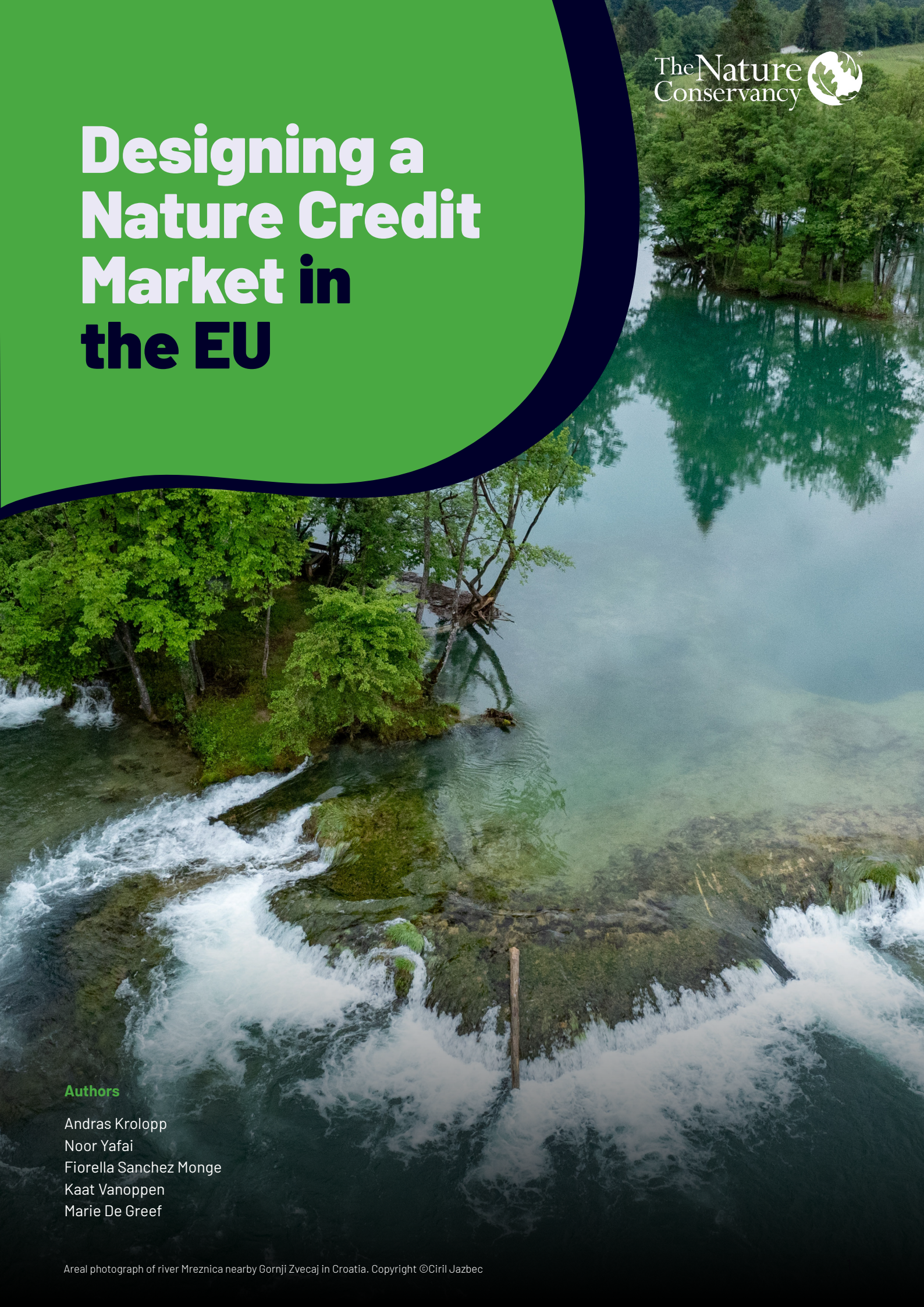
Designing a Nature Credit Market in the EU



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Areal photograph of river Mreznica nearby Gornji Zvecaj in Croatia. Copyright ©Ciril Jazbec

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Acronym	Full Term
APA	Advance Purchase Agreement
BNG	Biodiversity Net Gain
CAP	Common Agricultural Policy
CSRD	Corporate Sustainability Reporting Directive
DFIs	Development Finance Institutions
DNSH	Do No Significant Harm
EIA	Environmental Impact Assessment
ESG	Environmental, Social and Governance
EU	European Union
IAPB	International Advisory Panel on Biodiversity Credits
IEEP	Institute for European Environmental Policy
INSPIRE	Infrastructure for Spatial Information in the European Community
LIFE	EU LIFE Programme for Environment and Climate Action
MRV	Monitoring, Reporting and Verification
MAES	Mapping and Assessment of Ecosystems and their Services
NBFP	National Biodiversity Finance Plan
NBSAP	National Biodiversity Strategy and Action Plan
NGO	Non-Governmental Organization
SEA	Strategic Environmental Assessment
SEEA EA	UN System of Environmental-Economic Accounting – Ecosystem Accounting
TNC	The Nature Conservancy
TNFD	Taskforce on Nature-related Financial Disclosures
WEF	World Economic Forum
WWF	World Wide Fund for Nature

1. Introduction

Europe is facing an accelerating biodiversity crisis. According to the European Environment Agency, 81% of EU habitats are in poor or inadequate condition (EEA, 2020). The drivers of this ecological decline are systemic and interlinked. They are also deeply localized, manifesting in diverse ways across the EU's varied ecological and socio-economic landscapes. From intensively farmed lowlands to degraded peri-urban environments, biodiversity pressures vary significantly in scale, intensity, and character. At the same time, the financial resources required to reverse these trends and bring long-term resilience remain grossly insufficient. Recent estimates place the global biodiversity finance gap between USD 598 and 824 billion per year (Deutz et al., 2020; WEF and McKinsey, 2024). For the EU alone, the estimated shortfall stands at €19 billion (Nesbit and Whiteoak, 2022).

While the EU channels substantial funding into nature restoration, through CAP, LIFE, Horizon Europe, and Cohesion Policy, public investment remains insufficient to close the biodiversity finance gap. A recent WWF study (WWF, 2023) suggests that redirecting harmful subsidies toward biodiversity-positive outcomes could support EU funding gap, highlighting the importance of reforming existing public expenditure. However, even with greater public efficiency and reallocation, private sector contributions, estimated at just €3 billion in 2023 (European Investment Bank, 2024), must grow substantially. Mobilizing private capital is not a substitute, it is a necessary complement to public finance if the EU is to meet its restoration goals at the required scale and pace.

