HABITAT BANKING IN COLOMBIA:
Preserving Biodiversity and Creating Economic Opportunities

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Biodiversity is fundamental to human well-being and a healthy planet, and economic prosperity for all people.

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Colombia is a pioneer in the region in the biodiversity credit market, having mobilized to date over $5 million through investment and credit sales.

A study by the IDB (Banerjee et al., 2020) showed that including the value of biodiversity, Habitat Banks can generate a net present value of $4.9 billion for the country, thus demonstrating their great transformative potential, especially for regions rich in biodiversity, where, according to information provided by DANE in 2022, rural multidimensional poverty rates exceed 30%, on average.

The issue: the gap to finance biodiversity conservation, investment effectiveness, and the generation of economic alternatives.

Colombia requires mechanisms to increase financing for biodiversity as well as to improve its effectiveness. According to the financial plan developed by BIOFIN (2018), the need to increase investment in biodiversity by USD 22 million per year from 2017 to 2030 was identified to meet the country's National Biodiversity Strategy and Action Plan (NBSAP) goals. Currently, it is estimated that this plan maintains a 32% funding deficit for its full implementation, amounting to USD 1,6 billion (UNDP, 2021). It should also be noted that these estimates do not include the additional needs that will arise with the adoption of the new Kunming-Montreal Global Framework for Biodiversity and the necessary update of the NBSAP."

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In Colombia, the main financing source is the public sector, which has spent around USD 535 million on biodiversity per year, between 2010 and 2020 (PNUD, 2022). On the other hand, there are no unified records of private biodiversity spending. However, it should be mentioned that the manufacturing industry has spent USD 845 million in activities related to biodiversity conservation from 2012 to 2019, with an annual average of USD 105 million (Sarmiento, Lopez, & Arango, 2022). Despite advances in biodiversity funding, these flows are still insufficient.

Nonetheless, Colombia has significant opportunities to bridge the biodiversity financing gap and protect its natural resources while promoting regional development. Regarding funding opportunities, it is crucial to mention the potential of biodiversity and environmental offsets, as well as voluntary investments by the private sector to achieve Nature Positive goals. According to Terrasos estimates based on records from the environmental authority (ANLA, 2022), the country's unexecuted biodiversity offsets (biotic component) represent a potential funding of approximately USD 1620 million for 2022, of which 47% corresponds to the hydrocarbon sector, while the remaining 53% corresponds to the infrastructure (7.5%), energy (17.2%), and mining (28.3%) sectors. Similarly, the unexecuted obligations resulting from a forced investment of no less than 1% represent an estimated financing potential of USD 120 million for 2022. The hydrocarbons sector continues to lead the distribution of these obligations, accounting for 73.12% of the total.

It is essential to ensure the strategic use of these resources through projects that guarantee effective and long-lasting outcomes in biodiversity conservation, rather than traditional offset projects that only last around three to five years. Habitat Banks play a crucial role in this regard as they are capable of efficiently delivering these outcomes while generating proven gains in biodiversity that endure over time, as well as contributing to the development of the territories where they are implemented.

A solution: Habitat Banks

Habitat Banks are public or private areas managed for their significant environmental values. These areas promote preservation, restoration, and sustainable use activities to support biodiversity. In exchange for these activities, Habitat Banks offer biodiversity credits that can be purchased by negative impact generators with licensed projects to offset their impacts (e.g., in the mining, hydrocarbon, or energy sectors). Biodiversity credits can also be bought by individuals or businesses that wish to contribute to biodiversity conservation. **Each biodiversity credit is equivalent to one hectare of a managed or restored ecosystem that has been technically, legally, and financially administered by the Habitat Bank.**

Habitat Banks operate under a results-based payment scheme, orienting management towards achieving specific outcomes and mitigating the risk for those making offsets by guaranteeing the completion of conservation activities within the designated territory (akin to a cash-on-delivery model). Revenue generated from the sale of biodiversity credits ensures management and maintenance of the Habitat Bank for its lifetime (typically around 30 years). Additionally, profit margins incentivize landowner participation through long-term commitments of their land in exchange for payment, as well as private capital investment for financial returns. The agreements between the Habitat Bank developer and offsetting parties are governed by private law and only involve the responsibility of those who sign them. Regulators do not intervene in the pricing of the generated credits.

