POLICY PAPER

# China's Institutional Foundations for Nature Markets

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IFS 北京绿色金融与可持续发展研究院
INSTITUTE OF FINANCE AND SUSTAINABILITY

morphosis.

THE LANDBANKING GROUP

## ABOUT THE REPORT

The China Nature Markets Initiative is an 18-month project bringing together the Institute of Finance and Sustainability (IFS), Morphosis, and The Landbanking Group (TLG) in association with the Asian Infrastructure Investment Bank (AIIB). The initiative tests whether nature markets can be designed, piloted, and scaled in China in ways that integrate ecological assets into financial systems. Focusing on the biodiversity-rich region of Ya'an (Sichuan), the project moves from concept to practice, developing high-integrity models using both stand-alone biodiversity credits aligned with the International Advisory Panel on Biodiversity Credits (IAPB) and integrated nature credits that capture broader ecosystem services including water regulation and soil health. Underpinned by AI-driven monitoring and a shared evidence infrastructure for ecological assessment, verification, and registry, the initiative aims to produce a credible, scalable, and internationally relevant blueprint for nature markets, positioning China at the forefront of mobilising investment into resilience for the natural world.

This policy paper is part of a series of publications emerging from the China Nature Markets Initiative. It examines where nature markets genuinely add value within China's existing institutional landscape and where strengthening current instruments would be better. China has already built one of the world's most extensive systems for governing ecological outcomes, with ecological compensation, green finance, and environmental exchanges already operating at scale. Rather than asking whether China needs nature markets in the abstract, this paper tests why nature markets are needed alongside that established system, and identifies precisely where a governed exchange adds value that deepening existing mechanisms cannot.

This policy paper can be read in conjunction with the accompanying technical paper: *China's Technical Foundations for Nature Markets.*

## ABOUT THE PARTNERS

**The Institute of Finance and Sustainability (IFS)** is a Beijing-based non-profit research institution specialised in the issues of ESG investment, natural capital, green technology innovation, and the low-carbon transition. Its mission is to advance green finance and sustainable development in China and beyond, through high-quality research on green finance policies, markets and products. It aims to become a globally recognised think tank and make substantial contributions to international efforts to conserve nature and combat climate change. https://www.ifs.net.cn/

**Morphosis** is an adaptation solutions investment business for a severely climate-impacted world 'beyond 1.5°C'. Its purpose is to deliver affordable transformative adaptation solutions to low and middle-income households by catalysing the adaptation economy through investment, policy engagement, research and advisory work. Morphosis orchestrates a network of private investors, market, policy and other stakeholders, and invests in a growing portfolio of adaptation solution businesses. https://morphosis.solutions/

**The Landbanking Group (TLG)** is a Nature Fintech that provides the Nature Data and Decision Infrastructure to translate physical data on water, soil, biodiversity and carbon into economic and financial values. This translation enables the integration of nature into economic and business decisions. Despite the significance of natural systems for economic and business success, the risks and opportunities originating from the condition of nature have been largely ignored. Based on AI-enhanced tooling that derives forecasts and scenarios from the biophysical data, nature becomes part of regular business decisions. The condition of nature and its change cannot only be traced but also evaluated, contracted and traded as a digital twin.
https://www.thelandbankinggroup.com/

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All errors and omissions in this report are the responsibility of the authors and partner institutions.

# Interest Statement.

The Landbanking Group develops commercial products and services in natural capital measurement and nature-related financial infrastructure and therefore holds an interest in the subject of this paper. The paper prescribes no particular platform or commercial system and endorses no product, including those of the authors' own organisations.

The views expressed are those of the authors and do not necessarily represent those of the consortium partners or of the institutions acknowledged above.

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Generative AI was selectively used to support visual development, with all outputs reviewed for relevance and accuracy.

# Key Messages

## China Nature Credit Markets.



**1. China's eco-compensation policy framework effectiveness can be enhanced by integrating nature credit markets, thereby:**

a. Connecting markets and policy together with a common nature-related infrastructure of data, accounting and rules.

b. Investing with private money alongside public funding to pay for restoration and conservation.

c. Incentivising markets so that businesses and financial products actually reward outcomes that are good for nature.

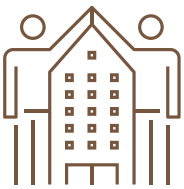


**2. These nature credit markets will strengthen public budgets and rules by:**

a. Identifying a clear, agreed claim on what's being bought or sold.

b. Providing solid, location-specific evidence behind that claim.

c. Establishing rules to monitor, verify, register, and hold people accountable.



**3. China can then lead the next generation of policy-aligned nature credit markets, nationally and internationally by:**

a. Testing selected pilots to see what market infrastructure works, and connecting the people running them so they can learn from each other, including on a provincial level.

b. Learning and sharing by bringing in international experience and sharing what China is learning with international partners.

c. Competing globally so that Chinese businesses succeed as global markets increasingly price in nature.

# Key Messages
## Policy Paper.

### WHAT WE FOUND



**1. China has a strong base for nature credit markets, but business needs and conservation goals have yet to translate fully into purchases.**

a. China has experience in eco-compensation, green finance and carbon markets.

b. Public funding has supported extensive conservation and restoration; maintaining these gains requires continued funding.

c. Turning business needs into payments can give conservation providers income for delivering results.

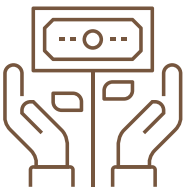
### WHAT THIS MEANS



**2. Nature credits can improve conservation performance and help markets raise more funding.**

a. Credits provide a standardised representation of ecological outcomes that have been measured and independently verified under agreed rules.

b. As a market tool, credits help providers offer outcomes and reach potential buyers, raising funds for additional conservation and continued management.



**3. Credits can lower transaction costs and help providers raise funds from several buyers.**

a. Credits turn measured and independently verified ecological outcomes into units that buyers can purchase and track.

b. Buyers can identify their contribution with less repeated assessment and negotiation.

c. Buying by the unit lets buyers of different sizes support one project.



**4. Business needs, voluntary goals, legal duties and financing conditions can encourage conservation payments.**

a. Companies can buy credits for ecosystem services their operations depend on, to prepare for future protection requirements, or for voluntary conservation goals.

b. Where rules allow, eligible credits can help companies meet specified restoration duties.

c. Finance linked to verified ecological performance can support these activities and give companies stronger reasons to keep investing in conservation.

### WHAT TO DO NEXT



**5. Two types of pilot can test buyer demand, funding and conservation results.**

a. Develop credits from eligible outcomes of existing projects, or start with companies' dependence on nature and develop credits for the outcomes they need.

b. Use green finance and carbon market experience, and verifiable data, to test payments and delivery. Compare costs and funds raised with existing payment methods.

c. Follow later transactions and monitor ecological condition and performance to assess whether funding persists and agreed outcomes are maintained or improved over time.

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# Executive Summary.

China has a strong basis for developing domestic nature markets. Nature credit markets can improve the use of existing conservation funds, attract private funding for additional protection and strengthen companies' reasons to participate.

The priority is to connect companies' business needs and conservation goals with purchases that pay providers for delivered outcomes. Public programmes have supported large-scale restoration, whose gains require continuing management. China's ecological compensation, green finance and carbon-market experience provide a basis for linking payments to measured results and giving ecosystem managers income for continued protection and restoration.

Nature credits have two main applications. First, they provide standardised units representing outcomes measured and independently verified under agreed rules. Applying these rules to public conservation budgets and corporate restoration spending can improve funding allocation, delivery and performance assessment. Second, credits connect providers with buyers to fund additional conservation and continuing management. Demand may come from companies protecting ecosystem services on which their business depends, or from buyers pursuing voluntary conservation goals. Financial institutions can support both applications by linking financing terms to verified ecological performance. Where financing conditions lead to credit purchases, the company making the purchase is the buyer.

China already has ecological restoration duties, damage compensation procedures and some local market transactions. Its ecological protection compensation framework also provides for fiscal transfers, agreements between governments and purchases under market rules. Existing duties can be met through several routes, including direct restoration, third-party work and specified payments. A wider use of nature credits would require clear decisions on which obligations they can fulfil, how their ecological results match the loss, when an obligation is fulfilled and who maintains the result. These decisions determine where a credit adds value to the arrangements already available.

The evidence supports targeted development of these applications. Chinese studies show that ecological benefits and production pressures extend across regions and value chains, and that resource-use rules and purchasing requirements can change company behaviour. International cases show how legal obligations and concentrated business benefits can sustain payments. Corporate participation in voluntary markets is growing, although many purchases remain small and exploratory. Common measurement and verified units can reduce repeated assessment

**“China's ecological compensation, green finance and carbon-market experience provide a basis for linking payments to measured results and giving ecosystem managers income for continued protection and restoration.”**

and negotiation, and allow buyers with different budgets to support the same project. Their benefits must be assessed against the full cost of verification, contracting and oversight.

Two types of pilot can proceed in parallel. One starts with existing conservation results that qualify for credit development and organises purchases to fund further protection and management. The other starts with a company's dependence on ecosystems and develops credits for the outcomes needed to maintain or improve the relevant services. Both can use existing ecological data, green finance and carbon-market experience. Initial transactions can test payment commitments, rights, contracts, verification and delivery. Subsequent transactions and monitoring are needed to assess continuing funding and ecological performance.

Comparing credits with existing payment arrangements should cover funding raised, provider income, local benefit-sharing and the full cost of delivery and oversight.

Domestic demand offers the main basis for early market development. Foreign contributions and investment connected to Chinese operations may provide supplementary funding, whose scale remains uncertain. Chinese companies and financial institutions operating abroad also face host-country requirements and financing standards. Domestic experience in assessing results, recording their use and maintaining them over time can help these businesses and give China a stronger practical basis for contributing to international rules. Common information can make projects easier to assess across countries, while compensation remains subject to the ecological context and rules of the affected place.



# Introduction.





Chinese governments already protect nature through fiscal transfers, restoration programmes, protected-area rules and environmental liability. They fund key ecological function zones and restore degraded ecosystems. They also restrict damaging uses and require responsible parties to undertake restoration or make payments under the applicable law.

