



**GORDIAN KNOT STRATEGIES**

*Trust Us To Unlock Your Impact*

# **OUR TAKE: BIODIVERSITY CREDITS IN CLIMATE FINANCE**

**WHITE PAPER**

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## Lead Author

Jay Tipton (Senior Director)

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## **Introduction**

At Gordian Knot Strategies, we talk a lot about carbon market and credits. But every so often, our work brings us into conversations and collaborations around another climate finance mechanism – biodiversity credits.

These credits aren't just a carbon credit knockoff. They represent something fundamentally different, which is the measurable improvement of ecosystems such as wetlands restored, species protected, and habitats reconnected. And while still not as mature as carbon credits, biodiversity credits are gaining momentum.

Protecting biodiversity is both a moral imperative and an economic one. Our food systems, water security, and even climate resilience are tightly linked to the health of ecosystems. Yet, some climate finance tools don't always address these dimensions.

This “Our Take” looks closer at biodiversity credits – what they are, how they're being built, where they might go, and what challenges still stand in the way of unlocking their full potential.

## **Why Biodiversity Needs Its Own Finance Mechanism**

The world is in the midst of a biodiversity crisis. Nearly one million species are at risk of extinction, and the degradation of ecosystems threatens not just wildlife but the natural systems that support food security, water access, and climate resilience.<sup>1</sup>

While carbon markets have channeled billions into emissions reductions and removals, they have not always directly addressed the broader ecological functions of nature. Forests, wetlands, and mangroves sequester and store CO<sub>2</sub>, regulate microclimates, prevent erosion, and provide habitat. Current climate finance often reduces these multifaceted systems to a single carbon metric.

That's where biodiversity credits can play a role. Unlike carbon credits, which measure avoided and removed emissions, biodiversity credits quantify tangible improvements in ecosystem integrity, offering a way to invest directly in nature's recovery.<sup>2</sup>

## **Understanding Biodiversity Credits**

Biodiversity credits are tradable units representing measurable improvements in ecosystem health from restored wetlands to enhanced species habitats. Unlike carbon credits, which are standardized around one tonne of CO<sub>2</sub>, biodiversity credits are ecosystem-specific and reflect ecological gains like increased species richness, habitat connectivity, or restored vegetation. They're generated by projects led by developers, landowners, Indigenous communities, or conservation groups, and purchased by companies, governments, or philanthropies seeking to demonstrate nature-positive action.<sup>3</sup>

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<sup>1</sup> <https://www.britannica.com/science/biodiversity-loss>

<sup>2</sup> <https://initiatives.weforum.org/financing-for-nature/biodiversitycreditsinitiative>

<sup>3</sup> <https://thinklandscape.globallandscapesforum.org/69913/what-are-biodiversity-credits-and-how-do-they-work/>

In July 2025, the European Commission took a major step forward by releasing its Roadmap for Nature Credits, proposing a voluntary framework tied to verified biodiversity outcomes.<sup>4</sup> Backed by a €7 billion commitment, the roadmap aims to attract private investment and bridge the EU's €65 billion annual nature finance gap. It draws heavily from existing carbon market infrastructure, specifically the Carbon Removals and Farming Framework (CRCF), to create consistent methodologies, reduce administrative burdens, and ensure policy coherence.<sup>5</sup>

The EU also emphasizes that biodiversity credits can target high-value ecosystems that aren't strong carbon sinks, such as pollinator habitats or degraded drylands, by broadening the scope beyond mitigation. An expert group, to be appointed by late 2025, will oversee verification, governance, and inclusion, while stakeholders across sectors are invited to help shape the final structure.<sup>6</sup>

Private sector momentum is building alongside. McKinsey's roadmap for biodiversity finance urges companies to integrate nature into corporate strategies, emphasizing robust standards, outcome measurement, and local benefit-sharing.<sup>7</sup> But some experts caution that biodiversity credits lack a universal unit like carbon markets enjoy, making comparison and valuation difficult. If successful, however, the EU's initiative could lay the groundwork for a unified, high-integrity market which could set a precedent that extends well beyond Europe.

