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Agenda item 4

INNOVATIVE FINANCIAL MECHANISMS: BIODIVERSITY OFFSETS: A TOOL FOR CBD PARTIES TO CONSIDER, AND A BRIEFING ON THE BUSINESS AND BIODIVERSITY OFFSETS PROGRAMME

A submission by the Business and Biodiversity Offsets Programme (BBOP)

(Also available as UNEP/CBD/COP/10/INF/27)

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BIODIVERSITY OFFSETS:
A tool for Parties to consider
And a briefing on the Business and Biodiversity Offsets Programme (BBOP)

1. Why this Information document?

At their ninth meeting in 2008, the Parties to the Convention on Biological Diversity took a decision (IX/26) to promote business engagement. They set out a 'Framework Of Priority Actions On Business', including the following: 'In collaboration with relevant organizations and initiatives, such as the **Business and Biodiversity Offsets Programme (BBOP)**, **compile and/or make available: (a) case studies; (b) methodologies; tools and guidelines on biodiversity offsets; and (c) relevant national and regional policy frameworks**.' This information document explains how BBOP has responded to that request, and to other COP9 decisions on biodiversity offsets.

In addition, during the third meeting of the CBD's Working Group on Review of Implementation in May 2010, Members of the African Group of Parties to the CBD asked for specific information from BBOP. This document also responds to their request.

2. What are biodiversity offsets?

Biodiversity offsets are measurable conservation outcomes, planned to balance any significant biodiversity losses that cannot be countered by avoiding or minimizing impacts from the start, or restoring the damage done. They are designed to achieve no net loss (or a net gain) of biodiversity in the context of development projects. This goes beyond traditional mitigation, and encourages business to take responsibility for its impacts.

Box 1:
The definition of a 'biodiversity offset'

Drawing on law, policy and experience around the world, the BBOP partners have defined biodiversity offsets as:

'measurable conservation outcomes resulting from actions designed to compensate for significant residual adverse biodiversity impacts arising from project development after appropriate prevention and mitigation measures have been taken. The goal of biodiversity offsets is to achieve no net loss and preferably a net gain of biodiversity on the ground with respect to species composition, habitat structure, ecosystem function and people's use and cultural values associated with biodiversity.'

A key part of the definition of biodiversity offsets is that offsetting should only apply after developers have taken steps to avoid and minimise the biodiversity impacts of their projects. Biodiversity offsets address the residual significant impacts after the appropriate avoidance, minimisation and restoration.

The goal of biodiversity offsets is to achieve no net loss and preferably a net gain of biodiversity on the ground with respect to species composition, habitat structure, ecosystem function and people's use and cultural values associated with biodiversity. People's livelihoods are thus an extremely important aspect of biodiversity offsets. BBOP's biodiversity offset principles (see Appendix 3 on page 13) underscore that offsets should be designed with the local people affected both by the project and by any offset activities, and so as to ensure they are at least as well off after the project and offset as they were beforehand.

3. How may biodiversity offsets help Parties to the CBD?

Interest in biodiversity offsets is growing as the potential of biodiversity offsets to help achieve wider goals of conservation, wise land-use planning and sustainable development are increasingly appreciated. Governments face the challenge of balancing economic development with a public interest in protecting biodiversity. By contributing to regional conservation and land-use planning, biodiversity offsets can help the 193 government parties to the Convention on Biological Diversity who committed to 'achieve by

2010 a significant reduction of the current rate of biodiversity loss'1 and the forthcoming, proposed 2020 targets.

There are four main drivers for the growing use of biodiversity offsets:

- More governments introducing or exploring policy on biodiversity offsets;
- More companies undertaking biodiversity offsets voluntarily for business reasons.
- More banks and investors requiring biodiversity offsets as a condition for access to credit or investment; and
- More NGOs and civil society groups encouraging developers to undertake biodiversity offsets.

Biodiversity offsets can achieve more and better conservation outcomes than typically result from project planning, since they go beyond basic mitigation as stipulated in environmental impact assessment processes and explicitly aim to achieve no net loss or a net positive impact. They offer a tool for companies to manage biodiversity risk and opportunity, and for society to mainstream considerations of biodiversity into economic decision-making, through governments' planning processes, licenses and permits and financial institutions' lending and investment decisions.

As biodiversity offsets involve working with land managers to address underlying causes of biodiversity loss, they offer indigenous peoples and local communities an opportunity to be involved in project planning, and to establish offset activities that contribute to sustainable livelihoods.