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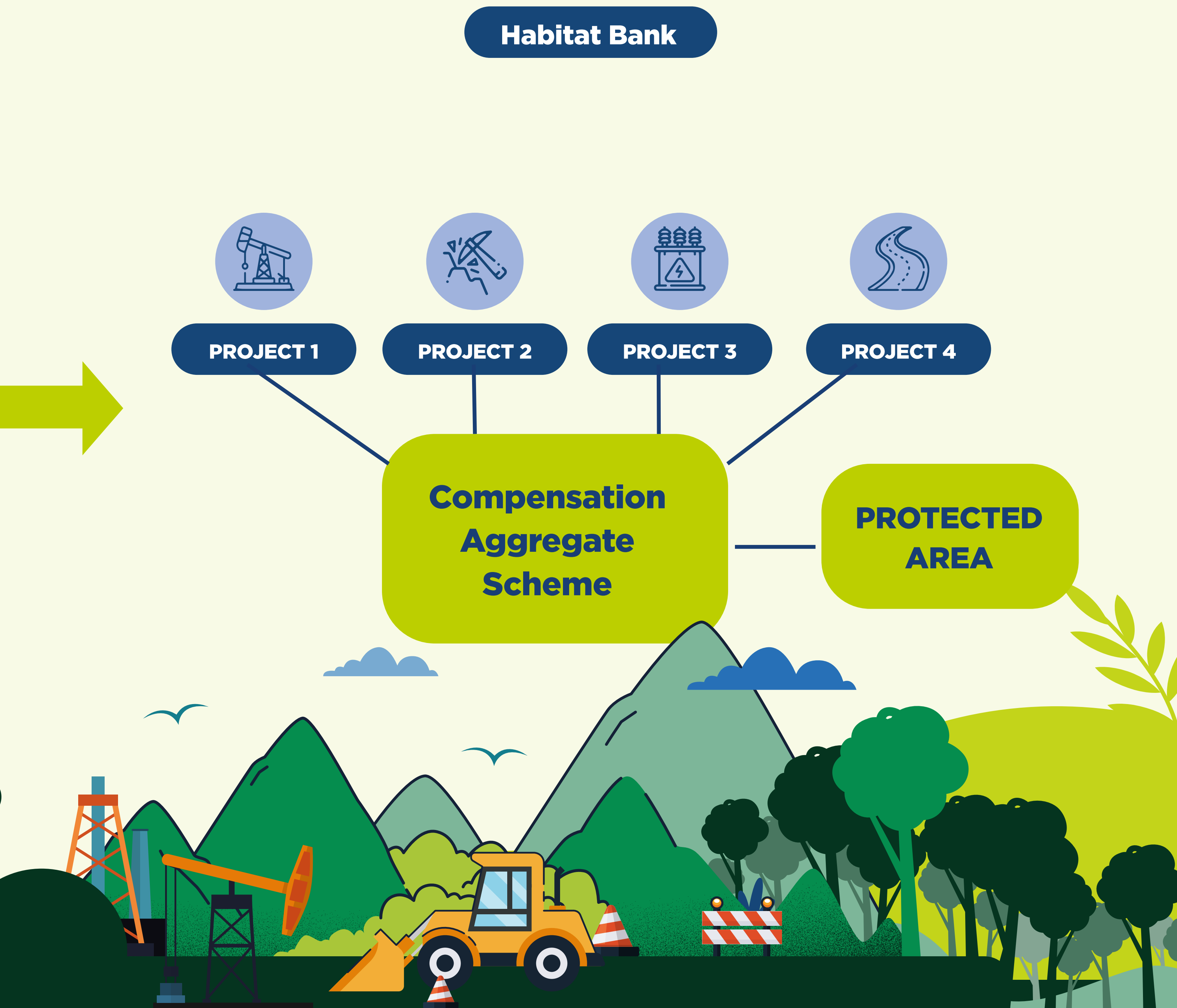
Habitat banking has been recognized as an offset mechanism for the mandatory 1% investment through Decree 2099 of 2016. This mechanism is regulated through Resolution 1051 of 2017 and is included in the Offsets Manual for the Biotic Component, adopted through Resolution 256 of 2018. Habitat banking enables the possibility of making offsets for the following obligations: mandatory 1% investment, biodiversity loss, forestry exploitation, forest reserve extraction, and ban suspensions for species use.

Image 1. Differences between conventional compensation and BH

Source: Terrasos SAS


Habitat Bank
PROJECT 1
PROJECT 2
PROJECT 3
PROJECT 4
Compensation Aggregate Scheme
PROTECTED AREA

- As an aggregated offset scheme, they have a higher success rate for implemented offsets and reduce transactional costs (think of a "prefabricated" offset scheme), accelerating the implementation of pending offsets.
- They guarantee long-lasting results due to their sustainability and permanence principles, securing the technical, legal, and financial conditions to implement biodiversity conservation actions. The average implementation time of regular offsets in Colombia is 3 years, while the average for Habitat Banks is 24.8 years (and international best practices set it at 30 years).
- As a payment-by-results mechanism, they attract impact investing to structure and implement anticipated conservation actions, accelerating conservation and restoration processes in the territories while contributing to closing the financing gap for the country's biodiversity.
- Results generated by Habitat Banks are measurable and quantified due to their monitoring and reporting principles. They allow us to learn more about the area's biodiversity and keep better track of the implemented offsets, while also providing information to environmental authorities.
- They improve overall economic productivity, land use, and rural employment based on long-term strategic ecosystem conservation and restoration.
- They speed up compliance with environmental obligations, improving the time it takes to approve offset plans and their execution (implementation begins in 6 months).
- They are an innovative mechanism for biodiversity conservation that receives income in the early years and secures resources for implementation by designating some of the income to a maintenance account (endowment type).