### **Potential Promises and Pitfalls**

Biodiversity credits present a compelling opportunity to channel significant capital into ecosystem restoration and conservation. By assigning financial value to measurable improvements in biodiversity, these credits create a marketplace for ecological outcomes that have traditionally gone underfunded.<sup>8</sup>

This market-based approach is especially promising in regions where public financing is scarce, and conservation efforts often depend on short-term donor cycles. Beyond financing, biodiversity credits can serve as a direct economic incentive for Indigenous Peoples and Local Communities, who are not only the frontline defenders of biodiversity but also key to the long-term success of restoration initiatives.<sup>9</sup> Many credit-generating activities offer benefits beyond biodiversity alone, including improved soil health, water retention, and enhanced carbon sequestration. This creates multi-dimensional returns that could appeal to a broader set of stakeholders and investors.<sup>10</sup>

However, realizing this potential hinges on solving a number of deep and technical challenges. Measuring biodiversity gains is far more complex than tracking carbon emissions, given the complicated, site-specific, and often non-linear nature of ecosystems. Establishing additionality, the assurance that credited improvements wouldn't have occurred without the project, is especially tricky in dynamic landscapes.<sup>11</sup>

<sup>4</sup> <https://esgnews.com/eu-launches-roadmap-for-nature-credits-to-attract-private-investment-in-biodiversity/>

<sup>5</sup> [https://climate.ec.europa.eu/eu-action/carbon-removals-and-carbon-farming\\_en](https://climate.ec.europa.eu/eu-action/carbon-removals-and-carbon-farming_en)

<sup>6</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=COM%3A2025%3A374%3AFIN>

<sup>7</sup> <https://www.mckinsey.com/capabilities/sustainability/our-insights/nature-finance-and-biodiversity-credits-a-private-sector-road-map-to-finance-and-act-on-nature>

<sup>8</sup> [https://www3.weforum.org/docs/WEF\\_Nature\\_Finance\\_and\\_Biodiversity\\_Credits\\_2024.pdf](https://www3.weforum.org/docs/WEF_Nature_Finance_and_Biodiversity_Credits_2024.pdf)

<sup>9</sup> <https://napglobalnetwork.org/innovative-financing/biodiversity-credits/>

<sup>10</sup> <https://prism.sustainability-directory.com/scenario/biodiversity-credits-and-carbon-markets-synergies/>

<sup>11</sup> <https://carbonmarketwatch.org/2024/05/02/pricing-the-priceless-lessons-for-biodiversity-credits-from-carbon-markets/>

Without robust methodologies and transparent monitoring systems, the credibility of these markets is at risk. Already, concerns are surfacing around greenwashing, as some companies may seek to use biodiversity credits for reputation management rather than as part of a serious, measurable commitment to nature. The lack of standardization across crediting systems, combined with an absence of legal frameworks in many countries, makes it difficult for buyers to compare credits or for regulators to enforce integrity.

### **From Theory to Practice**

While biodiversity credit markets are still developing, a growing number of pilot programs are offering critical lessons about what works and what doesn't.

One of the most structured approaches is unfolding in the United Kingdom, where the Biodiversity Net Gain (BNG) policy requires developers to deliver at least a 10% improvement in biodiversity relative to pre-development conditions.<sup>12</sup> This legally mandated framework has begun to shape a semi-regulated market, encouraging landowners and conservation organizations to generate biodiversity units that developers can purchase to fulfill their obligations. Early signs point to rising demand and growing participation, but also underscore the need for strong baseline assessments, ecological monitoring, and enforcement mechanisms to ensure lasting outcomes.

