

# Fauna & Flora's Position on High Integrity Nature-Based Carbon Markets

Effective from: September 2023<sup>1</sup>

## Overview

The science is clear and unequivocal. Human induced climate change and biodiversity loss are severe and inter-connected crises, and a threat to human wellbeing, and cannot be addressed successfully in isolation. There is no pathway to meeting the Paris Goals without the protection and restoration of nature, and the empowerment of local people on the frontline of this effort. Nature-based solutions to address climate change, or Natural Climate Solutions (NCS) are a critical tool in the international response to these crises, and the Voluntary Carbon Market (VCM) has become an increasingly important mechanism to finance NCS.

We welcome the significant growth of the voluntary carbon markets in recent years, particularly in the context of NCS. This momentum recognises the importance of NCS in scaling up the depth and breadth of action for nature that is required to transition to a net-zero, and nature positive, world. We also acknowledge the challenges currently faced in the market. We welcome the significant work of initiatives to improve the governance and transparency of the VCM, to build confidence in the climate integrity of NCS, and to ensure that 'high integrity' NCS are holistic - built on strong foundations of positive impact on people and nature, as well as climate. We are hopeful that the focus on high integrity will encourage investors to maintain and increase their support for NCS; and will continue to improve the experience of Indigenous Peoples and Local Communities (IPLCs) in their role as stewards of nature.

Critically, *this is not the time for action to stall*. It is a time for transparency, accountability and action. Fauna & Flora sees that, when developed and used with integrity, as outlined in this paper, nature-based carbon credits can play a very important role in accelerating the transition to net zero, and in channelling finance into the long-term conservation of biodiverse ecosystems and to local people. However, the approach to implementation is critical to success, and appropriate guardrails must ensure that the market does not drive a race to the bottom, with an over-reliance on offsetting and declining offset quality.

Active investment in the biodiversity and social elements of NCS is vital to underpin the climate benefits. Safeguarding the rights, needs and adaptive capacity of Indigenous Peoples & Local Communities (IPLCs), and the ability of ecosystems to mitigate and adapt to climate change over the medium to long term, is critical. We call for high integrity in the use, and the implementation of all NCS. Critically, this must be alongside the rapid acceleration of

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<sup>1</sup> This Position is an update to our Position on High Integrity Implementation of Nature-based Solutions and Use of NbS Carbon Credits, dated March 2022

decarbonisation. The following text summarises our position on what constitutes a high integrity approach to the use of nature-based carbon credits as part of a comprehensive response to climate change, ensuring that they:

- *deliver a net positive impact for biodiversity and ecosystem integrity*
- *are not used as a substitute for decarbonisation*
- *respect and protect the substantive and procedural rights of IPLCs (when present) and result in locally appropriate, equitably distributed, positive social impact*
- *deliver real and robust climate benefits that accelerate progress towards achieving global climate goals, including mitigation and adaptation*
- *are produced by projects that align with, and support scaling of approaches to landscape and/or jurisdictional scale*
- *are produced by projects and programmes that have financial and commercial structures that are transparent, viable and drive direct and equitable benefits to local people*

## The use of Nature-based Carbon Credits in Net Zero pathways

As the demand for nature-based carbon credits continues to scale, interrogating how corporates and governments are utilising these credits in their decarbonisation pathways to Net Zero is critical. We must ensure that use of these credits serves to increase ambition and accelerate progress on a trajectory that is aligned with the Paris Goal of limiting warming to 1.5°C.

Corporate net zero pathways must deliver actual emission cuts, with offsets used to counterbalance only for verifiable residuals. In this context, nature-based carbon credits can provide a viable solution counterbalance hard-to-abate emissions in the immediate term; which also delivers (and are underpinned by) additional core benefits, for biodiversity and people, and foster international cooperation in the meeting of countries' Nationally Determined Contributions (NDCs) to tackling climate change.