These measures establish public protection commitments and legal duties. Nature markets can build on them by connecting specific payments to ecological services and results.

A forest, wetland or grassland can regulate water, protect soil, support pollinators and reduce flood risk. The people who manage it often live far from the households, companies and local governments that benefit. Trade widens the distance: goods move to consumers, while resource use and management costs remain in the place of production. A payment agreement can connect a beneficiary or responsible party to the people managing the relevant ecosystem, provided there is a sufficient reason to pay.

For this study, nature markets encompass transactions in products, services and ecological outcomes that aim to support conservation, restoration, sustainable use or reduced ecological pressure, together with financing that supports those activities[47]. Within this broad scope, the report focuses on nature credit markets: payment, trading and related financing arrangements that use nature credits. Credit rules can also improve existing conservation programmes without a credit sale. Service contracts, public programmes and other existing arrangements provide evidence and comparisons for assessing their value. In a purchase, an identifiable buyer pays a separate provider under an agreement specifying what is purchased and how delivery will be assessed.

Where sources on biodiversity finance in China refer to 'biodiversity credits', this report uses 'nature credits' in a broader sense, covering biodiversity conservation and the maintenance or improvement of related ecosystem services.

Credits have a stated duration and conditions of use. For purchases claiming additional conservation, evidence must show what the project adds to the relevant baseline and how the result will be maintained[46]. Some international schemes release credits against approved milestones before full ecological recovery. Buyers therefore need to distinguish achieved results from future delivery commitments[40]. Spatial evidence locates the result; valuation informs the decision; transaction records show its purchase and use. Figure 1 sets out these elements and their relationship to public policy.

**“Trade widens the distance: goods move to consumers, while resource use and management costs remain in the place of production.”**

# Two Applications of Nature Credits

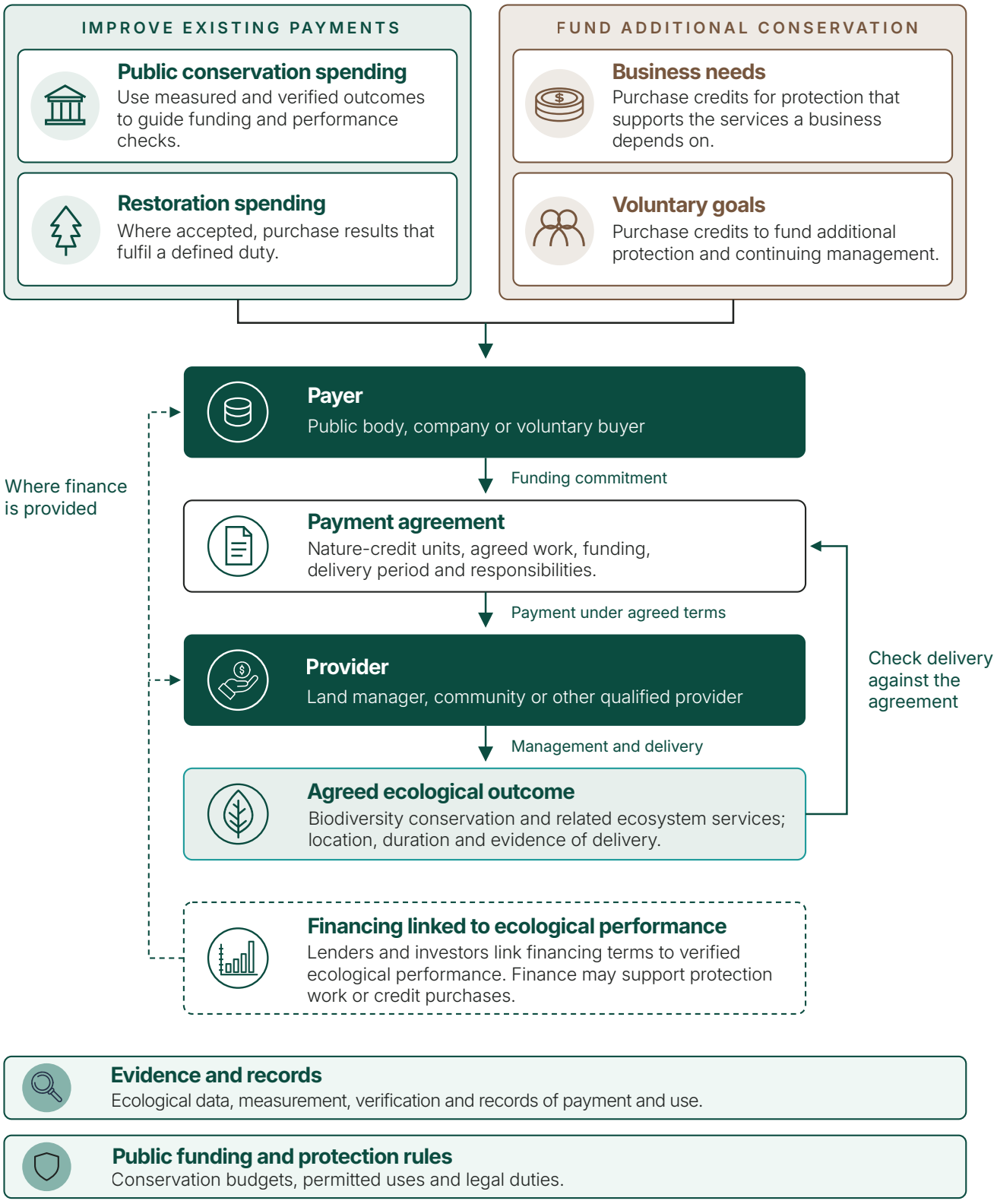



**Figure 1.** Nature credit payment arrangements

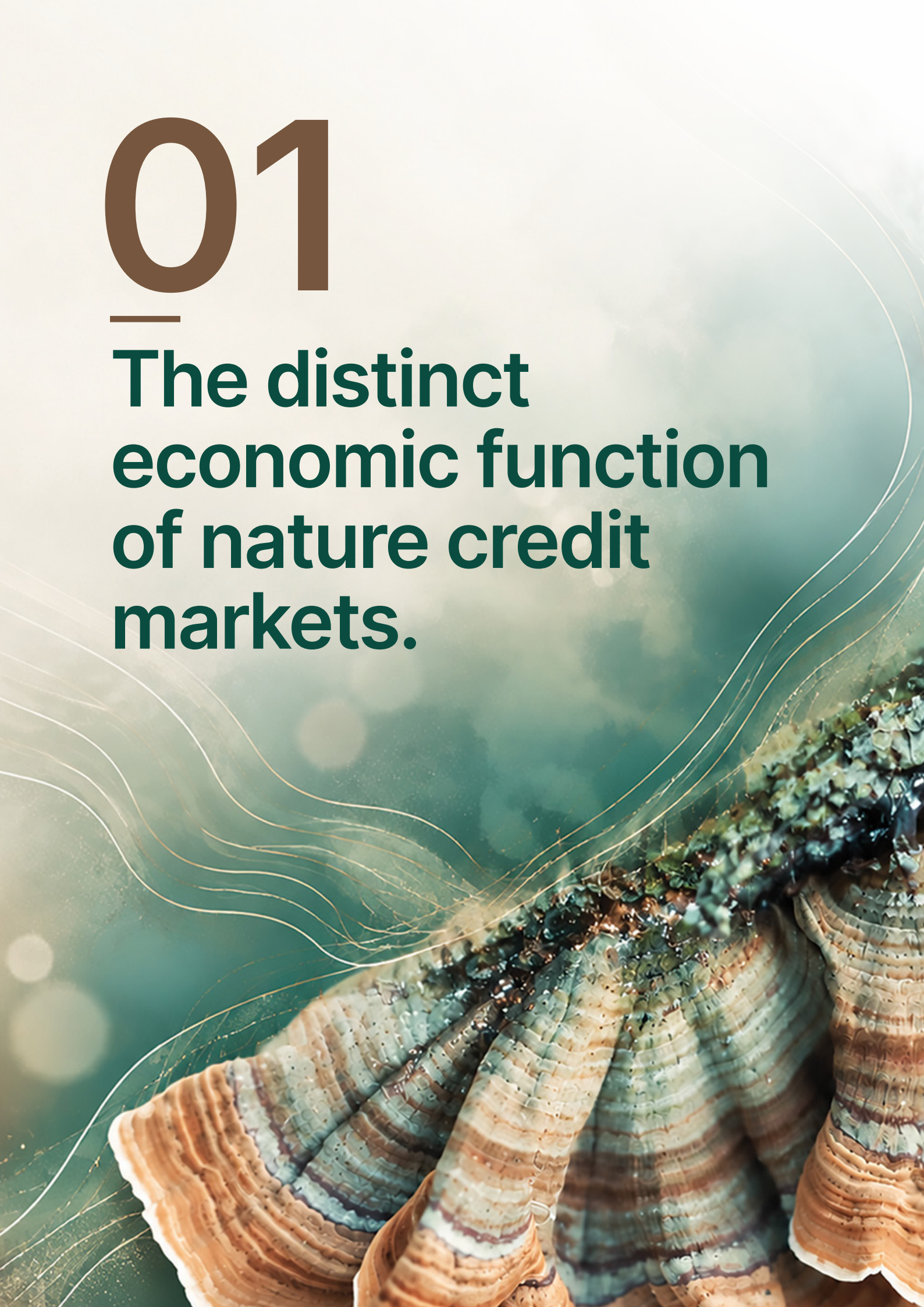
Chapter 3 examines the two applications through public conservation payments, restoration obligations, companies' business needs and voluntary purchases. It also considers financing linked to ecological performance as support for these activities. Some public arrangements include procurement or other market transactions; agreements between governments provide lessons on coordination, monitoring and sustained payment. The analysis distinguishes the use of credit rules to improve existing spending from purchases that bring additional funding to conservation.

