, Lim Li Lin and Mirna Ines Fernández / Third World Network. **CONTRIBUTORS:** Nele Marien / Friends of the Earth International, Jutta Kill / World Rainforest Movement, Heitor Dellasta / Global Youth Biodiversity Network, Valentina Figuera Martínez / Global Forest Coalition, Joanna Cabello / SOMO, Joshua Witchger / Indigenous Environmental Network, Tom Picken / Rainforest Action Network, Amelia Arreguin Prado / Forest Peoples Programme, Merel van der Mark / Forests & Finance Coalition, Theiva Lingam / Sahabat Alam Malaysia (SAM), Tamra Gilbertson, Emil Sirén Gualinga, Simon Counsell. **IMAGES:** Shutterstock. **DESIGN:** OneHemisphere, contact@onehemisphere.se.

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