### Carbon credits must not be used as a substitute for decarbonisation

- All corporates are expected to publicly commit to transparent and verifiable science-based net zero pathways, aligned with the goals of the Paris Agreement. The net zero pathway should be validated by the Science-Based Targets Initiative (SBTi) or another third-party equivalent – or have a time-bound commitment to achieving validation;
- Corporates should apply the GHG mitigation hierarchy to reduce scope 1-3 emissions at a rate consistent with sector-appropriate decarbonisation pathways to achieve the goals of the Paris Agreement;
- NCS carbon credits should be used by the company as beyond value chain mitigation (BVCM) to counterbalance their annual emissions that remain unabated after the abatement measures in line with their science-based targets;
- Nature-positive policies and practice should be integrated into all decarbonisation efforts and NCS investments, integrating biodiversity goals into climate targets;
- Large emitters are expected to demonstrate their own successful decarbonisation pathways with third-party verification before engaging in any profit-based trading of nature-based carbon credits (by themselves or their subsidiaries);
- Corporates should support progressive climate policies, including those for high integrity nature-based climate solutions, recognising the value of policy advocacy in

driving and supporting climate policy and action at local, national and international level.

## Ensuring high integrity nature-based carbon credits

Fauna & Flora's position is that all natural climate solutions should drive net positive impacts for climate, biodiversity and local people, minimise trade-offs between these outcomes, and be underpinned by appropriate scale and finance.

### 1. Climate mitigation integrity

NCS projects and programmes must demonstrate an integrated and holistic strategy to reduce emissions, recognising the role of local people and biodiversity in realising climate ambitions and actions. High integrity with respect to climate change mitigation is critical and projects and programmes must ensure all the key attributes of climate integrity are met.

***High integrity NCS deliver real and robust climate benefits that accelerate progress towards global climate goals, by ensuring:***

- NCS projects and programmes show emissions reductions and removals to be real, additional, monitored, reported and verified, based on realistic and credible baselines, and address leakage and permanence. They also must not be double issued, counted or sold;
- NCS credits are independently validated and verified to internationally recognised standards;
- Recognition of the ongoing work to further strengthen carbon accounting methodologies and the importance of access to these methodologies to facilitate new project development at pace;
- Where habitat loss and destruction continue, the generation of emission reductions from the protection of historically stable, intact and biodiverse habitats should be prioritised over removals projects;
- Greater recognition of the importance of other natural stores and sinks of carbon, including wetlands, grasslands, seagrasses, soils, ocean sediments and other ecosystems.

### 2. Ecosystem and biodiversity integrity

All nature-based carbon credit projects are dependent on and can impact biodiversity and functioning ecosystems, and project implementation should deliver a net positive impact. Consideration needs to be given not only to underlying biodiversity levels, but also to the structure and function of ecosystems services generated by biodiversity. Where potential biodiversity impact is high, but emission reduction potential is less viable, alternative or blended funding options could be considered – as the nascent market develops, this could include biodiversity credits.

***High integrity NCS deliver a net positive impact for biodiversity and ecosystem integrity by ensuring:***

- Positive measurable impact for biodiversity is achieved, either directly at a local/project level, or aggregated within the wider landscape/jurisdiction, to ensure an overall net gain and contribution to national and international biodiversity targets;
- Projects that protect and reduce threats to existing, intact, high priority ecosystems are prioritised over removals projects in the immediate term to avoid further loss of irreplaceable biodiversity and carbon stocks;

- They are designed based on an understanding of site-specific and contextual pressures, with the purpose of reducing threats and driving long term viability for biodiversity conservation and restoration;
- They maintain or enhance ecosystem connectivity and prioritise areas with highly threatened and endemic species;
- They harness natural ecological principles and support native biodiversity by prioritizing the use of diverse native species, and locally appropriate climate-resilient crops and practices in agricultural settings;
- They maintain and enhance the condition of water sources and provision, soil and air quality;
- Full application of internationally recognised environmental safeguards.