Properly planned at the landscape scale, biodiversity offsets can contribute to regional conservation and land-use planning, priorities set out in national biodiversity strategies and action plans, and broader development goals.

A growing number of governments are introducing or planning law and policy related to biodiversity offsets. Many governments are committed to a target to achieve significant reductions of the current rate of biodiversity loss within their jurisdictions. Some have gone further and made policy commitments aimed at no net loss or a net gain of biodiversity. Biodiversity offsetting is a key policy measure that governments can adopt as part of the implementation of these policy targets.

Offsetting provides a way of pursuing a no net loss outcome for biodiversity for development projects and programs in the context of the 'mitigation hierarchy': ('avoid, minimise, restore, offset').

Biodiversity offsets can achieve more and better conservation outcomes than typically result from the planning of mitigation measures for development projects. They are also a tool for companies to manage biodiversity risk and opportunity, and for society to mainstream considerations of biodiversity into economic decision-making, through governments' planning processes, licenses and permits and financial institutions' lending and investment decisions.

Government policy on biodiversity offsets (whether voluntary or mandatory) can facilitate better relationships between governments and developers with regard to the mitigation of biodiversity impacts. Where developers are operating under clear guidelines, they can plan and implement their offsets in an orderly and efficient way as part of the development project. This certainty can be beneficial not only for development projects, but is also characteristic of a jurisdiction that is a 'good place' in which to do business.

Where the design and implementation of biodiversity offsets are established as an active and on-going activity, businesses centred on the provision of offsets are likely to evolve. These industries can comprise new companies set up explicitly to undertake offsets through habitat establishment and restoration and can also allow existing companies such as those in the nursery trade and pest and weed control to expand

1 For information on the 2010 target, please see http://www.cbd.int/2010-target/

their activities. Governments appreciate that these activities can benefit the economy and local communities by generating employment and revenue. For instance, the market for conservation banking in the US is estimated at approximately US $1bn per annum2.

Biodiversity offsets generate additional private sector investments in conservation that add to the available resources contributing to conservation by governments' overall objectives for biodiversity conservation.

Taken together, these advantages mean that biodiversity offsets offer not only a risk management tool and potential business opportunity for companies, but a possible source of new and additional source of funding for biodiversity conservation and sustainable use activities. In this model that promotes the internalisation of costs and the polluter pays principle, public and private sector developers bear the costs of the conservation actions needed to offset their impacts, and this investment in conservation may be considered additional to national budgetary support for protected area networks and other *in situ* biodiversity activities.

However, biodiversity offsets should be treated with caution. It is important to follow the BBOP Principles to ensure that biodiversity offsets are only used where the mitigation hierarchy has been followed carefully and the residual impacts are capable of being offset. Adequate capacity to design and implement biodiversity offsets is important, as is monitoring, evaluation and enforcement. In addition, it is important that national policy on biodiversity offsets results in additional investment in conservation, and that government does not simply reduce public sector commitments to conservation finance, transferring the costs of national conservation priorities to the private sector.

4. What is BBOP?

The Business and Biodiversity Offsets Program (BBOP) was established in November 2004 by Forest Trends, a US-based non-profit organization (NGO)3. Over the last six years BBOP, now a partnership of over 50 leading conservation organizations, governments, companies and financial institutions, has developed a set of principles and methodologies for best practice biodiversity offsets through on-the-ground experience. The member organizations comprise the BBOP Advisory Group[4], and are served by a Secretariat comprising Forest Trends and the Wildlife Conservation Society. BBOP's vision is a future in which biodiversity offsets are applied worldwide to achieve no net loss and preferably a net gain of biodiversity when there are significant development impacts.

