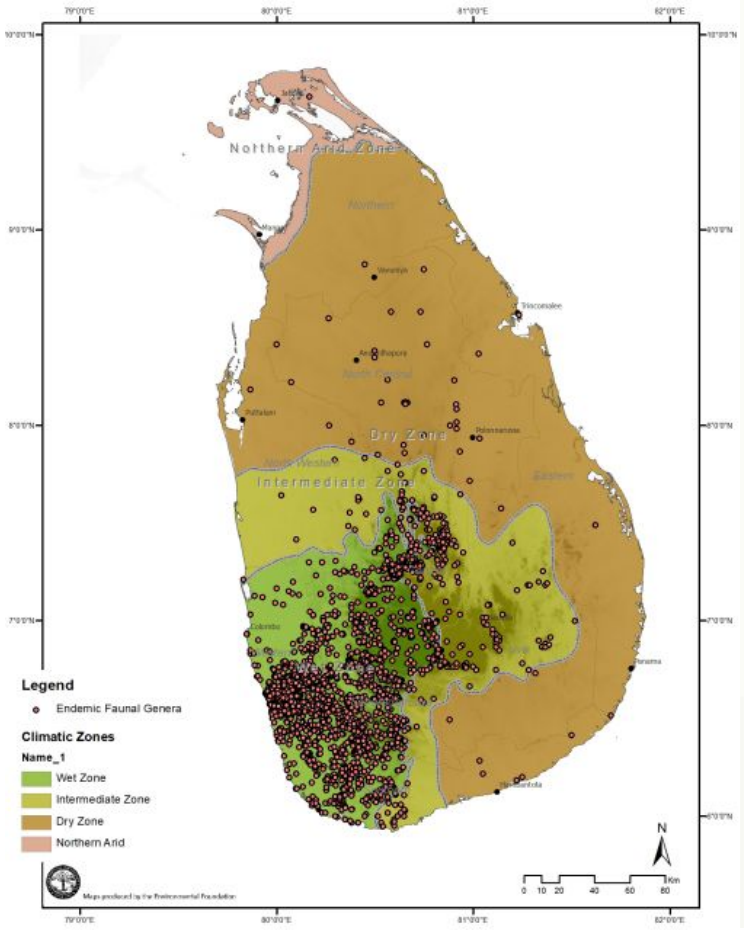
Synergies available for climate financing and biodiversity financing to work together in credit markets