Nature credits are now seen not just as a mechanism to close the finance gap, but as a strategic delivery tool for EU restoration and climate goals. The EU is taking first steps to define their role through initiatives like the Nature Credit Roadmap (European Commission, 2025). However, concrete implementation has not begun, and key elements of operationalization remain undefined. Without a coherent EU framework, anchored in robust certification and monitoring, reporting and verification (MRV), and governance, this market will struggle to deliver real ecological outcomes or scale private investment.

This report builds sequentially on two foundational studies:

- **Report 1**, "Building Towards Nature Markets for the European Union" (TNC & Metabolic, 2024), established foundational principles for EU nature credits, emphasizing the need for a common EU framework grounded in science, inclusive governance, and credibility.
- **Report 2**, "Funding Nature in the EU" (TNC, 2024), extended this foundation by mapping the EU biodiversity finance landscape and identifying critical funding gaps.

These two reports, together with a wave of new technical studies and pilot initiatives, provide the foundation for the present analysis. Key contributions include EU flagship pilots announced at COP16 in France and Estonia, NGO-and private-sector led pilots in Germany (Planted & Hula Earth, 2024), and feasibility studies and partnerships in France, the Netherlands and Peru (French Ministry for Ecological Transition, 2024; Dutch Ministry of Infrastructure and Water Management, 2024; European Climate, Infrastructure and Environment Executive Agency, 2025).

This report proposes a framework for nature credit markets in the EU. It introduces an implementation-ready model focused on a combined compliance-voluntary net gain model that aligns with regional, Nature Restoration Law and international commitments under the Kunming-Montreal Global Biodiversity Framework. By operationalizing nature credit markets within a unified and trust EU framework, this report aims to unlock scalable and high-integrity financial pathways for nature conservation and restoration across the EU.

Areal photograph of river Mrežnica nearby Gornji Zvečaj in Croatia.

2. The Current State of Nature Credit Markets

2.1 Fragmented Landscape

Nature credit initiatives have emerged globally in a fragmented and uncoordinated manner, with different policy drivers, methodologies, and institutional setups driving the market (IAPB, 2024). Some are embedded in compliance systems, like the UK's Biodiversity Net Gain scheme or Australia's BushBroker Program. Others are voluntary systems, pilot-based, or linked to emerging ESG instruments, as seen in Colombia, South Africa, Brazil, and more recently in Estonia, Peru, Germany, and France (DEFRA, 2021; Government of Victoria, 2020; IUCN & UNEP-WCMC, 2021; European Climate, Infrastructure and Environment Executive Agency, 2025)

This fragmentation reflects two deeper challenges. First, biodiversity is inherently diverse and locally specific, making it difficult to measure consistently across regions. For example, Estonia's boreal forests and France's coastal wetlands require fundamentally different ecological baselines and monitoring approaches. This underscores the difficulty of applying uniform crediting metrics across such varied habitats. Second, credit systems have often evolved in silos, either through narrowly scoped legal mandates or ad hoc market experimentation. Some Member States, such as Germany, have activated pilots facilitated by private or semi-public intermediaries aligned with the Biodiversity Credit Alliance (Planted & Hula Earth, 2024). On the other hand, France has developed its voluntary biodiversity market, led by the government, based on the framework developed by the International Advisory Panel on Biodiversity Credits (IAPBC) (French Ministry for Ecological Transition, 2024) and Finland developed its public-led voluntary biodiversity credit market based on its own framework (IETA, 2024). As a result, nature credits are characterized by inconsistent baselines, unverifiable additionality claims, and fragmented monitoring and enforcement frameworks.

Within the EU, a lack of standardization limits the interoperability of national efforts, reducing liquidity, and limiting the emergence of a credible and scalable market. Moreover, the development of diverse approaches in parallel by Member States would lack ecological rigor or compatibility, leading to regulatory divergence and reputational damage.

2.2 Early traction

Interest for nature credits is rising. Public and private actors are seeking solutions to meet global and European restoration goals, manage biodiversity-related risks, and scale the nature finance market (UNEP, 2023; TNFD, 2023; OECD, 2023). On the public side, the EU Nature Restoration Law is prompting the search for scalable financing tools that can support implementation. On the private side, corporates and financial institutions seek to align with new EU reporting requirements, including the Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy, and voluntary standards, such as the Taskforce on Nature-related Financial Disclosures (TNFD) which require companies to report on their nature-related impacts, risks, and mitigation actions (Directive (EU) 2022/2464; European Commission, 2020; TNFD, 2023).

In this context, two main models have started to take shape. The first is the compliance-based model, where credits are issued and used in response to legal obligations. The UK's Biodiversity Net Gain policy is a leading example, requiring most developments to deliver a minimum 10% biodiversity uplift. The second is the voluntary model, where actors invest in credits to support restoration or demonstrate nature-positive leadership, without a legal obligation to do so (WEF, 2024; TNC & Metabolic, 2024).

On the demand side, despite the growing momentum, early pilot experiences suggest that market engagement remains limited and cautious. In Germany and Estonia, transaction volumes have remained low, and few projects have progressed to the stage of issuing credits (Estonian Ministry of Climate, 2024; Planted & Hula Earth, 2024). Many private buyers remain hesitant, not only due to uncertainties around monitoring and verification, but also because of the lack of a clear financial logic or credible revenue model for nature credits. Although there is strong rhetorical interest, most of the tangible activity to date remains compliance driven. Voluntary markets are still in early stages, with few large-scale transactions and continued concerns around credit quality, governance, and reputational risk (OECD, 2023; WEF, 2024).

On the supply side, project developers, landowners, and conservation organizations face high upfront costs, long lead times, and uncertain financial returns. In Estonia's national pilot, landowners considering habitat restoration were expected to invest substantially before credits could be sold, without price guarantees or committed buyers. These financial risks discouraged participation. Similar challenges have been reported in France, where NGOs and landowners cite the absence of stable revenue models and legal clarity as major deterrents (Sponagel et al., 2021; French Ministry for Ecological Transition, 2024).

This is because restoration projects are typically long-term, place-based, and aimed at generating public goods. As a result, they do not align easily with conventional market structures, which rely on clear price signals, short investment cycles, and private returns. This structural mismatch, between rising demand for measurable biodiversity outcomes and the absence of trusted governance, valuation frameworks, and credit infrastructure, continues to limit uptake. It highlights the need for a coordinated EU-level approach capable of aligning regulatory, financial, and technical enablers to support a high-integrity and scalable nature credit market.

2.3 From Momentum to Architecture: The EU Starting Point

While nature credit systems have emerged in a fragmented manner across jurisdictions, the European Union has many of the institutional and regulatory elements required to support a unified, large-scale, high-integrity market. Rather than starting from scratch, the EU is able to build on existing legal frameworks, monitoring tools, and financial sources to deliver a credible and scalable nature credit architecture. While these components currently operate in parallel, they represent an opportunity to build a coordinated architecture that reflects both ecological credibility and regulatory coherence.