As BBOP approached the end of its first phase of work (culminating in the publication of its principles, methodology handbooks and case studies in May 2009), the Secretariat began a public consultation process and also asked the members of its Advisory Group what would be needed to achieve a much wider uptake of best practice in biodiversity offsets, in order to make a very significant contribution to the conservation and sustainable use of biodiversity worldwide, as well as the fair and equitable sharing of benefits. Based on this consultative process, the BBOP Executive Committee (which sets the group's strategy and is elected from its Advisory Group members) established six priority work areas for the group's work from July 2009 to July 2012:

- **Standards on biodiversity offsets** – developing internationally agreed and certifiable standards for biodiversity offsets. Starting with agreed protocols for verification and auditing of biodiversity

[2] Madsen, R.; Carroll, N.; and Moore Brands, K. 2010. State of Biodiversity Markets Report: Offset and Compensation Programs Worldwide. Available at: http://www.ecosystemmarketplace. com/documents/acrobat/sbdmr.pdf

3 Forest Trends' mission is to expand the value of forests to society; to promote sustainable forest management and conservation by creating and capturing market values for ecosystem services; to support innovative projects and companies that are developing these new markets; and to enhance the livelihoods of local communities living in and around those forests. For further information, please see http://www.forest-trends.org/.

4For the current members of the BBOP Advisory Group, please see Appendix 2 on page 10.

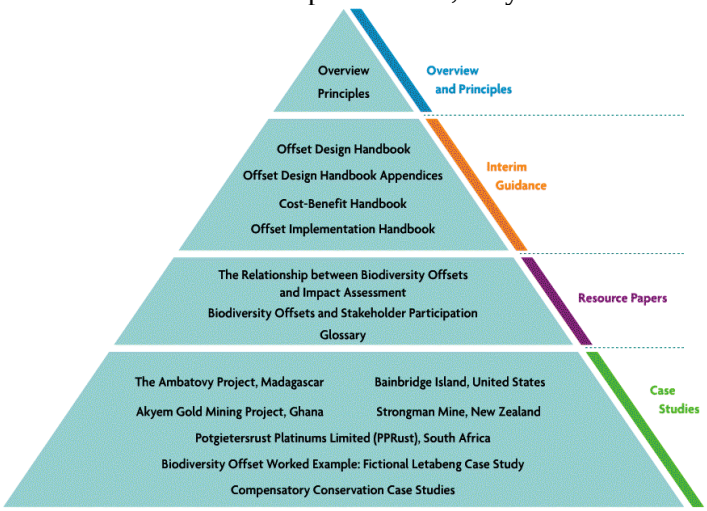
offsets, tested at pilot sites, a draft standard on biodiversity offsets will be made available by July 2012. Subsequent versions with improved indicators and guidance notes based on experience from using the draft will be issued during BBOP's next phase, which will run to July 2015.

- **A broader portfolio of biodiversity offset experiences** – demonstrating through BBOP pilot projects and others' experiences how biodiversity offsets could work in a broad range of countries and industry sectors.
- **National level interventions** – providing technical support and policy advice on biodiversity offsets, landscape-level and regional planning to governments, through general reports and specific advice.
- **Better guidelines** – improving the BBOP guidelines on how to design and implement biodiversity offsets, based on broader geographic and sectoral experience of BBOP members and others.
- **Training and capacity building** – training a cadre of professionals worldwide to support companies and governments in the design and implementation of biodiversity offsets and associated regulation and policy.
- **Improved Communications / Global Forum** – providing a range of communications products emanating from the work streams above and serving as a global learning forum on biodiversity offsets.

5. BBOP tools and information available to CBD Parties

Responding to the decisions by the Parties to the Convention on Biological Diversity at their ninth meeting (CBD COP9)[5] and other requests for work of this kind, the BBOP partners worked hard to reach agreement on fundamental issues relating to biodiversity offsets, and to develop practical guidelines for offset design and implementation. Chief among BBOP's products to date is a set of ten fundamental principles[6] agreed and supported by BBOP members and increasingly adopted and used by other companies, governments and civil society as a sound basis for ensuring high quality biodiversity offsets. In addition, BBOP completed a methodology toolkit in May 2009 which includes three core handbooks on offset design and implementation; resource papers on how biodiversity offsets relate to impact assessment and stakeholder participation. It also contains case studies of the BBOP oil and gas and mining pilot projects and other offset and compensatory conservation experiences; and supporting material such as a glossary of technical terms. All of this material, illustrated in Box 2, below, is available on the website: http://bbop.foresttrends.org/guidelines and a CD-Rom.