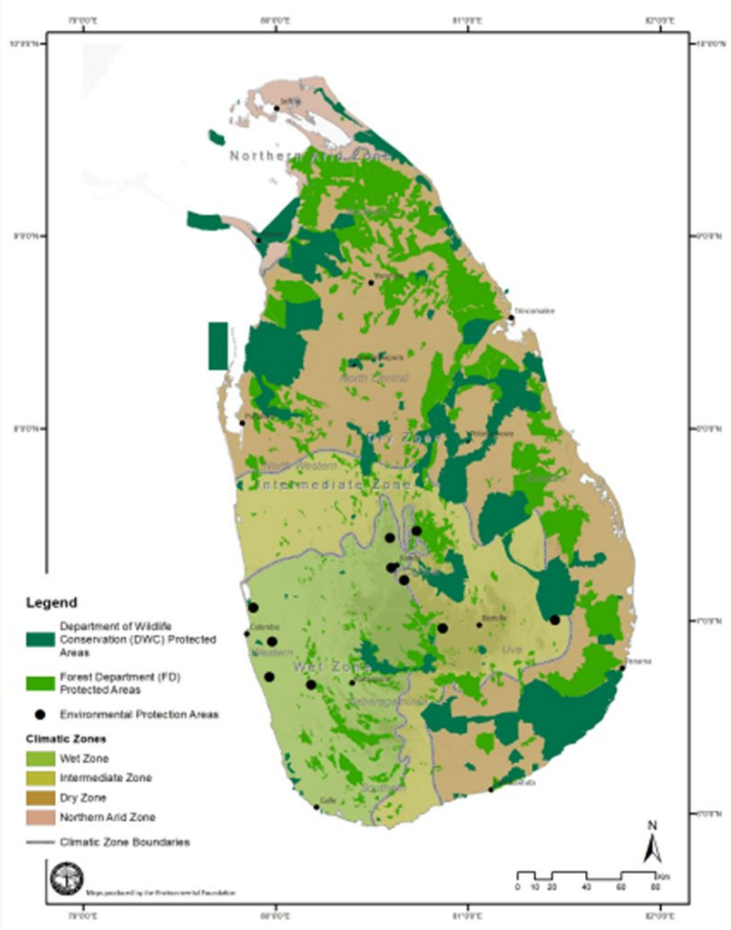
UNITED NATIONS DEVELOPMENT PROGRAMME

1. Introduction.

1.1 Significance of Biodiversity financing in Sri Lanka

- Sri Lanka is one of the *36 biodiversity hotspot* in the world. Provisioning, regulatory, supporting and cultural services provided by biodiversity. However, due to many reasons, biodiversity has been threatened to decline currently.