Regulatory Context & Data Infrastructure

A number of environmental directives already offer a robust legal basis to support future nature credit systems. The Environmental Impact Assessment (EIA) (2014/52/EU) (European Commission, 2014a) and Strategic Environmental Assessment (SEA) (European Commission, 2001) Directives require nature impacts to be assessed before project or program approvals. While not originally designed for credit markets, they bring spatial planning, mitigation measures, and monitoring that could constitute the structure for a robust MRV system deployment. However, their implementation varies considerably across Member States. While the EIA Directives (2011/92/EU and its amendment 2014/52/EU) set minimum common standards, national authorities retain discretion over screening thresholds, assessment methodologies and scoping procedures, which limits comparability and standardization. These differences would need to be adapted if a similar operating structure is to be embedded for the EU Nature Credit Market (European Commission, 2001; 2014a).

In addition, the Habitats and Birds Directive (via Article 17 reporting) (European Commission, 2014b) and the Natura 2000 network provide standardized information on species and habitat condition, critical for setting baselines and verifying additionality. The Copernicus satellite program delivers high-resolution land cover data that can be used to track habitat change over time. The INSPIRE Directive ensures spatial data is shared across Member States in compatible formats, enabling cross-border project oversight.

Strategy Policy Alignment

Recent policy developments have created a broader enabling environment for nature credit demand and alignment. The Nature Restoration Law introduces legally binding ecosystem restoration targets for all Member States. These are to be operationalized through National Biodiversity Strategy and Action Plans (NBSAPs), which articulate national-level restoration priorities. Increasingly, Member States are complementing these with National Biodiversity Finance Plans

Aerial view of a boat navigating the Rock Islands and coral seascape in the Republic of Palau. The site has a complex reef system sustaining rich marine biodiversity.
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(NBFPs), developed using the UNDP BIOFIN methodology (BIOFIN & UNDP, 2024; European Commission, 2023). Leveraging these plans can help align nature credit design with nationally defined priorities, providing a structured basis for project certification that reflects local ecological conditions and financing gaps.

At the same time, the evolving corporate regulatory landscape is expected to increase demand for verifiable biodiversity outcomes. The CSRD and the EU Taxonomy Regulation require companies to disclose nature-related impacts, dependencies and transition plans across value chains. These obligations, reinforced by voluntary standards such as the Taskforce on Nature-related Financial Disclosures (TNFD), are pushing private actors to invest in science-based biodiversity outcomes that can be reported with credibility and consistency (European Commission, 2022; Regulation (EU) 2020/852; TNFD, 2023).

EU Financing Resources

Additionally, the EU already has a range of financing instruments that could be aligned and complement the development of the EU Nature Credit Market. The LIFE Programme, the CAP, and InvestEU currently support nature-positive land management, restoration, and green investment through grants, payments, and guarantees. While these tools are not yet structured for nature credit issuance, they provide a starting point for the development of targeted support, early-stage technical assistance, and risk-sharing mechanisms. This is particularly important in the context of the next Multiannual Financial Framework (MFF 2028–2034) (European Commission 2025a), as these instruments could be strategically programmed to channel funding and risk sharing mechanisms toward high integrity nature credits.

Taken together, these legal frameworks, monitoring tools, and financial sources do not yet constitute a functioning market. However, they provide a well-developed foundation for an EU Nature Credit Framework. If appropriately aligned, they could enable the development of a high-integrity system that is grounded in existing law, responsive to Member State contexts and capable of delivering long-term ecological value at scale.

3. What the EU Nature Credit Market Must Deliver

This section outlines structural elements that should be integrated at the institutional and governance level to ensure that the system is implementable and trusted. These do not predetermine the exact form of an EU Nature Credit system but serve as design parameters that must be reflected in any future operational model.

3.1 Core Requirements

Nature credit markets need to overcome today's fragmentation. They must be credible, high-integrity, interoperable across Member States, and fully aligned with EU regulations to build trust, ensure consistency, and support a unified and effective market.

A common EU-wide definition of nature credits: A standardized EU definition is essential to distinguish credits from offsets and subsidies, and ensure alignment with EU law, Member State needs, and ecological objectives. International efforts provide a strong starting point (BCA, 2024; IAPB, 2024).

Strict adherence to the mitigation hierarchy: Credits must only be issued for actions that go beyond legal obligations under frameworks such as the EIA and Habitats Directives, and where measurable net gain has been verified. The system should explicitly prioritize ecological avoidance, reduction of impacts at source, and high-integrity restoration, reinforcing the contributory, not compensatory, role of nature credits throughout the project cycle (IAPB, 2024; IUCN & WRI, 2018).

EU-level governance with Member State implementation: Governance must balance EU-wide consistency with Member State autonomy, in line with the principle of subsidiarity (European Commission, 2025).

Alignment and compliance: Nature credits framework must be aligned with EU nature regulations and policies, such as the Nature Restoration Law. Interactions should be clearly defined. Moreover, all nature credit projects must comply with key EU environmental regulations, including Natura 2000, EIA/SEA directives, and the Do No Significant Harm (DNSH) principle.

3.2 Market requirements

Nature credit markets will only scale if projects are financially viable, able to attract early-stage capital, cover full lifecycle costs, and deliver predictable returns. Today, a core challenge is the timing mismatch: projects need upfront financing, while credits are only issued and monetized years later. Without mechanisms to bridge this gap, many land stewards and restoration actors remain unable to participate.

Early-stage de-risking: The framework must include mechanisms that de-risk early project phases and enable investment before credits are issued. Advance Purchase Agreements (APA) can occur after the certification of projects, but the market also need public offtake commitments and blended finance instruments to improve financial predictability and reduce entry barriers.

Coordinated public financing and market incentive governance: The governance framework must define how grants, payment for restoration and credit revenues interact across a project lifecycle. It should ensure public finance instruments are aligned with credit eligibility, avoid double counting, and support early-stage participation from technical assistant grants.

Project aggregation: The market should support the aggregation of multiple small-scale or locally specific projects through standardized methodologies, landscape-level crediting, or intermediaries. This is essential to reduce transaction costs, pool risk, and enhance accessibility for smallholders and communities, while improving scalability and bankability of credit portfolios.

Compliance and voluntary credits: Although in many jurisdictions a clear distinction has been made on whether the market is based on compliance or voluntary demand, a unified market structure that integrates both compliance and voluntary demand is essential to fully activate the investment potential of nature credits and to ensure interoperability, efficiency, and a diversified portfolio of demand.