Box 2: BBOP publications, May 2009



To read or download any of these documents, please see: http://bbop.forest-trends.org/guidelines/index.php

5 For relevant COP decisions, please see page 8 of this document.

6 The principles are set out in Appendix 3 on page 11 of this document.

In addition, further documents that may be of interest and help to Parties are made available periodically and published on the website: **http://bbop.forest-trends.org.**

Appendix 1: Extra information about BBOP as requested by the African Group at WGRI3

Recommendation 3/9 of the third meeting of the Ad Hoc Open-ended Working Group on Review of Implementation of the Convention, records that 'Africa requires more information of these initiatives [namely, the Business and Biodiversity Offsets Programme (BBOP) and the Green Development Mechanism (GDM) 2010 Initiative] on their mandates, governance structures, source of funding, funding criteria (beneficiaries), link with the Convention on Biological Diversity and programmes of work'.

Much of the requested information on BBOP is set out in the preceding pages. This section will explicitly provide the remaining information.

Mandate:

The members of BBOP's Advisory Group in December 2008 agreed the following vision, mission and goals for the group:

BBOP's vision
BBOP envisages a future in which biodiversity offsets are applied worldwide to achieve no net loss and preferably a net gain of biodiversity relative to development impacts.

BBOP's mission
BBOP's mission is to provide leadership in the establishment of biodiversity offsets as a widely recognised and applied tool by developing and promoting best practice, based on agreed principles.

BBOP's goals

- To provide a global forum for collective learning, the dissemination of biodiversity offset concepts and the sharing of experience in offset implementation.
- To assist developers in designing and implementing offsets that produce measurable conservation outcomes in the widest range of countries and sectors possible.
- To support the development of institutional, legal and regulatory frameworks to require and implement biodiversity offsets.
- To improve biodiversity offset concepts and methods informed by practical experience and research.
- To promote development and adoption of biodiversity offset standards and methods for verification.
- To facilitate transparent and accountable partnerships among developers, governments, NGOs, researchers, communities and indigenous peoples that strengthen delivery of high quality and long lasting offsets.
- To explore and communicate innovations in biodiversity offsets including market-based and community-oriented approaches.
- To align biodiversity offsets with efforts to address the underlying causes of biodiversity loss.

Governance structure:

Formally, BBOP is a programme of the US not-for-profit conservation NGO Forest Trends, so Forest Trends' Board of Directors retains fiduciary and fiscal responsibility for the programme. However, in practical terms, Forest Trends' Board has endorsed a governance model for BBOP developed and agreed in June 2009 by the members of the BBOP Advisory Group. This is available at:
http://bbop.forest-trends.org/FINAL_BBOP_%20Phase2_Governance.pdf

This governance document provides for:

- Accountability of the various BBOP bodies and their members
- Transparency as to structure and decision-making
- Effectiveness and efficiency of decision-making
- Active participation and contribution by individuals and organisations involved in BBOP in the direction and running of the programme
- A stake in the success of the programme for BBOP participants

The governance of BBOP can be summarised as follows:

- An Executive Committee elected by the Advisory Group serves as BBOP's primary decision-making body.
- The Secretariat, under the direction of the Executive Committee, coordinates and executes the work programme of BBOP.
- The Advisory Group contributes advice on the direction of the programme, and input on the development of BBOP products, including serving on technical working groups, as appropriate.
- BBOP, through its technical working groups or work undertaken or commissioned by the Secretariat, will undertake research to support Phase 2 goals, as set out on the preceding page, and the priority areas of work described on page 5.
- A memorandum of understanding between BBOP pilot project proponents and BBOP (through the Secretariat) will ensure there is sufficient technical assistance for the pilot projects, based on an agreed workplan.
- Offsets guidance will be driven by lessons learned from BBOP pilot projects and from other biodiversity offset research and experiences, research, and peer-review to ensure the feasibility, rigour, and credibility of proposed approaches.
- BBOP will play a strong convening role in Phase 2, recognizing the need to harness technical inputs from outside BBOP to draw on non-BBOP pilot experiences, academic research, lessons from related mitigation and offset policy guidance, relevant standards and certification approaches, etc.