### 3. Social integrity

NCS projects have significant potential to directly impact Indigenous Peoples and local communities (IPLCs) who have official recognised or customary rights over territories and associated resources and/or are dependent upon the land and seascapes where NCS projects are implemented. Moreover, their success relies on the meaningful participation of these stakeholders in project design and delivery.

***High integrity NCS respect and protect the substantive and procedural rights of IPLCs and result in locally appropriate, equitably distributed, positive social impact, by ensuring:***

- Active and appropriately resourced engagement of stakeholders and rights holders, including women and other marginalised or vulnerable groups, to enable their meaningful participation and empowerment in decision-making processes at all stages of project development and implementation;
- Strict adherence to internationally recognised human rights standards and application of social safeguards, including Free Prior and Informed Consent (FPIC), and accessible grievance mechanisms;
- Locally appropriate and agreed, fair, transparent and equitable sharing of carbon benefits, which is embedded within policies, regulations and contractual arrangements;
- Appropriate governance mechanisms are in place to ensure inclusion, transparency and accountability, and address inequities that may exist between stakeholders;
- Potential social impacts and risks are identified through *ex ante* social impact assessments and identified potential negative impacts are clearly addressed using the mitigation hierarchy with particular attention paid to vulnerable and marginalised groups;
- Support for the development of sustainable livelihood strategies and economic opportunities where appropriate to compensate for opportunity costs and achieve net positive benefits;
- Support for communities to adapt to the adverse impacts of climate change and increase their climate resilience, using recognised approaches such as Ecosystem-based Adaptation or the Principles for Locally Led Adaptation.

### 4. Jurisdictional scale trajectory

Fauna & Flora recognises the value of jurisdictional approaches and the critical role of governments and donors, and seeks to ensure that locally-led projects can appropriately nest within these. Expanding NCS projects to scale can provide multiple benefits, helping to address both the drivers of emissions and the accounting challenges for carbon/climate change action within a jurisdiction, while in parallel delivering support for biodiversity

conservation through improved spatial planning, connectivity and funding, as well as local socio-economic resilience.

***To support scaling of approaches to landscape and jurisdictional scales NCS projects should ensure:***

- Adherence to methodologies for nesting projects in jurisdictional approaches as they emerge, and push for fast-tracking of these methodologies;
- Continuing ongoing work at project level, recognising their importance in the testing and demonstration of new approaches in the transition to landscape and jurisdictional scale;
- Nesting within jurisdictional approach and crediting systems when they become available;
- Pushing for robust policy, monitoring and enforcement frameworks at jurisdictional scale, with integration of net positive biodiversity and social outcomes.

## **5. Finance**

Private and philanthropic finance provides a significant opportunity to scale NCS. To be effective, this finance must be aligned with and in service of, grassroots implementation. Investment terms should reflect this with an appropriate degree of transparency, because successful results in practice will depend on delivering enduring, positive outcomes for local people and place.

Currently, there is the risk of significant disconnect between the international demand for nature-based carbon credit supply – and for financial return on that supply - and the needs of those whose rights and livelihoods are implicated in its delivery. Effective NCS require significant investment, and these must first and foremost enable the real long-term climate, biodiversity and socio-economic impact that underpin the nature-based carbon asset.

***Financial and commercial structures of NCS projects must be transparent, viable and drive direct and equitable benefits to local people, by ensuring:***

- Purchase agreements and legal contracts are fully explained by buyers, and fully understood by suppliers and those they represent, including IPLCs, before signing;
- Investors and climate finance providers understand their increasing responsibility to ensure local project proponents know exactly what they are committing to as part of their long-term obligation for investment into NCS projects;
- Buyer's approach to profit on the sale of carbon credits is disclosed, understood and agreed with the supplier before entering into transactions;
- Best practice and continued innovation in the development of locally appropriate and agreed, equitable and transparent benefit-sharing mechanisms, which enable climate finance to reach the grassroots;
- Recognition of the importance of philanthropic and blended finance structures to support NCS project development and implementation, particularly to enable sufficient investment in capacity building and action on ecosystem-based adaptation as well as mitigation.

## **Contact**

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