Elsewhere, Australia's EcoAustralia program is an example of voluntary market innovation. It combines carbon credits with biodiversity certificates linked to the long-term conservation of native vegetation, effectively bundling climate and nature outcomes into a single financial product.<sup>13</sup> By working closely with landholders and state governments, the program has managed to align local ecological priorities with investor interest, offering a glimpse of how hybrid credit structures might evolve in other jurisdictions.

In Latin America, countries like Colombia and Brazil are testing biodiversity credits tied to sustainable land use, agroforestry, and Indigenous-led conservation.<sup>14</sup> These projects often emphasize community participation and benefit generation, providing valuable insights into how credits can be both ecologically meaningful and socially inclusive.

Still, practical and structural hurdles remain. Many early-stage projects are grappling with high transaction costs, fragmented certification protocols, and long timelines for verification and issuance. For private investors, especially those unfamiliar with biodiversity as an asset class, these complexities can make participation feel risky or opaque. Questions around permanence, liability, and future market demand further complicate investment decisions.<sup>15</sup> Moreover, the lack of global harmonization in standards makes it difficult to compare credits across geographies, limiting scalability and interoperability. These limitations point to the urgent need for shared frameworks and trusted governance mechanisms, especially if biodiversity credits are to be integrated into international finance or ESG strategies.

That said, the emerging field also highlights what's possible when the right structures are in place. Across regions and project types, the most successful pilots are those that combine clear

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<sup>12</sup> <https://www.gov.uk/guidance/understanding-biodiversity-net-gain>

<sup>13</sup> <https://www.southpole.com/sustainability-solutions/ecoaustralia>

<sup>14</sup> <https://www.atlanticcouncil.org/blogs/new-atlanticist/following-cop16-can-latin-america-and-the-caribbean-lead-the-creation-of-biodiversity-markets/>

<sup>15</sup> <https://www.iisd.org/articles/deep-dive/biodiversity-credits-nature-investment>

ecological baselines, ongoing monitoring, and strong community involvement. Importantly, these early initiatives show that biodiversity credits are theoretical financial instruments that can function in practice, channeling capital to conservation when supported by adequate technical expertise, transparent metrics, and durable policy backing. As more pilot programs reach maturity and new ones are launched, the field will benefit from structured learning, shared methodologies, and careful documentation of both successes and setbacks. These insights will be critical as countries and institutions move from experimentation to system-building.

## **Conclusion**

Biodiversity credits are among the most ambitious tools yet developed to align finance with ecological restoration. Done right, they could offer a path to mobilize capital for ecosystems essential to both climate resilience and community wellbeing. But their promise hinges on innovation, as well as trust, transparency, and a clear commitment to equity.

Success will require science-based standards, measurable outcomes, and inclusive governance to ensure that credits reflect real ecological gains and that benefits flow directly to the communities doing the work on the ground. These markets must not replace public funding or regulation but rather complement them while expanding the overall resource pool for nature.

The experience of carbon markets offers important lessons. Weak oversight and infrastructure led to early credibility gaps that still haunt the space. Biodiversity credits now have a chance to do better by embedding integrity from the start, coordinating across regions, and building systems that are transparent, accountable, and resilient.

In the end, this isn't just about creating a new market but also about changing how we value the living world. Biodiversity credits could help finance a future where nature is no longer treated as an externality but recognized as central to climate stability and economic resilience.



# ABOUT

Gordian Knot Strategies is an expert climate finance consultancy firm. Drawing on two decades of experience, our clients rely on us to devise high impact solutions that are innovative and implementable.

Over 80% of the impact investors, corporations, and developers that we serve are repeat clients. They trust us to provide clarity as they mobilize and deploy capital in a complex and rapidly evolving market.

With our proprietary frameworks and deep industry knowledge, our clients are equipped to unlock and optimize environmental impact and returns. Trust us to unlock your impact!

# CONTACT

Reach out to see how we can help you unlock your impact:  
[communications@gordianknotstrategies.com](mailto:communications@gordianknotstrategies.com)