The Executive Committee of BBOP, elected by the Advisory Group, establishes the strategy for BBOP and has decision-making responsibility. It comprises the following 7 members, representing the different groups present on the Advisory Group:

- 1 representative from national government, country working groups, intergovernmental organisations
- 2 representatives from civil society – to include at least one environmental organisation and may also include a development / indigenous peoples' / community organisation. These can be NGOs or research and academic organisations.
- 2 representatives from companies with a footprint on biodiversity for which they may need a biodiversity offset (after avoidance and minimisation). This will include at least one large company (i.e. > 1500 employees).
- 1 representative from financial institutions
- 1 representative from the BBOP Secretariat

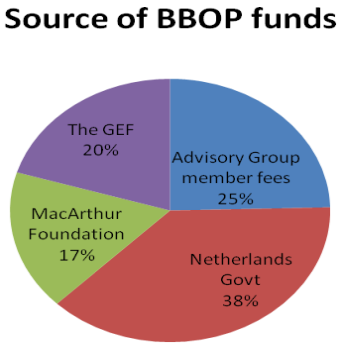
Source of funding:

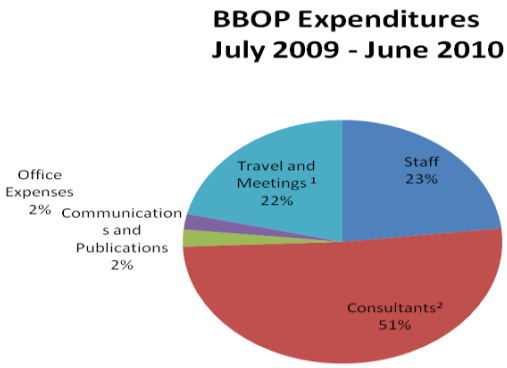
BBOP is a charitable programme under Forest Trends' non-profit financial management. It is funded by grants from a mixture of multilateral, bilateral and private foundation donors, as well as a proportion of contributions from BBOP members (companies, governments, NGOs and financial organisations). Current donors are: The Government of Netherlands taskforce on Biodiversity, The MacArthur Foundation, UNDP-GEF, and contributions from members of the BBOP Advisory Group (governments,

NGOs, companies and financial institutions). The relative proportion of each of these donor contributions is shown in the chart below.

Funding criteria (beneficiaries):

BBOP is not a grant-giving body, so there are not 'beneficiaries', *per se*. Rather, the BBOP budget is used to support the group's work on the six priority areas set out on page 4. During the first year of BBOP's second phase of work (1 July 2009 – 30 June 2010) total BBOP expenditures were US $752,655. This funding was allocated according to the cost categories provided in the chart below.





Over the next several years, BBOP aims to offer technical support to six governments that have requested our assistance to help them explore options for policies on biodiversity offsets, to gain experience from pilot projects and to build their capacity.7 BBOP is currently developing workplans with these governments and seeking additional donor support so that the government partners and BBOP can undertake this work.

Link with the Convention on Biological Diversity and its programmes of work:

Biodiversity offsets and BBOP have been mentioned in COP Decisions, as described below. In addition, members of the BBOP Secretariat have taken part in training sessions organised by the CBD Secretariat and others and organised side events (e.g. at WGRI3 in May 2010, at the workshop on innovative financial mechanisms in Bonn in Jan 2010, at COP9 and at COP8).

COP8 Decision: Decision VIII/17 (Private-sector engagement), included preambular language on biodiversity offsets as follows:
The Conference of the Parties,

7 These are Ghana, Uganda, Namibia, Mongolia, Vietnam and Sabah (Malaysia).

Noting that contributions from business and industry towards the implementation of the Convention and its 2010 target could be facilitated by further work under the Convention to develop:

> …. (c) Guidance for potential biodiversity offsets in line with the objectives of the Convention;….
>
> (See UNEP/CBD/COP/8/31 Page 258[8])

COP9 Decisions: Three decisions of the Conference of the Parties at its ninth meeting refer to biodiversity offsets: Decision IX/11, Decision IX/18 and Decision IX/26. The provisions are as follows:

Decision IX/11 (Review of implementation of Articles 20 and 21) includes a 'Strategy For Resource Mobilization In Support Of The Achievement Of The Convention's Three Objectives For The Period 2008-2015'. This contains Goal 4: Explore new and innovative financial mechanisms at all levels with a view to increasing funding to support the three objectives of the Convention. Paragraph 4.2 is as follows:

> 'To consider **biodiversity offset** mechanisms where relevant and appropriate while ensuring that they are not used to undermine unique components of biodiversity.'