Certainly, habitat banking represents a disruptive alternative for the implementation of environmental offsets. It offers numerous advantages over traditional low-quality offsets, which are often ineffective, small, and randomly located.

Registered Habitat Banks in Colombia

Since the first Habitat Bank was registered in 2016 with the Meta Habitat Bank, nine moreHabitat Banks have been registered, and four more are currently in the registration process. The current overview of registered HBs is:

Registered Habitat Banks in Colombia up to August 2022

	Manager	ha	Department	Lifespan	Year of registration	Protected ecosystems
Banco de Hábitat del Meta	Terrasos	622.3	Meta	30 years	2017	Orinoquia's natural forests and savannahs
Banco de Hábitat Bosque de Niebla – El Globo	Terrasos	360.77	Antioquia	30 years	2021	High Andean Forest
Banco de Hábitat Bosque Seco Tropical - Cañón del Río Cauca	Terrasos	132.67	Antioquia	30 years	2021	Tropical dry forest
Banco de Hábitat del Tolima	Ecocarbono SAS ZOMAC	456.17	Tolima	20 years	2021	High Andean Forest
Banco de Hábitat del Cesar - La Lope	Terrasos	475.6	Cesar	30 years	2021	Tropical dry forest
Banco de Hábitat del Cesar – Nueva Bethania	Terrasos	348.9	Cesar	30 years	2021	Tropical dry forest
Banco de Hábitat "El Tunal"	HC Asesorías	368	Cundinamarca	12 years	2022	High Andean Forest
Banco de Hábitat "Servatilla"	HC Asesorías	400	Tolima	12 years	2022	High Andean Forest
Banco de Hábitat "El Amparo"	Terrasos	430	Casanare	30 years	2022	Highland helobiome, Highland peinobiome
Banco de Hábitat "Mesa de San Pedro"	Terrasos	256	Casanare	30 years	2022	Casanare's helobiome, Orinoquia foothills' helobiome, Casanare's humid tropical zonobiome, Orinoquia foothills' humid tropical zonobiome

Source: compiled based on Ministerio de Ambiente y Desarrollo Sostenible (2022)

Public Policy requirements:

To unlock the potential of Habitat Banks and leverage the opportunity to generate USD 4.9 billion, Colombia needs to modernize and strengthen regulatory authorities and establish clear rules that ensure a high-integrity biodiversity credits market. Failure to meet these conditions could lead to market deterioration and environmental conflicts due to a highly speculative environment. Despite the advantages mentioned above, Colombia still has regulatory gaps and institutional needs to further develop the Habitat Banking mechanism. The following is a summary of some of the most pressing ones:

Minimum duration of Habitat Banks: The current regulations do not define the minimum duration of a Habitat Bank, which leads to the registration of banks with different timeframes, ultimately compromising the permanence principle and generating a "race to the bottom." Good international practices suggest that a high-integrity biodiversity credit should represent 30 years of conservation for any given ecosystem. It is important to establish a minimum time length for Habitat Banks to ensure their sustainability.

Transparency and accountability: Colombia's regulations do not formally include a definition of biodiversity credit. To ensure the scaling process's effectiveness, it is essential to explicitly include it since biodiversity credits must be sold only once. Establishing clear definitions will improve transparency and accountability in the market.

Tracking of biodiversity credits: The process of tracking biodiversity credits is not well established within the regulations, leading to risks of double sales, speculation, and legal insecurity for the market. To address this, clear guidelines and procedures for tracking biodiversity credits should be established.

Access to information: Habitat Banks' information systems need strengthening to facilitate conservation outcomes analysis and increase transparency in the biodiversity credits market. Access to information on Habitat Banks should be made more accessible to the public to promote transparency and accountability.

Habitat Banks baseline: It is necessary to establish that the comparison between the results of the offsets and investments in the Habitat Banks is done from the moment of registration. This will ensure the effectiveness of implemented conservation actions and preserve the results-based payment scheme.

Tax incentives: Currently, there are no tax incentives to promote landowners to conserve their lands and establish Habitat Banks. Tax incentives should be considered to incentivize landowners to participate in conservation arrangements needed to establish Habitat Banks.

In conclusion, Habitat Banks represent a significant opportunity to finance biodiversity efficiently while generating net gains and improving the livelihoods of rural populations. Colombia depends on the acceleration of Habitat Banks as an offsetting mechanism and the improvement of its regulations to take full advantage of this opportunity, contributing to the country's conservation and restoration goals, and becoming a global leader in biodiversity conservation.

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