The report examines why China needs nature credit markets alongside its established system of public ecological finance and regulation, and where they could add the most value. Chapter 1 explains their economic role. Chapter 2 considers the Chinese evidence, Chapter 3 examines demand, and Chapter 4 identifies the policy decisions needed for practical use. Chapter 5 draws lessons from international experience. Published research and legal sources support the analysis; exploratory work under this project identifies questions for further testing. The companion technical paper examines the measurement and evidence needed to substantiate ecological results. It also examines the links between monitoring, finance, compensation and registration systems, identifies rules and responsibilities needed to connect them, and explains how a common project record can support different payment and financing decisions[49].



# 01

# The distinct economic function of nature credit markets.





## 1.1 The starting problem

**Ecosystems produce services that households and companies use every day. Wetlands regulate water, forests hold soil and store carbon, and diverse habitats help these systems withstand shocks. Yet a healthy watershed can serve farms, factories, utilities and households at the same time, while its manager cannot easily exclude a user who declines to pay.**

Each user has reason to wait for others, so private spending falls below the value society receives. Government funding and collective rules cover these broad benefits; economic decisions must also account for changes in the ecological assets that produce them[1][2].

The appropriate instrument depends on who benefits and who causes the loss. Government can pay where benefits reach the public at large. A downstream authority or a defined group of users can share costs when an upstream area provides them with a traceable service. Regulators restrict harmful activity, set conditions for permitted impacts and determine responsibility for damage under the applicable law. When a small number of parties have clear rights and can trace the service, they may negotiate their own payment; as the number of parties, borders and enforcement costs grow, public coordination becomes more important[3][4][5].

## 1.2 What a market transaction adds

In a nature-market transaction, the buyer pays for an agreed ecological service or result. The contract states what the provider will do, how performance will be assessed and what follows if delivery falls short. Payments may be made upfront, in stages or over the management period, with conditions that fund the agreed work and hold the provider accountable for delivery. This relationship between payment and performance gives payments for ecosystem services their economic function[6].

The exchange brings the buyer and provider into a specific payment relationship. Where the applicable rules allow it, a developer can purchase qualified restoration results to fulfil a defined obligation. A company can contract with land managers to protect a service that supports its operations, while a lender or investor can require ecological action as a condition of financing. A voluntary buyer can fund additional conservation work. In each case, the agreement identifies who pays, who receives the money and what the payment secures.

The reason to pay can affect company decisions before money reaches the land manager. A legal restoration obligation enters a developer's site selection, design and project budget. An authorised market can then provide a choice of qualified suppliers and make the cost and timing of delivery easier to assess. A food or beverage company can include a watershed agreement in its operating or procurement budget and adjust supplier terms around that commitment. Financing conditions can similarly bring ecological action into an investment decision. The market's contribution is to organise the payment and delivery relationship around these incentives.

Nature credits can make these purchases easier when a project serves several buyers or sells results repeatedly. Without shared evidence and terms, buyers may repeat project investigations, assess the same ecological results and separately negotiate what their payments secure. Common measurement and verification rules give buyers a defined unit to purchase and can reduce repeated assessment and negotiation. Purchases of different numbers of units allow buyers with different budgets to support the same project, helping providers bring together dispersed funding. The records must show which units each buyer holds or has used. Whether this saves money depends on the volume of transactions and the cost of verification and administration; a direct service contract may remain suitable for a single buyer.

## 1.3 Four tests for choosing the instrument

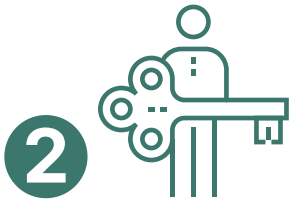
Ecological exchanges carry costs of their own. Results depend on place, starting condition, links with the surrounding landscape and the time needed for recovery. Landholders know local management constraints; buyers know their future demand and exposure; public authorities control legal duties and safeguards. Bringing these parties together requires search, measurement, negotiation, monitoring and enforcement. Communities and governments can sometimes perform the same job through shared rules or public programmes, so policymakers must compare the full costs of each feasible arrangement[7][8].

A major review of payments for ecosystem services found that local conditions, payment levels, contract length, targeting and other policies all shaped results[9]. Proposed nature-credit payment arrangements should therefore answer four questions:



### Payer and Funding.

Who will pay, and how will funding cover the agreed management period?



### Provider.

Who can manage the ecosystem, hold the necessary rights and receive the money?



### Result.

What ecological service or result will the provider deliver, and how will the parties assess it?



### Added Value.

After monitoring, enforcement and benefit-sharing costs are counted, does the arrangement work better than a feasible public, regulatory or collective alternative?

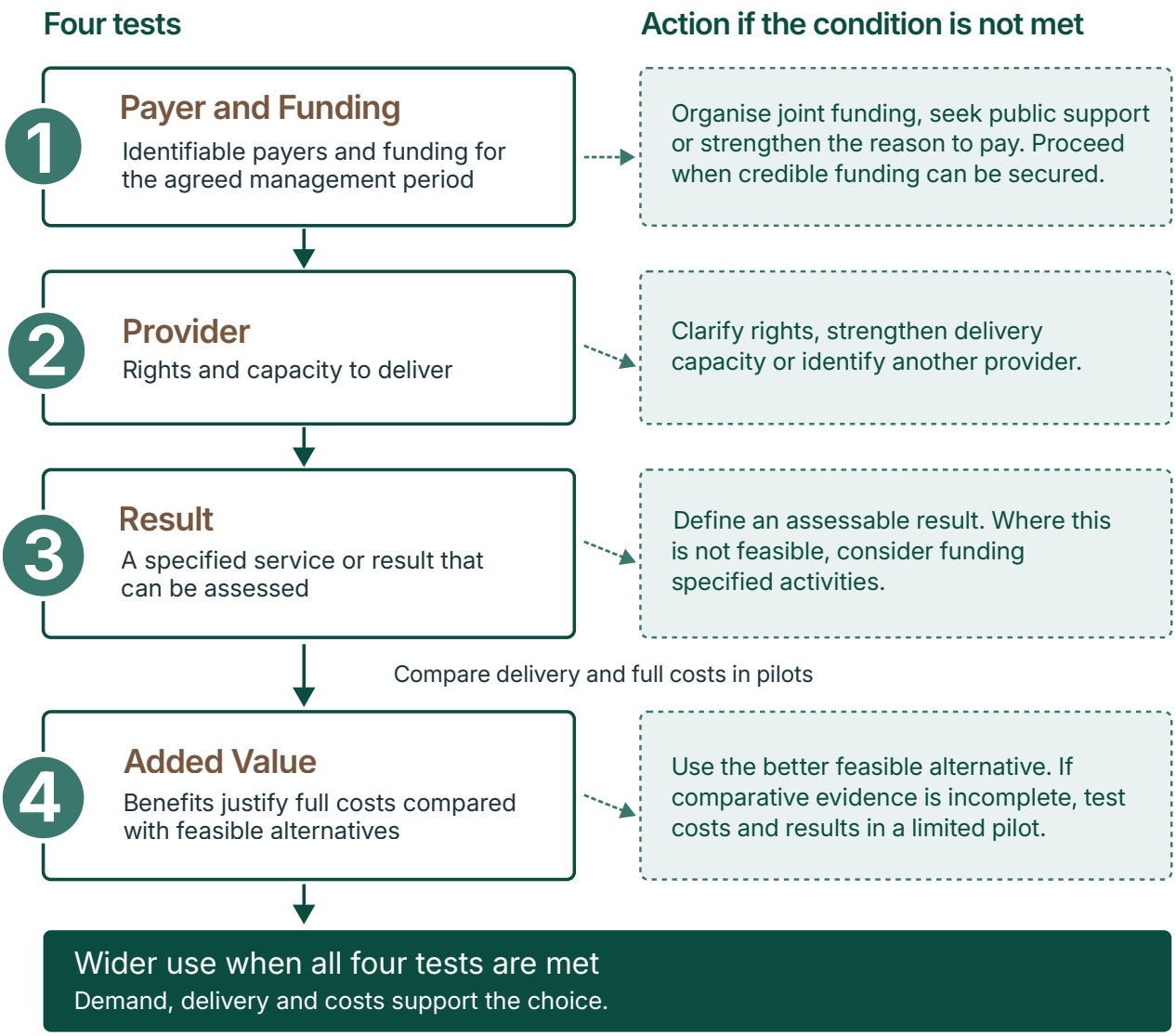



**Figure 2.** Four tests for credit payments

These tests distinguish demand across a market from funding within a project. Demand can continue through purchases by different buyers, including developers with separate compliance obligations. A project needs funding for the full agreed management period. This may come from an upfront payment reserved for future management, staged payments or renewed contracts. Repeated purchases by the same buyer are one possible arrangement.

A proposed credit payment arrangement should proceed only where a payer, a capable provider and an assessable result can be identified. Pilots can resolve remaining uncertainties and compare full costs. Where a feasible public, regulatory or collective arrangement delivers the required result more effectively after those costs, it should be preferred. Wider adoption is justified when all four tests are met. Figure 2 shows how these decisions follow from the assessment.

# 02

# Why nature credit markets matter in China.



## 2.1 Public programmes provide a foundation

China has already built a large fiscal and regulatory base for ecological protection. The 2026 central budget allocates RMB 122.9 billion to transfer payments for key ecological function zones, 2 per cent more than in the previous year; it also funds integrated restoration, protected areas and major river-basin programmes[10].

The 2024 Ecological Protection Compensation Regulations brought vertical fiscal transfers, interregional agreements and market-based compensation into one national framework[11]. The Ecological Environment Code retained all three mechanisms when it took effect on 15 August 2026 and continues to regulate interregional agreements and market purchases separately[12]. Any nature market in China therefore sits within an established public system.

Researchers have measured both the scale and the results of this public action. A review of 16 major land-sustainability programmes recorded US$378.5 billion of investment in 2015 prices, 623.9 million hectares of coverage and more than 500 million participants, mostly since 1998. The programmes generally improved the sustainability of rural land systems, although results differed by place and intervention[13]. China's first national ecosystem assessment also found that most measured ecosystem services improved between 2000 and 2010. It attributed a significant share of the gains to national conservation policies, with habitat provision as the main exception[14].