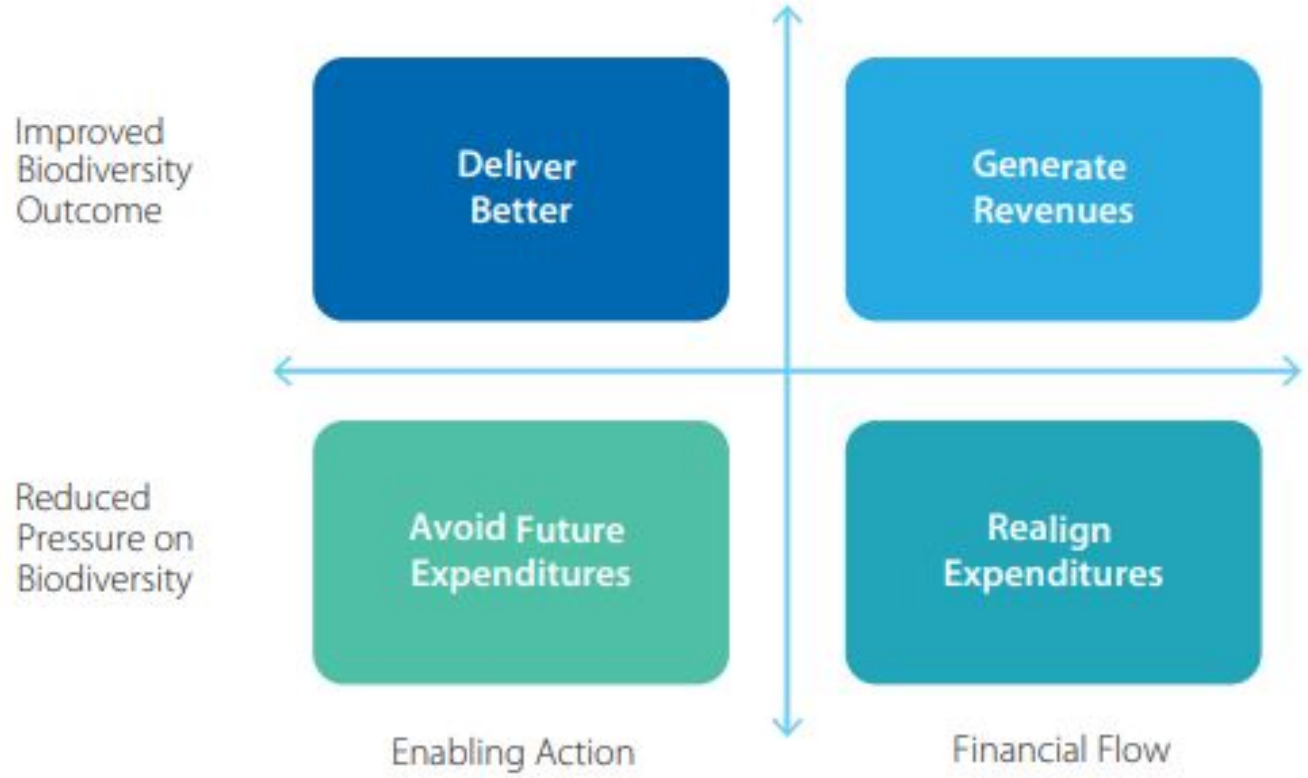


Taxonomic group	Total species	Endemic species %	Threatened Endemic species %
Freshwater crabs	51	98%	90%
Amphibians	119	89%	67%
Land snails	253	81%	79%
Millipedes	103	80%	
Scorpions	19	74%	
Inland Reptiles	199	68%	64%
Marine Reptiles	21		
Odonates-dragonflies	67	24%	69%
Odonates-damselflies	63	67%	
Spiders	563	49%	9%
Freshwater fish	128	48%	64%
Inland Mammals	106	18%	95%
Marine Mammals	29		
Ants	229	14%	24%
Butterflies	248	13%	71%
Birds	478	7%	59%
Angiosperms	3087	28%	79%
Pteridophyte	350	12%	76%

1. Introduction.

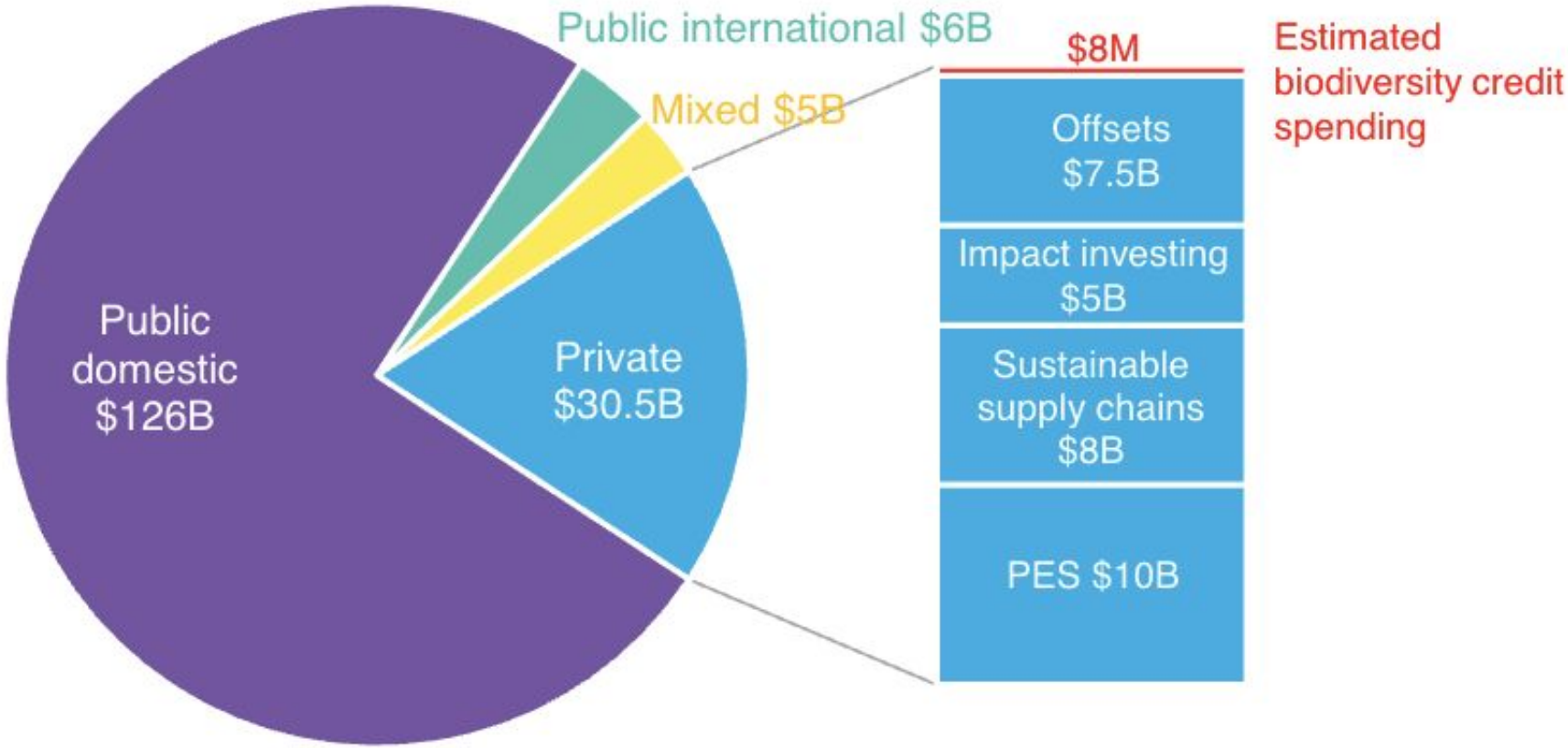
1.1 Significance of Biodiversity financing in Sri Lanka