3.3 Ecological requirements

Nature markets will be environmentally effective and sustainable over time only if they guarantee ecological integrity and are adapted to the specific needs of ecosystems. Nature outcomes must be based on a common language and sustained over time and claims must be controlled.

Credible and standardized units: Nature credits must be issued in common, credible, and standardized units to ensure consistency, comparability, and traceability across projects. At the same time, these units must be designed to recognize and integrate local ecological specificities, capture site-based biodiversity value and not to be diluted through standardization.

Credible claims: A transparent and standardized claims framework must ensure that buyers can only make net gain claims supported by science-based evidence. This is essential to prevent greenwashing, promote consistency, and allow credits to be used for ESG reporting (e.g., CSRD, EU Taxonomy), procurement scoring, or nature-positive strategies.

Permanence: Nature gains must be maintained over time. To ensure ecological durability, projects must include mechanisms that secure long-term outcomes beyond initial implementation. This includes legal agreements, long-term management plans, and sustained financing for monitoring, maintenance, and ecological risk management throughout the crediting period. A minimum 20-year credit duration is advised (BCA, 2024).

Structural basis for future conservation crediting: The framework should allow for the future inclusion of long-term conservation actions, such as the permanent protection of high-biodiversity areas, where these actions demonstrate measurable ecological value. For example, nature credits can fund the cost of keeping land as a reserve instead of converting it to farmland or logging (Bruegel, 2025). Eligibility must remain conditional on meeting the EU nature credit principles, verifiability, permanence, and traceability, and be operationalized through strong safeguards and governance mechanisms to uphold system integrity while enabling future evolution. However, the additionality, the principle that benefits would not have occurred without the project, must be flexible to avoid excluding long-standing conservation efforts (Bruegel, 2025).

4. Designing an EU Nature Credit Market

4.1 Governance

A credible EU Nature Credit Market depends on a clear, multi-level governance structure. The EU sets the overarching framework, Member States implement it voluntarily but in full alignment, and operational actors transact within this trusted structure. The dual-level governance structure supports standardization and alignment with EU policy objectives while enabling localized action.

The role of the European Commission: The Commission, through DG Environment (DG ENV), provides the legal and technical foundation of the nature credit system. Its primary function is to set a unified EU Nature Credit Framework, establishing the integrity rules that govern credit issuance, use, and oversight across the Union. It sets the legal structure of nature credits in alignment with the Nature Restoration Law.

In this framework, DG ENV a) defines the nature credit and establishes environmental integrity principles to ensure credits represent real, measurable, and additional ecological net gains; b) develops common MRV protocols, safeguards and accreditation criteria for certifiers and verifiers; c) runs the EU Central Nature Credit Registry; d) supports implementation in early-stage planning and monitoring through the deployment of EU funding; e) ensures that system-wide safeguards are in place to guarantee the independence of certifiers and verifiers and; f) leads updates to the framework, informed by scientific evidence, policy evolution, and stakeholder feedback.

The role of Member States: Member States, through the Ministry of Environment and other designated Competent Authorities (CA), run the national implementation and operational delivery of the EU Nature Credit Framework. While participation in the market would be voluntary, any Member State that opts-in must fully align with EU standards to safeguard transparency, market consistency, and environmental credibility.

Member States implement the EU framework by a) integrating it into their permitting, land-use, and conservation systems; b) designating or establishing national certification bodies; c) accrediting third-party verifiers; d) rolling-out the trading tool for actors to make local transactions.

In addition, Member States may act as buyers, co-investors, or facilitators of demand, particularly when supporting national restoration targets or public-private partnerships.

The role of operational actors: These are the actors responsible for implementing restoration activities and engaging in transactions under the EU Nature Credit Framework.

- **Restoration project actors:** are the ones carrying out restoration activities aligned with approved methodologies. These include landowners, municipalities, NGOs, and private companies.
- **Certification and issuance bodies**: are independent and accredited by CA designated by Member States. First, they certify projects by assessing the design, implementation, and expected outcomes based on criteria and principles defined by the EU Nature Credit Framework. Second, they verify the biodiversity net gain by conducting a science-based assessment to determine whether ecological outcomes are achieved according to the EU Nature Credits MRV standards.
- **Buyers:** purchase and retire verified credits to meet regulatory or voluntary restoration commitments. These include corporates, financial market participants, and public institutions.

4.2 Operational architecture

Establishing a trusted nature credit system in the EU requires more than certification and crediting rules and registries. It requires a functioning operational infrastructure that enables credit supply, verification, issuance, and monetization across Member States. This infrastructure must support a full project lifecycle, from initial engagement of landowners to final credit retirement or sale. Each step requires clear procedures, designated roles, and technical systems to ensure that biodiversity outcomes are measurable, verifiable, and transactable.

The system should function as a modular sequence, guiding credit-generating actors through each stage. From accessing EU-level support and funding, to working with national verification systems, and ultimately trading verified credits. This section outlines the key operational stages of the nature credit lifecycle, describing the roles of actors involved and the conditions required.

Step 0. Outreach

The lifecycle begins with outreach to potential credit-generating actors, such as landowners, municipalities, conservation NGOs, and local authorities. Many of these actors may be unfamiliar with credit systems or lack access to technical advice. Member States would guide early engagement, engage overall awareness generation and facilitate access to screening tools. The EU, in turn, should support this process by hosting open-access materials and maintaining visibility of approved methodologies and registries.
Outreach must be proactive and inclusive, especially in underrepresented regions or high-priority habitats. Funding of this activity would be taken by Member State or Municipality budgets.

Step 1. Check + Decide

Once informed, actors must assess whether their land or project qualifies to generate nature credits. Online tools, hosted at national or EU level, can support early-stage screening and eligibility.
At this stage, actors make a formal decision to proceed, either independently or in collaboration with aggregators, NGOs or local cooperatives. These intermediaries can play an important role in lowering entry barriers for smaller or less experienced participants.

Step 2. Plan

After eligibility is confirmed, actors begin preparing a detailed project plan. This includes selecting an EU-approved methodology, identifying the appropriate basket of ecological metrics, and defining the baseline nature condition. The baseline is essential for calculating the uplift generated by the project and the corresponding credit issuance.
Actors must also identify accredited verifiers and consult with relevant authorities if the project overlaps with protected areas, Natura 2000 sites, or other regulatory zones. A robust project plan includes spatial data, ecological management protocols, and a timeline for implementation and monitoring.

Step 3. Certification

At the certification stage, an accredited independent body confirms that the project is designed in line with EU recognized methodologies and standards, ensuring biodiversity relevance, additionality and best practices. This certification acts as a quality label that can unlock upfront financing and underpin contractual arrangements or guarantees, as envisaged in the Commission's two step model. On this basis, early stage commercial or commitment arrangements, such as letters of intent or APAs, may also be established, signaling buyer interest and providing greater confidence to project developers ahead of credit issuance.