Experience with the Grain for Green programme illustrates the need for support beyond an initial payment period. Central authorities extended its payments for up to eight years[15]. Ecological recovery and livelihood transition take time, and managers need funding throughout that period. Where policy can identify a beneficiary, that actor may share the continuing cost with government. Where law assigns a restoration obligation, the required expenditure enters the responsible party's budget.

Public funding and regulation leave scope for payments from identifiable beneficiaries and responsible businesses. The value of a market depends on whether it can fund management over the agreed period and deliver the intended result at an acceptable cost. A systematic review of Chinese payments for ecosystem services found uneven coverage across places and ecosystems; among the dimensions reviewed, economic efficiency received the least attention[16]. The following sections examine the separation between people and organisations managing ecosystems and beneficiaries, and how companies respond when policy changes their costs or demand.

INVESTMENT

**US$378.5 billion**

invested across 16 major land-sustainability programmes supporting conservation and rural land management.

LAND COVERAGE

**623.9 million ha**

covered by these programmes improving the sustainability of rural land systems.

LONG-TERM SUPPORT

**Up to 8 years**

of extended payments supporting ecological recovery and livelihood transition.

## 2.2 Benefits and costs fall in different places

Analysts first use ecological accounts to locate an ecosystem service, identify the people who manage it and trace where its benefits go. Policymakers can then ask whether a beneficiary has a sufficiently direct and durable reason to share the management cost. Where that reason exists, a contract names the beneficiary and provider and links payment to performance. In this sequence, China's extensive valuation work helps identify a potential payment relationship.

Gross ecosystem product (GEP) research shows how far providers and beneficiaries can be separated. In Qinghai, water supply accounted for 57.6 per cent of GEP in 2015, with most of its benefits accruing downstream. The study also recorded a 127.5 per cent increase in measured GEP between 2000 and 2015, during which the region received large restoration investments[17]. One region can therefore manage ecological assets that mainly benefit people and businesses elsewhere.

Production and trade extend this distance through value chains. A national input-output study estimated that the virtual water embodied in interprovincial trade equalled 35 per cent of national water supply in 2007. Major physical water transfers equalled 4.5 per cent. Both kinds of transfer increased water stress in the main water-exporting provinces[18]. Consumers and companies therefore affect water pressure far from the places where they buy or sell the final product.

The evidence points to two payment relationships to test. A downstream government or public body can share the cost of a service that crosses an administrative boundary. A company may pay for management in a watershed or sourcing area where the business benefit is material and traceable enough to justify funding over the management period. Ecological accounts help reveal the connection. A payment agreement also needs a buyer with a reason and a budget to support it over time. Figure 3 summarises both forms of separation and the two payment relationships that policymakers can test.

> **“The evidence points to two payment relationships to test. A downstream government or public body can share the cost of a service that crosses an administrative boundary.”**

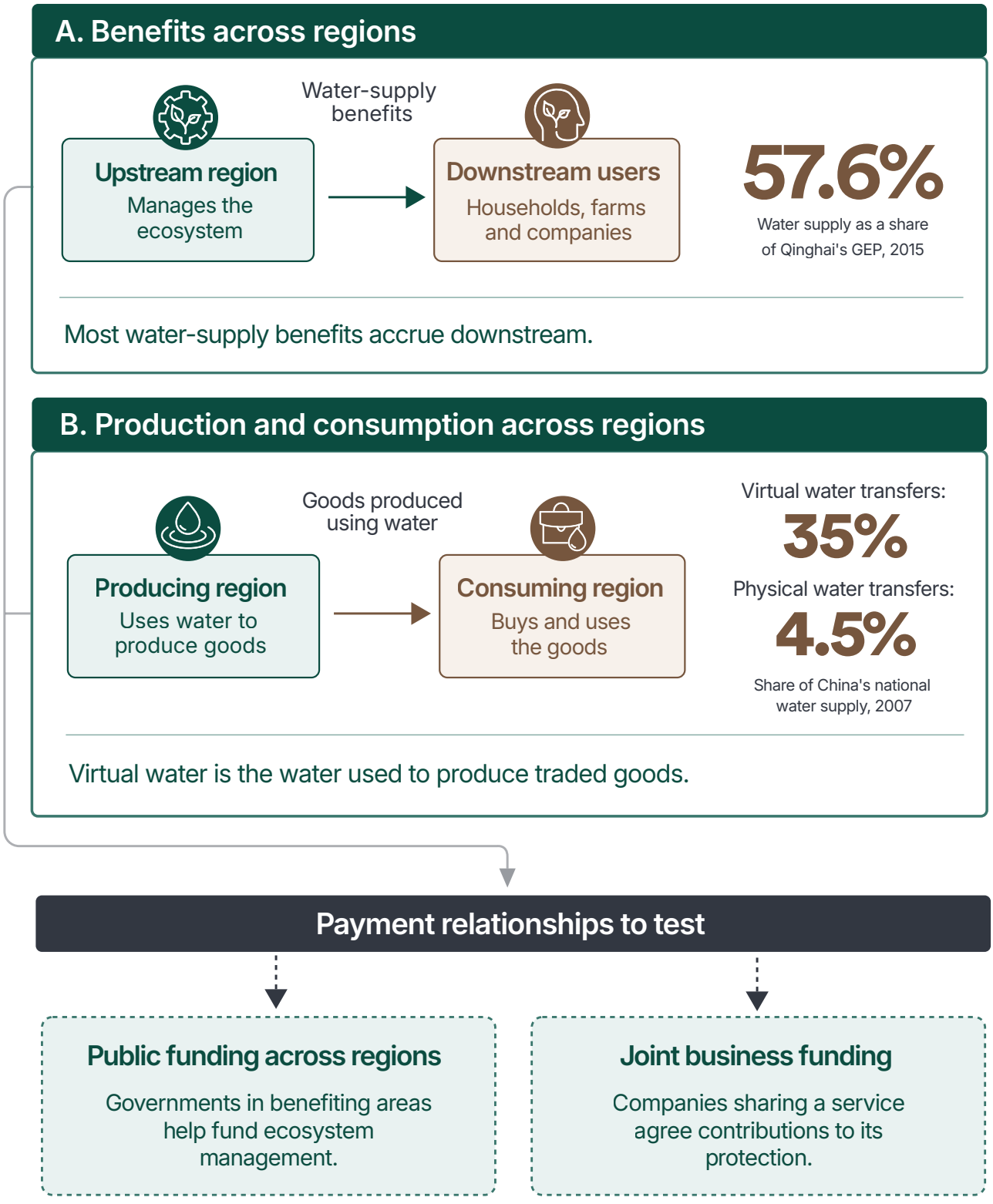



**Figure 3.** Ecological benefits and costs across regions

**Sources:** Ouyang et al. (2020), Table 1; Zhao et al. (2015).

## 2.3 Rules and buyers change company decisions

National land-use evidence shows why production and development decisions matter. Between 2000 and 2015, the conversion of natural ecosystems to cropland cancelled out an amount equal to 113.8 per cent of the restoration-related gain in potential wildlife habitat and 63.4 per cent of the gain in water-retention capacity. Reclamation also reduced gains in sandstorm prevention, carbon storage and soil retention[19]. Production-related land conversion erased part of the gains made by public restoration. Regulation must continue to protect critical ecosystems. China's ecological impact assessment guideline requires avoidance, minimisation, restoration and compensation, supported by impact assessment and project-specific protection measures. It does not itself set a common method for converting biodiversity losses remaining after mitigation into the quantity and quality of results to be purchased from another project[48]. Such a method would help define what a developer must obtain when a credit purchase is accepted.

China's water-rights pilots show how companies respond when the rules governing resource allocation and exchange change. A quasi-experimental study of the 2014 pilots found that total factor productivity increased among companies with high water-use costs. The authors linked the result to water-related green innovation and better resource allocation[20]. The pilots altered the institutional conditions around water use, and companies adjusted technology and inputs in response.

Green public procurement works from the demand side. A quasi-experimental study found that industrial companies whose products entered China's green procurement lists cut sulphur-dioxide emissions by an average of 4.12 per cent relative to the comparison companies. They changed energy use, innovation and end-of-pipe treatment, and the effects spread through upstream and downstream production networks[21]. A buyer can therefore change production across a value chain by making environmental performance a condition of demand. Together, the water-rights and procurement studies support the case for changing business incentives. The performance of a particular nature credit market arrangement still needs to be tested in its own setting.

China's main instruments each perform a necessary task. Figure 4 relates their existing roles to the payment arrangements and further applications considered in this report.

LAND

**113.8%**

of wildlife habitat restoration gains in 2000–2015 were offset by cropland conversion.

WATER

**63.4%**

of water-retention gains were offset by cropland conversion.

INDUSTRY

**4.12%**

average cut in sulphur-dioxide emissions by companies on green procurement lists.