- Sri Lanka *needs at least 189 million USD* to achieve its national biodiversity targets. A biodiversity finance gap exists in biodiversity financing globally and in Sri Lanka.
- At the peak in 2015, Sri Lanka *invested only 0.1% of GDP on biodiversity*. With the ongoing economic crisis, ability of the government to increase investments on biodiversity management has reduced.
- Need for innovative financing for biodiversity exists.
- Traditionally, no business case for many private sector entities to invest on 'public goods' such as biodiversity.



Credits attract tiny share of total biodiversity funding

Only around $8 million of $169 billion is spent on biodiversity credits.



Source: Paulson Institute, Nature Conservancy, and Cornell Atkinson Center for Sustainability, 2020, BloombergNEF. Note: initial estimates, reporting inconsistencies and assumptions required. Figure uses mid-points from range of estimates adjusted for inflation to 2021. PES is payments for ecosystem services.

Suggested principles of well-functioning credit markets

Methodology

Working groups comprising civil society, academics, government and private-sector representatives determine the optimum process for creation and management of a biodiversity credit scheme, including integrity principles and metrics.

Additionality

Credits must provide additional benefits to ecosystems and people, beyond expected changes to the current state. Such conservation can be achieved through finance or strengthening of local stakeholder resources.

Permanence

Projects cannot be transient, offering biodiversity gain in the short-term then returning to the original state shortly afterward. High-integrity biodiversity credits restore or conserve nature over the long term.

Transparency

All actors and project interventions should be open to scrutiny, with credits registry-listed and verification undertaken by a third-party auditor. Open-source methodologies are also preferable to 'black box' systems.

Scalability

While constrained by locality and variability between taxa, credits with the capacity to scale have more market potential than those that do not. To reach scale, a strong credit scheme will offer fungible and/or tradable units.

Metrics and measurement

Rigorous scientific measurement of biodiversity outcome is vital in a high-integrity scheme. While approaches may be flexible, with different metrics, or baskets of metrics, thorough, regular measurement must take place.

Bloomberg

Biodiversity credit

- Many biodiversity credit schemes, both voluntary and compliance
- Early starters- Terrasos, Operation Wallacea/Plan Vivo, ValueNature, CreditNature, Wilderlands & GreenCollar
- Compared to Carbon credits, calculating biodiversity credit is very complex
- Valuation- tough; Communication- tougher!
- Some schemes whose credit units, in transition to pure biodiversity units, are connected to the carbon sequestered (e.g. WCS HIFOR, InvestConservation, Single Earth)

Diversity

Criteria	Less complex	More complex
Methodology	Practice-Based	Outcome-Based
Market	Voluntary	Compliance
Area	Terrestrial	Marine
Activity	Preservation	Restoration
Usage	Contributing	Offsetting
Database	On-Chain	Off-Chain
Credit Calculation Approach	List of Activities	List of Metrics
Credit Unit	Area Size	Index
MRV	Manual	Automated
Tradability	Forbidden	Allowed
3rd Party Auditing	No	Yes

Sri Lankan experience

- Developed Project Identification Note (Restoring Wildlife Corridors in the Central Highlands of Sri Lanka) based on the information collected for GEF 7- biodiversity proposal
- Badulla and Nuwara Eliya districts
- 1050 ha
- Aim- Develop two ecological corridors / areas to improve ecological connectivity between different protected areas and key biodiversity areas in the highlands of Sri Lanka

Future of biodiversity credits in Sri Lanka

Potential

- Very high biodiversity
- High endemicity

Challenges

- Who owns the biodiversity credits?
- Land ownership of certain areas with rich biodiversity- role of the government
- Capacity of local organizations to manage long term projects