Step 4. Commit + Implement

At this stage, actors enter formal commitments to manage land or implement ecological improvements over a defined period (e.g. 20–30 years), in line with permanence ecological requirements. These may take different forms depending on the nature and context of the intervention. In many cases, landowners can enter 'Payment for Restoration' contracts, building on existing land management agreements under the CAP, to support initial restoration efforts and reduce long-term risk, especially for small landowners.
Buyers, such as those in real estate, infrastructure, or extractive industries, may initiate collaboration with operational actors like conservation NGOs or reforestation service providers to deliver ecological outcomes on-site.
With these commitments in place, implementation begins. This may involve active restoration, rewilding and habitat conversion. The timeline to achieve net gain will depend on ecosystem conditions and the intensity of active restoration effort.

Step 5. Verify outcomes

Once key milestones are reached and net gain is achieved, projects undergo third-party verification. Accredited verifiers assess whether the outcomes promised in the project plan have been achieved, using standard MRV protocols defined by the EU framework.
Verification reports confirm net gain. Only verified outcomes are eligible for credit issuance. This step ensures trust and traceability, particularly when credits are monetized or used in a corporate disclosure context.

Step 6. Credit issuance

After successful verification, credits are issued by an accredited issuer and logged in the EU Central Nature Credit Registry. Each credit receives a unique identifier and is tracked for ownership, status (e.g. active, retired), and geographic attributes.
The registry ensures transparency, prevents double-counting, and supports reporting under frameworks such as the CSRD or the EU Taxonomy. Credits cannot be claimed or traded until formally registered.

Step 7. Trading + Monetization

Once registered, credits can be traded through a dedicated transaction platform linked to the EU Nature Credit Registry. Even if commercial agreements exist in advance, such as bilateral deals, all transactions must be executed through the platform to ensure traceability and compliance.

Trading platforms may be hosted nationally, aligned with Member State priorities and ecological proximity principles.

Buyers, whether voluntary or regulated, retire credits once used. Retirement marks the permanent removal of the credit from circulation and confirms that the associated biodiversity gain has been claimed.

While the lifecycle does not depict safeguards as a separate step, safeguards should be placed along all steps to ensure that nature credits are not used to justify or offset environmental harm elsewhere. Instead, the system should support additionality and place-based ecological improvements that contribute to EU restoration goals.

4.3 Financial Architecture

Once credits are issued and registered, the challenge shifts to enabling their use and monetization through an appropriate financial infrastructure. A functioning nature credit market must be underpinned by effective financial flows. This section outlines the financial architecture required to activate demand, both through credit buyers and enabling conditions, and to support credit supply through funding and risk-reduction mechanisms.

4.3.1 Activating Demand

Developing a functional nature credit market requires more than buyers and sellers. It demands a clear understanding of who drives demand and what enables it. Some actors generate direct demand by purchasing credits, while others act as enablers by shaping the conditions under which credits become attractive, credible, and investable.

Drivers of demand

Regulatory Compliance: Credits can be integrated into a compliance model, where regulatory requirements link development approvals to the delivery of measurable nature outcomes. This creates stable, enforceable demand that embeds credit use directly into legal obligations. This is a powerful policy lever to scale investment. While compliance regimes have historically centered on offsetting, within this market, models would shift toward biodiversity net gain. In doing so, they must remain anchored in the mitigation hierarchy, ensuring that avoidance and minimization of harm come before any compensation or credit issuance.

Public Nature Targets: Governments at both EU and Member State levels can act as buyers to meet policy targets, restore priority habitats, or de-risk emerging markets. Public purchases build trust, set quality benchmarks, and help scale supply. These must be carefully designed to crowd in, rather than crowd out, private investment.

Under Article 14(12) of the Nature Restoration Regulation, Member States are encouraged to develop their own implementation schemes and measures as part of their National Restoration Plans European Commission (2024).

Voluntary: This includes demand coming from reputational, disclosure, and risk mitigation incentives.

- **Reputation and disclosure:**
  - **Companies**: Nature credits could be used to demonstrate measurable contributions to nature across corporates. Verified credits offer science-based outcomes that support ESG disclosures, product positioning, and regulatory alignment under frameworks like the EU Taxonomy and CSRD. They help mitigate greenwashing risks and support verifiable action for reputation uplift.
  - **Financial Institutions**: Similarly, financial institutions, including banks, asset managers, and Development Finance Institutions (DFIs), could integrate credits as evidence of ecological performance at the portfolio or fund level. Credits can support the development of nature-linked investment strategies, help meet sustainability KPIs and align capital with disclosure expectations under frameworks such as CSRD and TNFD.
  - **Philanthropy**: Foundations, family offices, and high-net-worth individuals may purchase credits with an impact-first mindset. This capital can support early markets, fund high-integrity projects, and demonstrate proof of concept for other investors.
- **Risk mitigation:**
  - **Companies**: Companies with material dependencies on ecosystem services, in own operations and supply chains, may invest in surrounding land restoration to safeguard long-term functionality. In these cases, credits are not purchased to offset harm, but to maintain ecological services vital to business continuity and resilience. This form of demand can create shared value between companies and the surrounding land stewards, particularly when enterprises commit in advance to purchasing credits from local restoration actors. For example, Nestlé funded watershed restoration around its facilities to secure long-term groundwater supply

(Nestlé, 2021). While this support does not involve the purchase of nature credits, similar projects, in the future, could evolve into credit-generating models.

- **Insurance**: Insurers have a growing interest in investing in nature credits as a strategic tool to reduce risk exposure. For example, by purchasing credits linked to the restoration of critical habitats such as wetlands or forests, they help stabilize ecosystems that provide natural protection for insured assets, such as infrastructure vulnerable to flooding or fire. Targeted nature interventions can reduce the likelihood or impact of insured losses, especially in vulnerable regions. This can lead to lower future claims payouts while also strengthening long-term resilience.

Enablers of demand

Beyond direct market drivers, demand uptake is shaped by the financial and policy infrastructure surrounding credit transactions. Financial instruments such as sustainability-linked loans, nature impact bonds, and InvestEU-backed blended finance vehicles can embed biodiversity performance into lending conditions, reducing capital costs when verified outcomes are delivered. At the same time, EU and Member State policy instruments, such as public procurement preferences, or tax benefits for nature-positive actions, can lower entry barriers and improve the investment case for buyers. The EU could provide dedicated public seed funding to early investors to catalyze blended finance, reward, and scale up emerging certification schemes and nature credit initiatives (Bruegel, 2025). These tools, when aligned under a unified EU Nature Credit Framework, can help reinforce market confidence, attract early adopters, and enable scale.