Decision IX/18 (Protected Areas) includes Section B: 'Options for mobilizing, as a matter of urgency, through different mechanisms adequate and timely financial resources for the implementation of the programme of work'). Paragraph 3 *Invites* Parties to:

> (a) Undertake completion of, as a matter of priority, country–level financial needs assessments, and develop sustainable financing plans including, as appropriate, a diversified financial portfolio, including innovative mechanisms, in accordance with Agenda 21, Article 20 of the Convention and relevant decisions of the Conference of the Parties, further exploring with full and effective participation of indigenous and local communities, and other relevant stakeholders and strengthened cross-sectoral linkages, as appropriate, the concept of payments for ecosystem services in accordance with applicable international law, taking into account the fair and equitable sharing of both costs and benefits of management of protected areas with indigenous and local communities, and other relevant stakeholders consistent with national legislations and applicable international obligations; and exploring the potential of **biodiversity offsets** as a financing mechanism;

Decision IX/26 (Promoting business engagement) contains an Annex setting out a Framework Of Priority Actions On Business, 2008-2010, to be undertaken by the Secretariat, which includes paragraph 5:

> 'In collaboration with relevant organizations and initiatives, such as the **Business and Biodiversity Offsets Programme (BBOP)**, **compile and/or make available: (a) case studies; (b) methodologies; tools and guidelines on biodiversity offsets; and (c) relevant national and regional policy frameworks**.'

In response to these Decisions, BBOP has undertaken the work described in this document.

Draft decisions for **COP10** that refer to biodiversity offsets are the **draft decision on innovative financial mechanisms** (Agenda item 4.4) and the **draft decision on business engagement** (Agenda item 4.9). These may be found in pages 45, 50, 71 and 72 of UNEP/CBD/COP/10/1/Add.2, available at http://www.cbd.int/cop10/doc/.

8 http://www.biodiv.org/doc/meetings/cop/cop-08/official/cop-08-31-en.pdf

Appendix 2: Members of the BBOP Advisory Group, as at 7 October 2010

Companies

AngloGold Ashanti
Ambatovy Project
Arup
CDC Biodiversité
Environmental Banc & Exchange
Golder Associates
Inmet Mining
Markit Environmental Registry
New Britain Group
New Forests
Nollen Group
Rio Tinto
Response Ability, Inc.
SLR Consulting
Solid Energy, New Zealand
Sveaskog
Wildlands Inc.

Conservation and Other Civil Society Groups

BirdLife International
Biodiversity Neutral Initiative
Brazilian Biodiversity Fund (FUNBIO)
Centre for Research-Information-Action for Development in Africa
Conservation International
Ecoagriculture Partners
EcoTopia Science Institute Nagoya University
Fauna & Flora International
Forest Trends
International Institute of Environment & Development
Rainforest Alliance
Royal Botanic Gardens, Kew
The Nature Conservancy
Tulalip Tribes, US
Wildlife Conservation Society
WWF-UK
Zoological Society of London

Governments and Intergovernmental Organisations

Department of Conservation, New Zealand
Department of Sustainability & Environment, Government of Victoria, Australia
Forestry Commission, Government of Ghana
Forestry Department, Sabah, Malaysia
International Union for the Conservation of Nature (IUCN)
Ministry of Agricultural and Rural Development (MARD), Viet Nam Directorate of Forestry
Ministry of Ecology, Energy, Sustainable Development, and Spatial Planning, France

Ministry of Environment and Tourism, government of Namibia
Ministry of Housing, Spatial Planning, and the Environment, The Netherlands
Ministry of Mines and Energy, Namibia
Ministry of Natural Resources and the Environment (MONRE), government of Viet Nam
Ministry of Nature, Environment and Tourism, government of Mongolia
National Ecology Institute, Mexico
National Environment Management Authority, Uganda
Ramsar Convention on Wetlands
South African National Biodiversity Institute
United Nations Development Programme (Footprint Neutral Initiative)
United Nations Environment Programme – World Conservation Monitoring Centre
United States Agency for International Development

Financial Institutions

Citi
European Bank for Reconstruction and Development
Global Environment Fund
Inter-American Development Bank
International Finance Corporation
KfW Bankengruppe
Mizuho Corporate Bank

Appendix 3: BBOP Principles for Biodiversity Offsets

Principles on Biodiversity Offsets, developed and supported by BBOP Advisory Group members

Biodiversity offsets are measurable conservation outcomes resulting from actions designed to compensate for significant residual adverse biodiversity impacts arising from project development[9] after appropriate prevention and mitigation measures have been taken. The goal of biodiversity offsets is to achieve no net loss and preferably a net gain of biodiversity on the ground with respect to species composition, habitat structure, ecosystem function and people's use and cultural values associated with biodiversity.