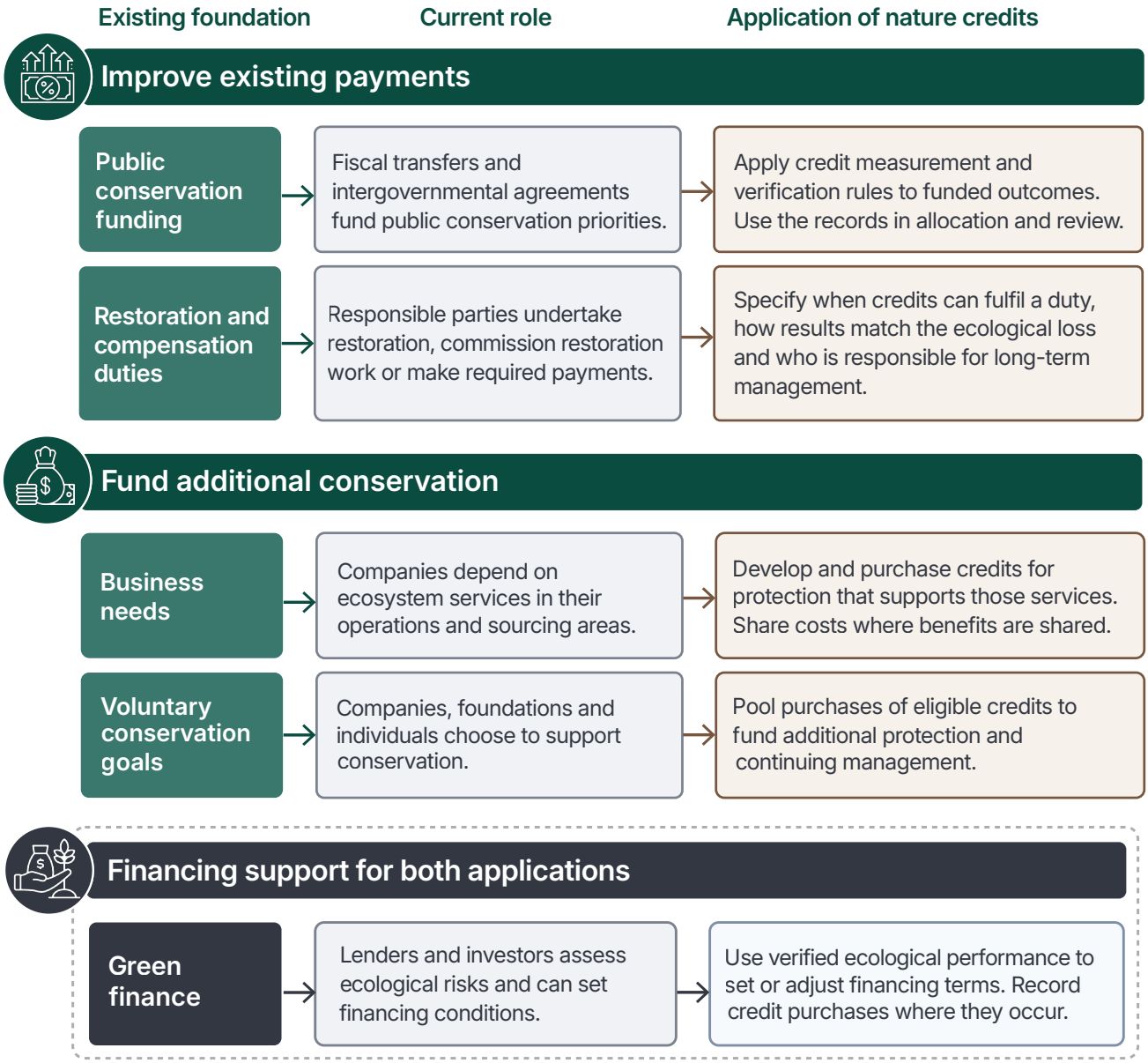



**Figure 4.** Policy support for nature credits

Two questions follow. For a company that depends on a particular ecosystem service, the business benefit must be sufficient to sustain payment to the people managing it. Where benefits are widely shared, public coordination or a collective agreement may be needed. For legal obligations, the relevant law, permit, compensation agreement or judgment determines the responsible party and what counts as completion. Existing arrangements already include third-party and alternative restoration. Using credits across cases would also require clear conditions for accepting the ecological result, matching it to the obligation and recording its use.

Pilots can compare bilateral contracts, procurement and credits with feasible public or collective arrangements. They can also test whether financing linked to ecological performance strengthens a company's commitment to fund protection. Ecological performance, funding over the management period and total costs provide the basis for choosing which arrangements to extend.

# 03

# Sources of demand and payment arrangements.



## 3.1 Start with the buyer's reason

### Nature credits have two main applications: improving conservation performance through standardised units representing verified outcomes, and connecting providers with buyers to fund additional protection.

Public conservation budgets and corporate restoration spending provide settings for the first application. Business dependence on ecosystems and voluntary conservation goals can motivate purchases under the second. These applications describe the contribution of credits to a payment arrangement; a project may combine them. Financing linked to ecological performance can support either application. The buyer's reason to pay still determines which rules apply, what it may claim and how long the arrangement is likely to last.

**Table 1.** Buyers and reasons to pay

| ARRANGEMENT | APPLICATION OF NATURE CREDITS | REASON TO PAY OR PROVIDE FINANCE | WHO COMMITS FUNDS | FUNDING OVER THE AGREED PERIOD |
|---|---|---|---|---|
| PUBLIC RESULTS-BASED PAYMENTS | Improve existing payments | Public conservation commitment or agreed ecological service | Government, public body or utility | An existing budget linked to specified results and performance checks |
| COMPLIANCE COMPENSATION | Improve existing payments | A defined restoration or compensation obligation | Developer, regulated operator or responsible party | Required restoration spending; project-level delivery and management commitments |
| BUSINESS PURCHASES WITHIN VALUE CHAINS | Fund additional conservation | Dependence on ecosystem services, operational resilience or preparation for protection requirements | Company purchasing nature credits | A material business benefit and committed spending on the relevant protection and management |
| VOLUNTARY PURCHASES | Fund additional conservation | A chosen conservation goal or commitment | Company, foundation, investor or individual | Committed purchases covering the agreed work and period, with subsequent purchases where needed |
| FINANCING LINKED TO ECOLOGICAL PERFORMANCE | Support either application | Verified ecological performance informs financing conditions | Lender or investor provides finance; the company or project funds protection or purchases credits | Agreed financing terms, performance checks and funding for the required work and period |

Early development in China can build mainly on domestic buyers and existing public institutions. Foreign contributions and investment linked to Chinese operations may supplement this demand, but their scale is uncertain. In each application, the task is to identify who commits the money and what keeps that commitment in place.

## 3.2 Public results-based payments

When an ecosystem service crosses an administrative boundary, a public body acts for the many people who benefit. A downstream government, authority or utility signs an outcome-based agreement with the upstream government or community that manages the ecosystem. The buyer allocates a budget; the parties agree how to measure performance; the provider receives payment when it delivers. Dispersed beneficiaries now have a named representative, while the service retains its public basis.

The Paddy Land-to-Dry Land programme in the catchment serving Beijing shows how this relationship works. The programme paid upstream landholders to change farming practices. Researchers estimated an overall benefit-cost ratio of 1.5 and found that both upstream providers and downstream beneficiaries gained. Some households spent more on fertiliser, which reduced part of the expected improvement in water quality, but the land-use change still had a positive net effect[22]. The case also shows why programme designers must account for the way households respond to payment.

The Yellow River agreement between Henan and Shandong provides a more recent example. In 2021, the two provinces linked compensation to water quality at their shared boundary. By the time they renewed the agreement, Shandong had paid Henan RMB 126 million. The second agreement, covering 2023 to 2025, replaced annual assessment with monthly assessment and added total nitrogen to the indicators[23]. The provinces named the payer and provider, monitored the service, made the payment and then improved the rules when they renewed the agreement.

These cases show that Chinese governments can sustain payments through a public commitment, a budget, monitoring and renewal. They also create data and working relationships that later transactions can reuse. Under current law, horizontal ecological compensation remains an agreement between governments, while market-based compensation has a separate legal basis. The public nature of the payer does not prevent it from purchasing an ecological service through procurement or another authorised market transaction. Intergovernmental agreements provide a useful comparator and can also provide public co-finance.

For the first application, a pilot could apply nature-credit measurement and verification rules to outcomes supported by an existing conservation budget and record eligible results as units. This would give funding authorities a common basis for allocation, delivery checks and performance assessment. The initial benefit would be better use of that budget; additional private funding would need to be demonstrated separately. Comparing performance and costs with the existing payment arrangement would establish whether using credits improves delivery.

**“These cases show that Chinese governments can sustain payments through a public commitment, a budget, monitoring and renewal.”**

## 3.3 Compliance compensation

Legal obligations can create demand for restoration, reconstruction or compensation. Before development, a permit or statutory rule may require measures to address an authorised impact. After damage has occurred, a compensation agreement or judgment may specify restoration, alternative restoration or a monetary payment. The applicable rules determine how each obligation is fulfilled. A duty to restore can support purchases of ecological results where the applicable rules accept that purchase; a defined monetary obligation can be fulfilled through the required payment[24][35][36]. Chinese damage compensation rules already allow responsible parties to restore damage themselves or commission third-party work. A restoration duty does not automatically authorise the purchase of nature credits to fulfil it[35][36].

Wetland policy illustrates both an existing duty and a local market application. Article 21 of the Wetland Protection Law generally requires an entity approved to occupy an important wetland to restore or reconstruct wetland of equivalent area and quality. Where restoration or reconstruction is infeasible, it must pay a restoration fee. The article makes a defined exception for specified water projects within river-management areas and flood-storage or detention areas[24]. Separately, Jiangxi began a wetland-resource operating pilot in 2021 to implement wetland-area controls. Providers complete restoration, obtain official confirmation of area-based balance indicators and offer them through a provincial platform. By August 2024, officials had recorded 42 transactions covering 1,396.6 mu (93.1 hectares) and RMB 120 million in payments. One railway project bought 135.9 mu (9.06 hectares) of indicators for RMB 12.09 million[25].

Colombia's habitat banks are conservation projects that supply results accepted for compliance. A 2017 resolution placed habitat banks within the national environmental-compensation framework[26].

PUBLIC COMMITMENT

**RMB 126 million**

paid by Shandong to Henan for water-quality improvements under the Yellow River agreement.

WETLAND TRANSACTIONS

**42 transactions**

recorded in Jiangxi's wetland pilot, generating RMB 120 million in payments by August 2024.

RESTORATION AT SCALE

**1,100+ hectares**

restored by Terrasos, a Colombian habitat-bank operator, which had sold 947 credits by 2023.

An IDB account reports that Terrasos had restored more than 1,100 hectares and sold 947 credits by 2023. It also identifies five companies that had used the habitat-bank mechanism for compliance[27]. This illustrates how several regulated buyers can use independently supplied conservation results.

Both cases show how official acceptance can connect a defined obligation to an independent provider. Jiangxi's published records establish that project developers paid for previously restored wetland area; they provide limited information on how ecological quality was assessed. The Colombian case shows several companies using a habitat bank for compliance. For nature credits, authorities also need to determine how the result matches the affected ecosystem, when the buyer has fulfilled its obligation and who remains responsible for long-term management and any failure. Within existing restoration spending, credits can give companies a clearer specification of what they purchase and authorities a common basis for checking delivery. Transaction records establish what was purchased and used; monitoring establishes what was delivered.