In addition, financial instruments to de-risk the investment in Nature Credits are needed. For example, in the carbon market, credit insurances are boosting investor confidence and reducing the need for large buffers by covering risks like project failure, delays, or policy changes. Products like Swiss Re's forward credit insurance and Howden's Warranty & Indemnity protect buyers through guaranteed credit delivery or compensation for seller default (Swiss Re, 2025; Howden, 2024).

4.3.2 Activating supply

On the other hand, a reliable supply of nature credits requires targeted public investment and supporting mechanisms that drive and enable landowners, NGOs, and other actors to deliver restoration on-the-ground.

Drivers of supply

As explored in previous reports, the EU has a range of mechanisms that can directly support nature restoration (TNC & IEEP, 2024; European Commission, 2023; WWF, 2024). These funds can be deployed to finance project planning, implementation, and verification, particularly if upfront costs and delayed returns act as barriers.

The LIFE Program would play a central role in this space by providing grants for early-stage project development, technical support and capacity-building. These activities help address barriers to market participation.

In parallel, the CAP is already supporting landowners who undertake restoration or conservation activities, especially on farmland, through eco-schemes and agri-environmental measures. While not currently designed as a credit-supporting mechanism, the CAP structure could evolve to facilitate performance-based "Payments for Restoration." This approach would link funding to verified ecological outcomes and be structured as multi-annual contracts with phased disbursements. It would build on existing land management agreements and incentivize long-term ecological delivery.

In addition, redirecting subsidies from environmentally harmful practices toward biodiversity-positive land uses, an objective aligned with the EU Nature Restoration Law, could create significant fiscal space for Payment for Restoration (WWF, 2024; Bruegel, 2025). Drawing from international examples like Costa Rica's Payment for Ecosystem Services model, the EU could explore mechanisms where landowners are paid for verified biodiversity outcomes using public funds, such as environmental taxes or redirected agricultural subsidies (Pagiola, S., Arcenas, A., & Platais, G., 2007).

This kind of shift would not only support restoration. It would also reinforce long-term project implementation and permanence, ensuring demand of the EU Nature Credit Market is not dependent solely on uncertain credit pricing in its early stages.

Enablers of supply

Financial burdens and risks reduction tools

Beyond direct funding, several tools help reduce risk and increase the viability of credit-generating projects. APAs are a prime example. While they usually don't transfer money upfront, they commit to buying credits later, which de-risks supply by creating credit value certainty (WEF, 2024; Forest Trends, 2023). For instance, after a project being certified, a corporate buyer could sign an APA with a habitat restoration NGO to purchase credits generated over a 10-year period, once verified. This commitment provides the NGO with the certainty needed to secure bridge financing and begin restoration activities. In some cases, prepayment clauses can be included, but in general, APAs are not a direct funding channel. Additionally, they can also help suppliers secure loans or invest upfront with more confidence, knowing a buyer is lined up.

Another enabler is the use of aggregated delivery models, such as habitat banks or landscape-scale restoration funds. These models bundle multiple small or fragmented restoration projects under a single operational structure, applying a common methodology and streamlining verification and credit issuance. This reduces transaction costs and helps small landowners access the market. Aggregators, such as conservation NGOs, cooperatives, regional agencies, or specialized intermediaries, coordinate the process. They may handle certification, MRV, and registry engagement on behalf of participating landholders or communities. While the concept is still emerging in Europe, these structures could play a key role in scaling credit supply by simplifying participation and ensuring consistency across smaller-scale actors (IUCN & UNEP-WCMC, 2021).

The financial architecture presented here is not prescriptive, but it illustrates the range of instruments and mechanisms available to catalyze a high-integrity nature credit market in the EU.

4.4 Project Credit Quantification and Pricing

4.4.1 Credit Pricing Models

As the EU moves toward operationalizing a Nature Credit Market, it must establish clear parameters for how credits are priced and issued. These design decisions are central to building a market that is transparent, trustworthy, and scalable. While international systems offer varying approaches, from fixed pricing to market-based and bespoke project models, the EU Nature Credit Market will need to adopt a model that balances ecological integrity with practical feasibility (Forest Trends, 2023; WEF, 2024; IUCN & UNEP-WCMC, 2021). Getting this balance right is essential to ensure fungibility, comparability, and buyer confidence.

The three main pricing models differ primarily in how credit quantity and price are determined. Fixed-price models set a government-defined price per unit, while adjusting the number of credits issued based on ecological uplift. Market-based models determine price through supply and demand, offering flexibility but with higher volatility. Project-based models assign price and credit value through bespoke agreements, offering customization but limiting scale. The table below outlines these models to support EU-level design considerations.

Model	1. Fixed Price Model	2. Market-Based Price Model	3. Project-Based Price Model
Credit Issuance	Number of credits depends on verified ecological outcomes (e.g. habitat uplift)	Number of credits depends on verified ecological outcomes (e.g. habitat uplift)	Typically 1 credit per project, based on bespoke ecological agreement
Price Setting	Fixed administratively	Set by supply and demand in the market	Negotiated for each project

Credit Interchangeability	High interchangeability. Credits are standardized and fungible	Medium interchangeable within habitat types, but variation exists	Low interchangeability. Each credit is unique, not fungible
Advantages	Predictability and simplicity; guarantees availability of credits; suitable for regulated systems	Efficient price discovery; adapts to local demand; supports trading	Custom pricing; cost-reflective; works well for high-integrity pilots or voluntary markets
Disadvantages	May misprice ecological value; lacks flexibility; not responsive to market dynamics	Uncertain returns; price volatility; requires active markets	No comparability; no liquidity; hard to scale

The EU must consider not only the technical advantages of each model, but also their alignment with regulatory oversight, habitat specificity, and investment readiness across Member States. Fixed-price approaches may aid predictability and early uptake in low-liquidity settings, while market-based models are better suited for mature markets with sufficient ecological standardization. Bespoke pricing can support innovation and pilot learning but may need to transition into standardized categories over time. A hybrid pricing system, anchored in fixed-price floors, habitat-class bands, or voluntary-to-compliance transitions, could be considered as part of the EU Nature Credit Market architecture. This approach can reflect the ecological diversity across Member States, support early market uptake where liquidity is limited.

The UK's Biodiversity Net Gain (BNG) offers a practical example of a hybrid model, combining open-market credit transactions with a government-led fixed-price fallback (DEFRA, 2023). Under this system, developers are required to seek nature credits on the market but may purchase statutory credits from the government at a set price when no suitable market credits are available. Within the EU context, such a mechanism could be aligned with the EU Nature Credit Market proposed governance and operational architecture. It would integrate fallback pricing into the EU Central Nature Credit Registry, with clear eligibility conditions. Financially, it would complement other tools such as InvestEU guarantees or APAs, helping to reduce early-stage risk and reinforce trust during the market's formative phase.