These principles establish a framework for designing and implementing biodiversity offsets and verifying their success. Biodiversity offsets should be designed to comply with all relevant national and international law, and planned and implemented in accordance with the Convention on Biological Diversity and its ecosystem approach, as articulated in National Biodiversity Strategies and Action Plans.

1. ***No net loss:*** A biodiversity offset should be designed and implemented to achieve *in situ*, measurable conservation outcomes that can reasonably be expected to result in no net loss and preferably a net gain of biodiversity.

2. ***Additional conservation outcomes:*** A biodiversity offset should achieve conservation outcomes above and beyond results that would have occurred if the offset had not taken place. Offset design and implementation should avoid displacing activities harmful to biodiversity to other locations.

3. ***Adherence to the mitigation hierarchy:*** A biodiversity offset is a commitment to compensate for significant residual adverse impacts on biodiversity identified after appropriate avoidance, minimization and on-site rehabilitation measures have been taken according to the mitigation hierarchy.

4. ***Limits to what can be offset:*** There are situations where residual impacts cannot be fully compensated for by a biodiversity offset because of the irreplaceability or vulnerability of the biodiversity affected.

5. ***Landscape Context:*** A biodiversity offset should be designed and implemented in a landscape context to achieve the expected measurable conservation outcomes taking into account available information on the full range of biological, social and cultural values of biodiversity and supporting an ecosystem approach.

6. ***Stakeholder participation:*** In areas affected by the project and by the biodiversity offset, the effective participation of stakeholders should be ensured in decision-making about biodiversity offsets, including their evaluation, selection, design, implementation and monitoring.

7. ***Equity:*** A biodiversity offset should be designed and implemented in an equitable manner, which means the sharing among stakeholders of the rights and responsibilities, risks and rewards associated with a project and offset in a fair and balanced way, respecting legal and customary arrangements. Special consideration should be given to respecting both internationally and nationally recognised rights of indigenous peoples and local communities.

8. ***Long-term outcomes:*** The design and implementation of a biodiversity offset should be based on an adaptive management approach, incorporating monitoring and evaluation, with the objective of securing outcomes that last at least as long as the project's impacts and preferably in perpetuity.

9. ***Transparency:*** The design and implementation of a biodiversity offset, and communication of its results to the public, should be undertaken in a transparent and timely manner.

[9] While biodiversity offsets are defined here in terms of specific development projects (such as a road or a mine), they could also be used to compensate for the broader effects of programmes and plans

10. Science and traditional knowledge: The design and implementation of a biodiversity offset should be a documented process informed by sound science, including an appropriate consideration of traditional knowledge.

Appendix 4: Executive Summary of ***'Biodiversity Offsets - Policy options for governments: a draft contribution to BBOP'***

By Michael Crowe and Kerry ten Kate

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Biodiversity Offsets: Policy Options for Government: a draft contribution to BBOP'
Michael Crowe and Kerry ten Kate

Executive summary
(This document is available in full at http://bbop.forest-trends.org/)

Biodiversity offsets are designed to achieve no net loss (or a net gain) of biodiversity in the context of development projects. This goes beyond traditional mitigation, and encourages business to take responsibility for its impacts. Interest in this approach is growing as the potential of biodiversity offsets to help achieve wider goals of conservation; wise land-use planning and sustainable development are increasingly appreciated. Governments face the challenge of balancing economic development with a public interest in protecting biodiversity.

By contributing to regional conservation and land-use planning, biodiversity offsets can help the 193 government parties to the Convention on Biological Diversity who committed to 'achieve by 2010 a significant reduction of the current rate of biodiversity loss'.

The purpose of this paper is to contribute to the consideration of biodiversity offset policy options by governments and their advisors. The paper examines the principles underlying offsetting policy, identifies the various roles of government in offsetting schemes, looks at the connections to other policy areas and considers the significant implementation issues.

The paper is intended as a basic introduction to biodiversity offsets policy. We recognise that many of the issues presented are complex and will benefit from more in-depth and detailed discussion. The main aim of this initial draft is to identify policy options at a general level in the anticipation of subsequent papers based on further research and consultation.

BBOP's definition of offsets includes reference to 'no net loss of biodiversity on the ground with respect to species composition, habitat structure, ecosystem function and people's use and cultural values associated with biodiversity'.