## 3.4 Value-chain arrangements

A company has a business reason to support an ecosystem when it depends on a service that the ecosystem provides. A food producer relies on healthy soil and pollinators; a beverage company draws clean water from a particular catchment; an infrastructure operator benefits from wetlands that reduce flood risk. Other users may receive the same benefits without paying, so the company's own benefit must be sufficient to justify its contribution. A contract is more likely to last where that benefit is material, concentrated and tied to a particular catchment, sourcing area or operating landscape. Under those conditions, a company can pay nearby farmers, land managers or a landscape organisation through a service contract, supplier premium, landscape fund or nature credit. A company may also invest to prepare for expected changes in ecological protection requirements.

Where several companies benefit from the same catchment or landscape, local governments and industry organisations can help them agree on joint funding. The agreement can specify protection tasks, contributions reflecting each company's expected business benefit, the payment period and renewal terms. Sharing the cost can make participation worthwhile for firms that could not justify funding the whole project. Pilots can test whether such agreements sustain contributions when some beneficiaries remain outside the arrangement.

Chinese agriculture illustrates the underlying business dependence.

A national study of 84 major crops valued the contribution of pollination at US$106.08 billion in 2010, or 19.12 per cent of Chinese agricultural production that year. The same study estimated that crops required about three times the recorded stock of honeybee colonies for pollination in 2018[28]. Pollinators support both farm output and the food-processing and retail businesses that depend on it.

Water availability also affects industrial companies. A 2026 study matched runoff shocks with data from more than 500,000 Chinese industrial firms and found that negative shocks reduced productivity by 1.93 to 5.40 per cent, depending on their magnitude. The channels identified in the study included less freshwater for production, disruption to power generation and tighter cash flow[29]. Chapter 2 showed how value chains extend this exposure across provincial borders.

The Vittel watershed programme in France shows how a business dependence can become a contract. Intensive agriculture was raising nitrate levels in the aquifer used by the mineral-water company. After a decade of research and negotiation, the company signed a package of contracts that paid farmers in the catchment to change farming practices and technology[30][31]. Its concentrated setting made the payment relationship unusually clear: research traced the source of the water risk, and the contracts gave farmers terms they could accept for long-term land-management change.

Exploratory work under this project is examining how these business relationships could support payments in Chinese landscapes. A pilot can start by identifying the ecosystem services on which a company depends and the protection needed to maintain or improve them. It can then develop eligible outcomes as nature credits and agree purchases that support the relevant work. The payment arrangement needs to fund the agreed management period, through an upfront commitment or subsequent payments. The project record can capture the service-business link, the result purchased and the use of funds.

## 3.5 Financing ecological performance

Lenders and investors can support both applications by linking financing conditions to verified ecological performance. An agreement can specify the ecological results to be assessed, how they will be checked and how performance will affect financing terms. This gives a company a financial reason to continue funding protection. Finance can support work carried out by the company or a purchase from an independent provider. Where a financing condition prompts a purchase of nature credits, the company making that purchase is the nature-credit buyer. The lender or investor creates or reinforces the condition.

Development finance provides an established example of ecological requirements entering investment decisions. IFC's Performance Standard 6 requires clients to manage biodiversity impacts through avoidance, minimisation and restoration, with offsets considered only after those measures and subject to ecological conditions[45]. Such requirements can lead to purchases from independent providers where the financing arrangement accepts that approach. In China, the Green Finance Guidelines already provide for environmental risk assessment, contractual commitments and conditions on disbursement[39]. These offer a practical starting point for testing finance linked to ecological performance, including arrangements that lead to nature-credit purchases.

A pilot could bring together a financing institution and a company, agree the ecological objective, performance measures and evidence, and specify how the results affect financing terms. A lower interest rate may make continuing management more affordable. The pilot should track the finance provided, spending on protection or credit purchases, and the resulting ecological performance. Financing and purchases should be recorded separately so that their contribution to project funding and provider income can be assessed. This would show whether the financing terms support sustained protection and, where applicable, additional purchases.



## 3.6 Voluntary contribution markets

Voluntary buyers choose an ecological goal and purchase nature credits to support a specified project. Their money can support community stewardship, test a new management method or add work beyond existing protection commitments. The buyer's claim should identify its contribution to that project. Any claim to compensate for an impact requires a separate assessment of ecological matching and the relevant rules. This distinction follows the IAPB framework for evidence-based contributions, local compensation and insetting, meaning action within a company's value chain[32]. A committed purchase can fund the agreed management period upfront; multi-year agreements or subsequent purchases can also support continuing management.

A survey reported in 2026 shows growing business participation in voluntary biodiversity credit markets, alongside continued constraints on demand. The survey covered 52 project developers, scheme and standard administrators, platforms, investors and other participants. Nineteen respondents reported current or previous sales. Of those, 15 described demand as weak or very weak, and 18 said limited buyer demand had constrained sales during the previous year. Supplementary data recorded almost 7,000 transactions since 2022. Individual consumers made most purchases, while business-to-business sales were concentrated in fewer transactions.

The report also finds that business participation is increasing, although many companies appear to be making small trial purchases. Large, repeated corporate purchases remain limited[33].

Existing protection work can provide a starting point for a pilot. The operator identifies achieved outcomes that qualify under the chosen credit rules, confirms the authority needed to issue and sell the credits and records any commitments already attached to them. Buyers can purchase the eligible credits to support further protection and continuing management. Records should distinguish the outcomes represented by the credits from the work funded by the new payment.

A well-protected area may still need resources to maintain ecological condition or respond to a credible risk of degradation. The project should explain what existing public finance and legal duties cover, and the additional work that purchases will support. Where a buyer claims that its payment delivers additional protection, evidence must show how the funded work produces or maintains outcomes beyond what would otherwise occur. This may include maintaining condition where additional action prevents a credible loss. The baseline, existing commitments, funded work and payment period provide the basis for assessing this contribution.

## 3.7 What each application would add

Table 2 compares the two applications with existing payment arrangements and identifies the contribution of financing support.

The evidence below indicates where demand has been demonstrated and what remains to be tested.

The evidence supports different levels of confidence within each application. For existing payments, public results-based agreements demonstrate that named funders can budget, monitor and renew payments. Compliance duties can provide recurring demand across projects, while the use of credits depends on clear acceptance and delivery rules. For additional purchases, value-chain cases establish that direct business benefits can support contracts, although wider application in China needs evidence on funding for the agreed period and cost. Corporate participation in voluntary markets is growing, while large and repeated purchases remain limited. Financing standards provide a basis for ecological performance requirements; pilots need to show how linking terms to results affects protection spending and subsequent performance.

Wider use can be assessed once transactions show what buyers pay for, whether providers deliver and how the arrangement compares with other feasible options.

A market may organise independent supply, sustain management or reduce delays, but these gains must justify its measurement, contracting and oversight costs. Chapter 4 considers the decisions needed to put these arrangements into practice.

**Table 2.** Potential benefits of nature credits

| ARRANGEMENT | APPLICATION OF NATURE CREDITS | PROVIDER AND AGREED RESULT | EXISTING ALTERNATIVE | BENEFIT TO TEST |
|---|---|---|---|---|
| PUBLIC RESULTS-BASED PAYMENTS | Improve existing payments | A government, local organisation or other qualified provider delivers the funded outcome | General fiscal transfer, existing performance assessment or direct procurement | Use common measurement and verification to improve allocation, delivery checks and performance assessment within existing budgets |
| COMPLIANCE COMPENSATION | Improve existing payments | A qualified provider supplies a result accepted for the defined obligation | Direct or commissioned restoration, a project pool or a prescribed monetary payment | Provide a clear purchase specification and delivery record; improve access and timing within required restoration spending |
| BUSINESS PURCHASES WITHIN VALUE CHAINS | Fund additional conservation | Landholders or a landscape organisation deliver outcomes supporting relevant ecosystem services | Operational mitigation, supplier management or direct service contracts | Turn business needs into purchases; pool demand and fund protection and management across the relevant landscape |
| VOLUNTARY PURCHASES | Fund additional conservation | A qualified project or community supplies eligible outcomes and undertakes the agreed work | Donation or general conservation grant | Specify the purchased result and contribution; combine purchases of different sizes to fund further conservation and management |
| FINANCING LINKED TO ECOLOGICAL PERFORMANCE | Support either application | A financed company or project delivers the agreed ecological performance | Standard environmental due diligence or finance without a performance link | Use verified performance to inform financing terms and encourage continuing protection; track purchases where they occur |

# 04

# What China still needs to put in place.



## 4.1 What existing policy already authorises

**China's ecological protection compensation framework provides the main legal entry point. The 2024 regulations placed vertical fiscal transfers, horizontal interregional agreements and market-based compensation in one framework, with a separate function for each[11].**

The Ecological Environment Code has retained that structure since 15 August 2026. Articles 111 to 115 continue to treat public transfers, agreements between governments in the benefiting and providing areas, and purchases under market rules as separate mechanisms[12].

National policy also identifies who should act. The 2021 policy on ecological-product value assigns the National Development and Reform Commission a coordinating role and calls for pilots in valuation, supply-demand matching, sustainable operation and compensation; it also calls on banks to support ecological-product operators[34]. The 2024 regulations invite companies and public-interest organisations to buy ecological products and services, require lasting benefit-sharing in rural areas and direct governments to improve monitoring and standards[11]. These documents authorise private participation. Companies may use ordinary contracts where the parties and service are clear; use of a credit to fulfil a legal obligation requires acceptance through the applicable regulatory or legal process.

## 4.2 Clarify the rules for each application

Each payment or financing arrangement requires decisions that allow the parties to implement and assess it. Table 3 identifies the relevant policy basis and the decisions or records needed. Public and compliance payments fall within the first application; new business and voluntary purchases within the second. Financing can support either.