4.4.2 Metrics to Value Nature Outcomes

To ensure credit quality and comparability across the EU Nature Credit Market, the system must adopt a harmonized basket-of-metrics that captures both ecological performance and site-specific context (VERRA, 2024; IUCN & UNEP-WCMC, 2021). A single metric, such as hectares restored, is insufficient to reflect the complexity of biodiversity outcomes. Instead, credit valuation should integrate a set of standardized indicators that ensure transparency, scientific credibility, and cross-border comparability, while accommodating ecological variation across Member States.

While the specific metrics and weighting will require further refinement, the EU should establish a core set of categories from the outset, such as ecological condition, strategic alignment, permanence, and habitat relevance, supported by approved methodologies. These categories should be scientifically grounded but operationally flexible, allowing for comparability across Member States while accommodating local ecological realities. Doing so will help align credit issuance with policy objectives, simplify integration into the EU Central Nature Credit Registry, and enable harmonized reporting under CSRD and the EU Taxonomy.

The EU can build on existing studies to define what constitutes a unit of nature credit and how outcomes are measures. The IUCN Global Standard for Nature-based Solutions could help to define what could be eligible activities and how ecological outcomes could be measured (IUCN, 2020). Additionally, the recent report by the Business & Biodiversity Platform and the European Commission on pathways for measuring biodiversity outcomes of biodiversity credits can offer practical indicators, methodologies, and data requirements for robust outcome measurement (Lammerant J. & Verhelst J., 2025). Then, frameworks like the EU's Mapping and Assessment of Ecosystems and their

Services (MAES) and the UN System of Environmental-Economic Accounting – Ecosystem Accounting (SEEA EA) illustrate how ecosystem-specific flexibility can be coupled with a standardized, science-based structure (European Commission, 2025b).

The framework needs to balance high ecological integrity with manageable MRV costs. To reduce monitoring costs, methods such as remote sensing, bioacoustics, and environmental deoxyribonucleic acid (eDNA) could be used (Bruegel, 2025).

4.5 A phased market pathway: aligning supply, demand and pricing

Building a functional nature credit market in the EU will require a coordinated evolution of demand drivers, pricing mechanisms, and enabling infrastructure, aligned with the EU's policy priorities, market readiness conditions, and the phased activation of financial and regulatory incentives outlined in earlier sections. The EU cannot rely on spontaneous market formation; rather, it must strategically phase market development in line with institutional readiness, regulatory frameworks, and investment maturity.

We outline a foundation phase and four core transition phases for the Nature Credit Market: **Seeding, Initiation, Transition, and Maturity**. Each phase reflects a shift in pricing logic, dominant demand drivers, and the role of public support tools already covered in this report. This approach supports gradual integration of voluntary and compliance markets, ensures appropriate risk mitigation, and allows dynamic scaling of supply and demand within the EU Nature Credit Framework.

Phase	Dominant Demand Drivers	Pricing Model	Key Enablers
Foundation (2025-2027—>2030)	Establishment of the EU Nature Credit Framework, enabling tools (EU Central Nature Credit Registry), and aggregation bodies		
Seeding (2030-2033)	Voluntary demand testing	Fixed price	Supply drivers and enablers (Direct EU funding for project implementation) Demand enablers (early investors reward)
Initiation (2034-2036)	Regulatory Compliance, Public Nature Strategy	Fixed price	Supply drivers and enablers (Direct EU funding for project implementation and financial burdens and risks reduction tools)
Transition (2037-2039)	Regulatory Compliance, Additional voluntary demand (Reputation and Values)	Hybrid price with ceiling/ floor	Demand enablers (Finance-linked incentives and poli-cy-linked incentives)
Maturity (2040+)	Regulatory Compliance, Voluntary (Reputation and Values and Risk Mitigation)	Market-driven price	Mature infrastructure

Phase 0 – Foundation

Before implementation begins, the EU Nature Credit Framework must be fully designed, including certification infrastructure and approved methodologies, MRV protocols, pricing model and the EU Central Nature Credit Registry. This phase lays the legal and technical foundation for the market. Effective communication of the framework to local actors and early-stage project developers will be essential to establish credibility. Enabling incentives and early-stage technical assistance must be activated to address current supply-side constraints and stimulate readiness across Member States.

In alignment with the EU Nature Credit Roadmap, a two-year window is proposed to allow sufficient time for institutional setup, alignment with Member State processes, and stakeholder capacity-building before operational roll-out. Following a call for expression of interest by the Commission, a dedicated expert group on nature credits will be constituted to mobilize knowledge, share best practices, and contribute informed guidance. Relevant stakeholders including all different credit-generating actors must be consulted. The Commission also intends to lead further research on drivers and enablers of supply and demand of nature credits (European Commission, 2025b).

However, given that a legislative proposal is expected in 2027, the EU decision making cycle would add approximately two additional years for adoption and entry into force. Therefore, this foundational stage is expected to extend to 2030 to accommodate the regulatory timeline.

Phase 1 – Seeding

The seeding phase serves as the market's pilot stage, activating early supply and demand while the full regulatory framework is still under approval. The market, during this phase, will primarily rely on voluntary demand and early mover commitments rather than the compliance markets. Certifications will be activated, strongly led by EU incentives (e.g. TA grants) that test the functionality and effectiveness of the systems set up during the foundation phase.

Phase 2 – Initiation

This phase marks the first wave of regulatory compliance demand. With EU and national nature net gain requirements starting to apply, developers in sectors such as infrastructure, energy, and mining would begin to purchase verified nature credits to meet new legal obligations. This represents a shift from the previous phase, where activity was predominantly voluntary, to a market that will predominantly be compliance driven. The regulatory demand becomes a powerful market driver, creating stronger and more predictable signals that are essential to activate supply, guide investment decisions, and enable credible project pipelines to form.

Voluntary buyers, such as corporates and financial institutions will continue to have presence in the market, but for the first time, regulated actors create a predictable baseline of demand.

To support this transition, a fixed price model is recommended, offering clarity and reducing risk for project developers and landowners entering the market while preventing low quality credits from undercutting compliance buyers. Public funding would play a vital role. Instruments such as LIFE, InvestEU, the CAP, or national recovery funds should be used to co-finance supply, support technical assistance for landowners and local actors, and de-risk early-stage projects. These interventions are critical not only to stimulate activity, but also to build trust, legitimacy, and operational readiness across the EU. Without them, the market will not reach the level of credibility required to attract long-term private participation.

Phase 3 – Transition

As infrastructure matures and early projects demonstrate impact, new sources of demand begin to enter. This phase is expected to be marked by a broader wave of voluntary buyers. While the earlier phases were driven largely by impact motivated actors, such as philanthropic funds, this phase sees participation expand to a wider set of voluntary buyers who were previously waiting for evidence of credibility and clear rules of engagement.