There are broadly two kinds of biodiversity offsets:
(a) ***Voluntary biodiversity offsets***, which a developer undertakes in circumstances where there is no legal requirement to do so, because it perceives a business advantage (such as license to operate, reputational benefits, competitive advantage, market share, etc); or
(b) ***Regulatory biodiversity offsets***, which are required by law.

Governments can introduce biodiversity offsetting policy and regulation in two basic ways. The first is through specific provisions on biodiversity offsets (and perhaps other aspects of biodiversity conservation) and the second is to incorporate offsetting provisions into other laws and policies that deal with environment impact assessment (EIA), land use planning, strategic environmental assessment (SEA), sectoral policies or broader environmental policies.

The decision on which approach to take depends to some extent upon the legal customs of the jurisdiction concerned, and also upon the scope of the other laws relative to the intended scope for biodiversity offset requirements. For example, in a particular jurisdiction the EIA laws may only cover large projects or projects in particular industry sectors (for instance, construction and extractives, but not agriculture). If the intention is to introduce offsetting for a wider range of projects, it may be necessary to introduce a specific law requiring offsets for the desired scope.

The main policy options for government seeking to implement an offsets arrangement are focussed on the processes for specifying biodiversity offsets in relation to defined impacts. However, specifying an offset in terms such as size, type, quality and locality is only half of the task. The next challenge is for the developer to discharge the obligation to implement the offset. There are three main approaches to this task of implementing biodiversity offsets: developer-initiated, in lieu fees and market mechanisms.

Under *developer initiated offset implementation*, while policy may encourage or require offsets, the government generally takes a non-intervention stance on the manner of their implementation, and the onus rests with the developers to find their own offsets (whether voluntary or required by regulation).

Under *In lieu fees* a government agency stipulates a payment from the developer with the intention of deploying the funds at a later date to find a suitable offset.

Markets can also be used to supply biodiversity offsets for developers. Such markets do not usually develop spontaneously, but require government intervention to set up the key components. Properly designed and operated, markets can be very effective in supplying offsets in a timely and cost-effective manner.

The basic elements for an offset market are units of trade (credits), trading rules and credit registers.

Credits are units of gain that can be traded in an offset market. The key consideration for the utility of credits is that they meet all the requirements for gain as specified in the offset policy of the jurisdiction. Government can engender market confidence by establishing the property status of credits through legislation.

Biodiversity credit registers are another important component of an offset market. Registers serve two main functions:

- To be the authoritative record of the number, location, characteristics and ownership of biodiversity credits in the jurisdiction;
- To provide quality assurance for the registration (creation) of credits.

Governments can also assist the establishment of biodiversity offsets markets by facilitating the establishment of marketplaces. A marketplace for biodiversity credits will comprise brokers and traders.

The degree of segmentation and the level of demand in the market can interact to influence the types of offset supply mechanism that evolve in the market. These mechanisms include conservation banks, aggregated offsets, bespoke trades and ‘over-the-counter’ arrangements.

The different possible roles of government in relation to biodiversity offsets policy are described. These are:

- Policy-maker or regulator
- Provider, curator and source of authoritative biodiversity data
- Buyer of offsets
- Seller of offsets
- Broker
- Operator of register of credits, standard setting
- Provider of processes to ensure the permanence of offsets
- Monitor and enforcer
- Identifying and managing conflicts of interest between these roles (probity)
- Creating the market

The main sources of the cost of developing and implementing biodiversity offsets policy are identified. The costs associated with these various processes and services will vary from country to country and need to be estimated on a case-by-case basis. However, experience in jurisdictions that have already established policies and offset schemes of varying design and complexity has demonstrated that these are not trivial tasks. It can be anticipated that it would take several years and the input of a variety of expertise to develop a policy and establish an operating scheme. While there are many costs to be considered, a government could recover these costs in part or in full. This is done by charging fees for the services provided to the users of the offset scheme.

Some of the lessons that have been learnt from the experience in various countries from designing and operating biodiversity offset policy and programmes are noted.

Finally the paper outlines suggested ways forward for governments interested in exploring biodiversity offset policy options. The recommended steps are:

- Fact-finding and gap analysis – policy
- Fact-finding and gap analysis – biodiversity data
- Fact-finding– cost-benefit analysis
- Pilot projects
- Integrating biodiversity offsets with land-use planning at the national or regional levels:
- Identify, analyse and evaluate policy options
- Policy formulation and system design
- Implementation of policy, monitor and review.