**Table 3.** Policy and record requirements

| ARRANGEMENT | EXISTING LEGAL OR POLICY BASIS | DECISION OR RECORD STILL REQUIRED |
|---|---|---|
| PUBLIC RESULTS-BASED PAYMENTS | Public conservation budgets; ecological compensation rules and intergovernmental agreements | The funding authority specifies the outcomes, measurement and verification rules, and how credits inform allocation, payments and evaluation. Records distinguish existing public spending from any additional funding and identify delivery and management responsibilities. |
| COMPLIANCE COMPENSATION | Applicable restoration or resource rules; permits; damage compensation agreements or judgments | The applicable rules, agreement or judgment must specify which obligations qualify, what results are acceptable, how they match the affected ecosystem, when the buyer's obligation is fulfilled and who has long-term responsibility. Unit records identify the result and prevent repeated use. |
| BUSINESS PURCHASES WITHIN VALUE CHAINS | 2021 ecological-product policy; Article 21 of the Ecological Protection Compensation Regulations (2024) | The company and provider specify the service-business link, project boundary, relevant rights, eligible credit outcomes, budget, payment period and management commitments. |
| VOLUNTARY PURCHASES | 2021 ecological-product policy; Articles 21 and 23 of the Ecological Protection Compensation Regulations (2024) | The operator and buyer record the baseline, eligible outcomes, existing commitments, the work funded by the purchase, the contribution claimed, payment period and local benefit-sharing. Achieved results and future work are recorded separately. |
| FINANCING LINKED TO ECOLOGICAL PERFORMANCE | 2022 Green Finance Guidelines, including contractual commitments and disbursement conditions | The financing parties agree the ecological objective, performance measures, evidence and links to financing terms. Records track funds provided, protection spending or credit purchases, and delivery. The agreement specifies the consequences of meeting or missing the conditions. |

Damage compensation illustrates why the distinctions matter. A responsible party can undertake restoration or, under the relevant arrangements, commission a qualified third party. Where the damage cannot be fully repaired, authorities may accept alternative restoration and draw on a local project pool[35][36]. Third-party work changes who implements a project; alternative restoration changes the project or location used. Both can operate through an individual agreement without a credit system. Purchasing credits adds the use of separately identified ecological results to fulfil an obligation. It requires a decision on their eligibility, ecological match and quantity, followed by a record that they have been used.

Where results have already been achieved and verified before use, this approach may reduce the wait for a new project to produce an ecological benefit. The authority must still establish that the result meets the particular obligation. Rules also need to state when that obligation is fulfilled, who maintains the ecosystem supplying the result and who remedies a subsequent failure. Responsibility depends on the applicable legal arrangement; a verifier or trading platform cannot decide it. A project record can support an ordinary service contract, while issued credits also need records of issuance, use and retirement. Retirement marks a credit as used and prevents it from being used again.

## 4.3 Use one project record across payment arrangements

Existing ecological monitoring and resource accounts can provide the starting evidence for payment and financing decisions. A common record for each project site can bring together its boundary, ecological condition, baseline assumptions about what would happen without the project, data sources and methods. It should distinguish observations from model estimates, explain where the methods apply and retain original results and earlier versions.

Records can develop through existing ecological compensation and lending arrangements, reducing the repeated collection and interpretation of information when another funder joins. A common record supports these decisions; funders must still commit resources, and the relevant parties and authorities must clarify rights and determine whether credits can fulfil an obligation.

> **“The 2024 regulations invite companies and public-interest organisations to buy ecological products and services, require lasting benefit-sharing in rural areas and direct governments to improve monitoring and standards.”**

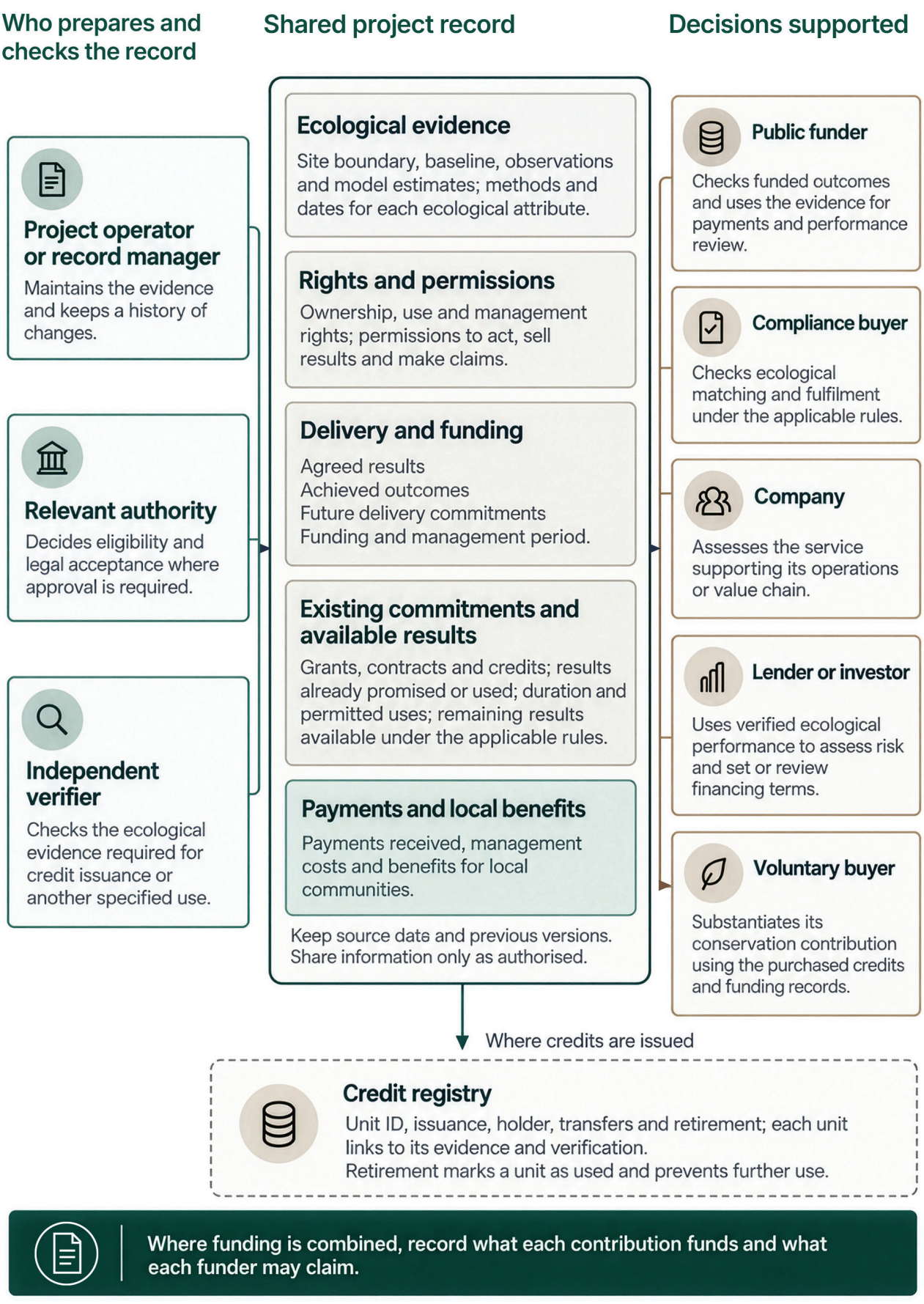



**Figure 5.** Shared project records

The record also needs to identify ownership, use and management rights, the relevant authorisations, and results already promised under grants, service contracts or other agreements, with their duration and conditions of use. The project operator, or another party responsible for keeping the record, maintains it and retains a history of changes. Where credits are issued, each unit should trace back to the ecological evidence and verification findings, with its holder, transfer and retirement recorded. This allows later buyers and financiers to see which results have been committed or used and assess whether further uses are permitted under the relevant rights, commitments and rules. The record should retain different ecological attributes and the methods used to assess each one. Common formats can preserve local classifications and explain how they relate to other methods; authorised access should protect sensitive ecological information.

Evidence and checks should fit the decision. Results-based payments require confirmation of delivery; continuing management funding requires evidence that ecological condition is maintained. Compensation also requires a match to the affected ecosystem, assessed through the applicable regulatory or legal process. A company needs evidence that management supports a service on which its business depends. A voluntary buyer needs to substantiate its contribution. Lenders assessing risk or pricing finance need to understand how ecological conditions affect the business.

Ecological information can inform credit assessment and loan terms even where the associated ecological rights cannot themselves be used to raise finance. Lenders and investors also need evidence of performance against the ecological conditions used to set or adjust financing terms. Independent verification is needed at critical steps such as credit issuance; routine monitoring can combine quality controls with targeted checks to contain ongoing costs. The companion technical paper develops these requirements in detail, including common project records, rights and existing commitments, checks required for different uses, and the governance of records and credit registries[49]. Figure 5 summarises the project information and the decisions it supports.

## 4.4 Clarify how public, carbon and nature finance can be combined

A landscape may receive public finance, carbon revenue and a nature-credit payment. Each source can support a different activity or share a common cost. Labels alone cannot establish additionality, attribute a joint result or prevent two funders from financing and claiming the same outcome.

Before funds are combined, the project record should state the baseline, activity, cost and claim attached to each payment. Where several funders support one result, the parties need to agree how costs and claims are shared and disclose that arrangement. The relevant authority or programme then assesses it under its own rules. Shared funding can be legitimate, while duplicate use of the same result or incompatible claims must be resolved before acceptance or issuance.

## 4.5 Use disclosure and financing terms to support ecological action

China's 2024 corporate sustainability disclosure standard and its 2025 guidance tell companies how to report material information about value chains and effects on financial position, income, expenses, cash flow and financial planning[37][38]. A company can use that framework to report a material dependence, impact, legal duty or service contract. Disclosure makes these commitments visible. The associated duty, contract or budget determines the actual spending.

The 2022 Green Finance Guidelines provide an existing basis for financing conditions. They direct banks and insurers to assess environmental, social and governance risks involving clients, major contractors and suppliers. Articles 21 and 22 address contractual commitments, remedies and disbursement conditions, including suspension or termination of funding under the contract where serious risks arise[39]. Within this framework, an agreement could link verifiable

ecological performance to pricing, disbursement or other financing terms. It should specify the result, performance measures, evidence and checks, together with the protection spending or purchases involved. Where the borrower purchases qualifying nature credits to meet a condition, this creates demand for a transaction. The guidelines provide a basis to test these applications; they do not themselves require nature-credit purchases.