These new entrants include financial institutions and companies seeking to improve disclosures, meet reputational expectations, or demonstrate alignment with sustainability values. Insurers and other risk sensitive actors also increase their participation as they recognize nature credits as a tool to reduce exposure to nature related risks and enhance

supply chain and financial resilience. To avoid reputational risk and ensure appropriate credit use, the EU must operationalize a claims guidance system aligned with the EU Taxonomy, CSRD, and TNFD. Transparent frameworks for what credits represent and how they can be communicated become essential.

Pricing evolves into a hybrid pricing model, with market-driven credit pricing moderated by floor or ceiling rates to ensure fairness and stability. Regulatory compliance will remain important, but the balance begins to shift toward more diversified, incentive-driven buyers.

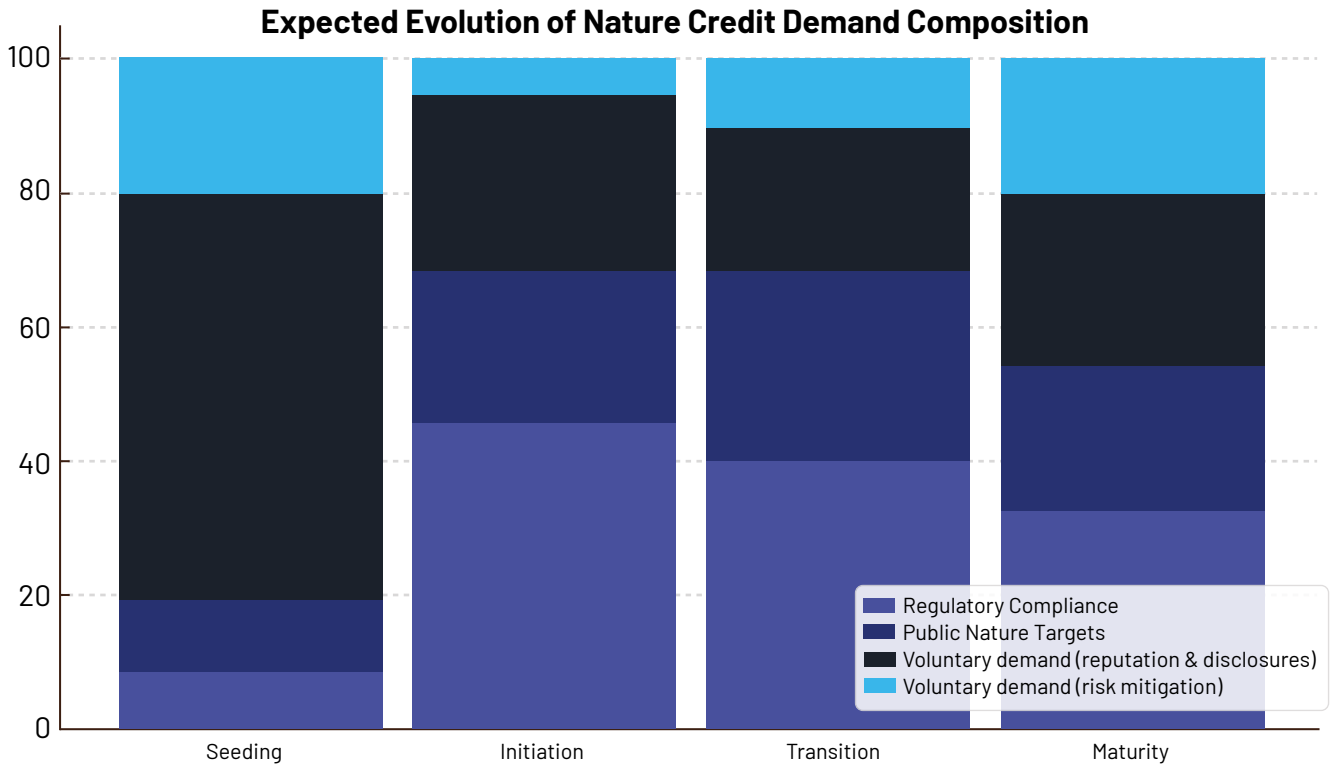
Phase 4 – Maturity

By 2037, the nature credit market should be fully operational, with robust governance, supply diversity, and growing liquidity. Demand would become more broad-based and self-sustaining, with actors entering for different reasons:

- Regulators maintain stable compliance demand.
- Corporates and financial institutions integrate credits into ESG strategies and portfolio-level alignment.
- Risk mitigation demand increases significantly, as the effects of nature loss become more visible, threatening operations and increasing exposure to nature-related risks.

At this stage, the project-based price model becomes more relevant, especially for location-based projects, where companies negotiate credit agreements directly with nearby landowners. This allows tailored value capture that reflects ecological service dependencies, local context, and shared resilience goals.

The below graph presents the expectation of the evolution of the composition of the demand along the different phases described above. The total demand is expected to increase significantly over time.



In sum, the EU Nature Credit Market will not scale on its own. It must be strategically nurtured, with clear expectations that public funding, regulatory compliance, and institutional architecture play a leading role in the early phases. Over time, as infrastructure, claims guidance, and market trust grow, the system should evolve into a dynamic, multi-actor market driven by a diverse blend of compliance, voluntary, and risk-based demand.

5. Conclusions

This report confirms that a high-integrity EU Nature Credit Market is both feasible and urgently needed. The institutional foundations are already in place, with legal frameworks, regulatory infrastructure, spatial data systems, and strategic environmental directives necessary to underpin a trusted credit system. Building on these existing assets will allow the EU to avoid duplication, ensure consistency, and scale rapidly.

However, technical feasibility alone is not enough. Turning it into an operational market requires a coordinated investment in governance, infrastructure, and demand creation. The EU must now operationalize a unified Nature Credit Framework with clearly defined certification rules, MRV protocols, and a central registry capable of supporting transparent, high-integrity transactions across Member States. This must be coupled with a shared governance model that enables Member State participation while safeguarding EU-wide consistency.

Public finance will play a decisive role. Through instruments such as LIFE, CAP, and InvestEU, public investment must be used not just to subsidize supply but to build early confidence, reduce transaction risk, and send strong signals to private actors. Without this leadership, the market will fail to achieve either scale or credibility. The sequencing of these investments should follow a clear, phased roadmap that links institutional readiness to demand activation, ranging from compliance to voluntary to risk-based pathways.

The EU has a unique opportunity to lead globally by demonstrating that nature markets can scale without compromising ecological integrity or public trust. This report sets out the architecture, conditions, and enabling tools to make that vision operational.

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