Why is this important?

When used appropriately offsets can unlock opportunities, such as the chance to develop flagship social and environmental projects, and manage risks, such as potential delays and costs.
Offsets' relevance to business is on the rise, driven by growing regulatory requirements and an increase in voluntary commitments.

What are biodiversity offsets?

Biodiversity offsets are measurable conservation gains that compensate for negative impacts of development projects that remain *after* full mitigation. The full <u>mitigation hierarchy</u> involves avoidance, minimisation, restoration and offsetting. Biodiversity offsetting generally aims to achieve no net loss (NNL) of biodiversity and, where possible, a net gain.

Offsets are usually located outside the project site. There are two main offset types, which may also be combined:

- Restoration offsets aim to remediate past damage (not due to the project), for example by rehabilitating or restoring degraded habitat;
- Averted loss or protection offsets aim to prevent anticipated future damage (not due to the project), for example by preventing illegal logging where it is predicted to occur.

Why offset?

Even after the mitigation hierarchy steps of avoidance, minimisation and restoration have been fully applied, some residual impacts on biodiversity will often remain. To address these, more and more countries have <u>national law or policy</u> that requires or enables biodiversity offsetting. Biodiversity offsets are also now required by many lenders. Notably, offsetting is a requirement of the International Finance Corporation's (IFC) Performance Standard 6 (PS6).

At a glance

Offsets compensate for residual negative impacts of a development projects, **after** the mitigation hierarchy has been fully applied. Offsets are achieved by restoring or averting damage not caused by the project.

Briefing note

Offset design is based on an assessment of losses and gains. Offsets need to take into account additionality, comparability (fair exchange) and longevity.

Offsets may be bought 'off the shelf' from a conservation bank, or (more usually) individually designed and implemented, often in partnership with NGOs or government.

Alignment with PS6 is increasingly seen as international good practice for development projects, and is required by, among others, the >80 Equator Principles Financial Institutions, and 32 OECD export credit agencies. Voluntary commitments to NNL or net gain (and thus to implementing biodiversity offsets) are also increasingly common at the project or company level, driven by changing societal expectations and growing business understanding of the value of offsets for managing risks (e.g., avoiding project delays) and creating opportunities (e.g., of access to resources).



The value of offsets for creating opportunities, such as access to water and other resources, is driving voluntary commitments to NNL or net gain.

Principles of offsetting

IUCN's recent <u>Offsets Policy</u> and the Business and Biodiversity Offset Programme's (BBOP) <u>Standard</u> <u>on Biodiversity Offsets</u> outline good practice in offsets. They share five fundamental considerations:

- Offsets are a last resort. Offsets should only be considered once all feasible steps have been taken to avoid, minimise and restore impacts (the mitigation hierarchy);
- Offsetting has limits. The 'offsetability' of potential project impacts requires careful assessment, recognising that some losses cannot be offset (e.g., species extinction) and that proposed offsets must be technically and practically feasible;



- Offsets should be comparable ('equivalence'). The balance of losses and gains should represent a fair exchange (e.g. similar amounts and types of biodiversity, or occasionally 'trading up' to biodiversity of a higher conservation priority);
- Offsets should be additional. An offset gain must be an outcome of project-specific offset actions, and not something which would have occurred anyway without the project;
- Offsets should be **lasting**. Conservation gains from offsets should last at least as long as impacts, and ideally should be permanent.

Other key offset principles address equity, transparency and stakeholder engagement in the offset design process.

How are offset requirements determined?

Biodiversity offsets are distinguished from other types of conservation or compensation because they are based on explicit assessment of biodiversity losses and gains, for instance at matched impact and offset sites. A practical four-step method is detailed in ICMM & IUCN (2012), and can be summarised as:

- Prioritise and select biodiversity features (e.g. a species or an ecosystem) to include;
- Select methods to measure the extent and condition of each feature in the field, depending on the level of risk, (e.g. species distribution and abundance) and convert the data into a currency or metric (such as '<u>habitat</u> <u>hectares</u>') to facilitate trading between losses and gains;
- Decide on the mechanism for a fair exchange

 i.e., the adjustments needed to account for time lags, uncertainty, etc.
- Ensure full and timely consultation with Affected communities, Indigenous People, relevant NGOs and other stakeholders.

How are offsets implemented?

In some countries where offsets are a regulatory requirement, such as Australia, companies may simply be able to purchase an offset from an existing private or government conservation 'bank'. Elsewhere, most companies have to contract conservation NGOs or other organisations to design and implement tailored offsets on their behalf, and to monitor their success. A few companies choose to implement offsets themselves, though for most this is too far from their core business.

Many companies choose to establish advisory boards to oversee offset progress, success, and to allocate annual budgets. These boards tend to retain a company veto, but include company staff, government officials and relevant biodiversity experts.

A number of mechanisms exist to assure lasting offset gains through reliable offset finance over time. The best known are endowment funds, where a lump sum generates annual income needed for offset implementation. In some cases, where accompanied by appropriate bonds or insurance, companies choose to fully hand over long-term management of offsets to NGOs or governments.







Offset sites are usually located outside the project site and, in order to achieve 'additionality', can either restore past damage or protect sites from anticipated future damage, e.g. by preventing illegal hunting.



Further guidance

- **IFC PS6** is viewed as leading practice, and is accompanied by a <u>Guidance Note</u> that provides detailed technical interpretation of its requirements.
- The International Council on Mining and Metals (ICMM) and the International Union for Conservation of Nature (IUCN) produced an <u>Independent Report on Biodiversity Offsets</u> which provides a good general introduction to offsets.
- **IUCN** has recently produced an <u>Offsets Policy</u> that outlines good practice in offsets, based on a more detailed <u>technical paper</u>.
- The Business and Biodiversity Offsets Programme (BBOP) <u>Standard on Biodiversity Offsets</u> is referred to by PS6 and based on a framework of <u>ten principles</u> for designing, implementing and verifying the success of biodiversity offsets.

The Biodiversity Consultancy works together with industry leading clients to achieve an ecologically sustainable basis for development by tackling complex biodiversity challenges and by supporting positive conservation outcomes. Contact us to find out how we can help you to:

- Identify and avoid risks before they occur
- Deliver projects on time and at cost
- Transform environmental challenges into opportunities
- Demonstrate shared value to stakeholders
- Build a positive brand and sustainable business



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