## 4.6 Test two approaches in pilots

Two types of nature-credit pilot can proceed in parallel. One starts with existing protection and restoration work, develops eligible outcomes as credits and organises purchases to fund further protection and management. The other starts with companies' dependence on ecosystems, identifies the services they need and develops credits for the outcomes required to maintain or improve those services. Both can draw on green finance and carbon-market experience in monitoring, independent verification, contracting and registration, using methods suited to the ecological outcomes concerned.

A local coordinating organisation can combine work across households and collective land managers, organise contracts and distribute payments. It can also help businesses sharing a service agree on joint purchases. Evaluators should report coordination costs separately from income reaching ecosystem managers and explain how participants share benefits. These records show whether coordination reduces costs while preserving an appropriate return for the people managing the ecosystem.

Initial transactions should reflect actual purchase commitments and providers' rights and capacity to deliver. A first demonstration transaction can test the buyer's payment commitment, the provider's rights, and the links between the contract and verification records. It can also test whether the parties complete payment and delivery as agreed. Assessing continuing demand, long-term ecological performance and the costs of wider use requires subsequent transactions and ongoing monitoring.

Catchment or landscape programmes can test joint purchasing and coordination among land managers. Evaluation should compare credit purchases with existing ecological compensation or direct procurement in terms of funding raised, ecological results and full costs. It should include verification and management costs, income reaching providers and benefits for local residents. Common reporting on these measures would allow pilots to learn from each other and inform wider policy.

# 05

# International evidence for China's market choices.



## 5.1 Compliance demand and public rules

**Regulators, companies and financial institutions use several nature-market arrangements: regulated compensation, local service contracts, value-chain initiatives, financing conditions and early credit programmes. The cases examined here provide the clearest evidence of continuing payment where law assigns an obligation or a company receives a direct business benefit.**

That obligation or business relationship sustains demand; contracts and credits provide a way to purchase specified ecological services or results. The United States wetland mitigation system shows how regulators allow developers to obtain compensation results from independent providers. Federal rules require compensatory mitigation for permitted adverse impacts that remain after avoidance and minimisation. The 2008 rule applies comparable standards to restoration led by the permit holder and to independent providers. These include mitigation banks, which supply credits from approved restoration or conservation projects, and in-lieu fee programmes, which collect fees to fund compensatory mitigation. The rule gives preference under specified conditions to released bank credits because the bank must have an approved plan and financial assurances before a buyer uses its credits[40]. The bank therefore supplies an authorised way to fulfil an obligation to compensate for remaining impacts under watershed and ecological criteria. Some credits can be released against approved milestones and safeguards before full ecological recovery; long-term management and responsibility for failure remain central to the arrangement.

England's biodiversity net gain system follows a similar sequence. Since 2024, covered developments have generally had to deliver at least a 10 per cent gain against the pre-development baseline. Developers first address habitat on site. They can then buy qualified off-site units and use government statutory credits only as a last resort. The government received GBP 212,920 from statutory credits through March 2025 and GBP 426,100 in the 2025 to 2026 financial year. It described both amounts as relatively low and consistent with the role of statutory credits as a backstop[41][42]. Private off-site units and on-site delivery sit elsewhere in the system.

These systems combine a legal reason to pay with public rules on eligible supply. Authorities define the obligation, apply the mitigation hierarchy, assess proposed compensation and specify responsibility for delivery. Credits and off-site units operate within that framework and remain subject to ecological criteria. China can draw on this approach when considering how independent results might fulfil obligations under its own laws.

## 5.2 Early voluntary markets and multiple market forms

Australia's Nature Repair Market shows the distance between supply rules and demand. The voluntary national scheme uses approved methods and allows one biodiversity certificate for each eligible project. In early September 2026, the public register contained two projects, registered in August 2025 and May 2026; neither had received a certificate[43]. The government has created a rulebook and an early project pipeline. Buyer commitments, payments and funding for the promised management period are needed to assess demand and delivery.

International policy supports several market forms. The Kunming-Montreal Global Biodiversity Framework calls for both public and private finance and includes payments for ecosystem services, offsets and credits among several instruments, all subject to environmental and social safeguards[44]. The IAPB framework directs international finance towards evidence-based contributions and insetting, while keeping compensation close to the corresponding impact and using measures that fit the ecological context[32]. Markets can share integrity principles while each ecological result remains tied to its local context.

## 5.3 Assessing three national systems

Table 4 distinguishes what rules and observed activity establish from what still needs performance evidence. Established indicates support for a particular institutional feature; emerging indicates that institutions exist but evidence is still accumulating; unproven indicates that the available observations cannot yet answer the question.

**Table 4.** Three national nature market systems

| NATIONAL SYSTEM | DEMAND AND FUNDING | CAPABLE PROVIDER | RESULT SPECIFIED IN THE AGREEMENT | ADVANTAGE OVER THE FEASIBLE ALTERNATIVE | OVERALL READING |
|---|---|---|---|---|---|
| **UNITED STATES WETLAND MITIGATION** | Established. A permit creates the residual duty. | Established. Permittee-led work, mitigation banks and in-lieu fee programmes operate under comparable federal standards. | Established in rules. Plans, watershed criteria, performance standards and financial assurances support delivery. | Designed to reduce delivery uncertainty. Approved plans and financial assurances precede the use of bank credits; comparative advantage requires evidence on ecological performance and full costs. | Established regulated compliance route. Ecological performance and comparative costs remain specific to the project and setting. |
| **ENGLAND BIODIVERSITY NET GAIN** | Established. Covered developers face a statutory gain requirement. | Established and expanding. Developers can deliver on site or buy qualified off-site units; statutory credits provide a backstop. | Established in rules. The statutory metric and approved delivery arrangements define the gain. | Emerging. The hierarchy preserves on-site delivery and a public backstop; evidence on total costs and ecological outcomes is still accumulating. | A statutory demand base exists; comparative performance needs continued assessment. |
| **AUSTRALIA NATURE REPAIR MARKET** | No certificates issued by early September 2026.[43] | Emerging. Two projects have entered the register under an approved method. | Emerging. The method defines the proposed result, while issuance and delivery evidence remain pending. | Unproven. Evidence on transactions and funding for the promised management period is needed for comparison with grants or direct contracts. | The supply framework exists; observed demand and added value remain open questions. |

## 5.4 Implications for China

The comparison can inform both applications of nature credits in China under public governance. The United States and England show how law sustains compliance demand; Vittel shows how a company can pay through a direct contract; Australia shows why a supply framework still needs buyers. Financing standards offer a basis for linking terms to ecological performance and supporting protection through investment decisions. National principles can set expectations for evidence, ecological integrity and benefit-sharing, while local and sectoral rules determine how particular results can be used. China can apply these lessons through pilots based on eligible existing conservation results and on companies' dependence on ecosystems.

Foreign finance may supplement domestic demand through voluntary contributions, investment in Chinese value chains or service contracts connected to operations in China. Its scale will depend on specific buyers and commitments. Each agreement should identify where ecological work takes place, how long support lasts, who receives the funding and what the buyer may claim. A contribution to a Chinese project does not establish that biodiversity damage in another ecological setting has been compensated.

Chinese companies operating abroad have a direct interest in how these markets develop. Overseas projects face host-country ecological requirements and may also face conditions imposed by lenders and investors. Article 25 of China's Green Finance Guidelines addresses environmental, social and governance risks in overseas lending and investment, including host-country law and international good practice[39]. Experience with ecological contracts, verification and long-term management at home could help Chinese businesses and financiers assess overseas requirements and providers. Common ecological evidence can help these businesses assess overseas projects and financing conditions while using methods suited to local ecosystems.

China can also contribute practical experience to international rule development. Horizontal compensation shows how public buyers and providers monitor and renew payments across jurisdictions. Restoration project pools illustrate how authorities organise candidate supply. Local projects can show how income reaches people and organisations managing ecosystems and how benefits are shared. Evidence from further transactions would give China a stronger basis for contributing to international expectations on measurement, verification and acceptable claims. At COP17, these lessons can support cooperation on reliable information and implementation, with compensation assessed in relation to the affected ecosystem.

BIODIVERSITY NET GAIN

**10%**

minimum biodiversity gain required for covered developments in England since 2024.

GREEN FINANCE

**2022**

China's Green Finance Guidelines provide a framework for linking financing conditions to verified ecological performance.

EARLY STAGE

**Two projects**

registered in Australia's Nature Repair Market; no certificates issued as of early September 2026.

# Conclusion.

There is a strong case for China to develop domestic nature credit markets to improve conservation performance and mobilise funding. Common measurement and verification can make existing public budgets and corporate restoration spending more effective.

New purchases motivated by business needs or voluntary goals can fund additional conservation and continuing management. Financing linked to verified ecological performance can reinforce these commitments. The scale and continuity of funding must be established through actual commitments and delivery. Where an existing public, regulatory or collective arrangement delivers the required result at lower total cost, it should remain the preferred option.

These arrangements can benefit several groups. People and organisations managing ecosystems can gain a clearer source of income for agreed work and results. Companies can plan for restoration obligations and protect services that support their operations. Government can improve the performance of existing spending and draw on additional private funding to advance conservation goals, while continuing to fund public benefits and enforce protection rules. The benefits depend on credible ecological results, fair participation and costs that are justified by the value delivered.

The next stage can build on existing law, finance and information systems through two types of pilot: developing credits from eligible existing conservation results, and developing credits around the ecosystem services that companies need. Both should test actual payments and delivery, the costs and funding raised compared with existing arrangements, and income reaching providers. Joint purchases and common verification can be assessed where several buyers support one project. Subsequent transactions and monitoring are needed to judge continuing funding and ecological performance. For compliance use, the applicable rules must also clarify ecological matching, acceptance, completion of the buyer's obligation and long-term responsibility.

The policy and technical work meet in the evidence needed to make these decisions. A shared project record can connect ecological measurement to contracts, payments, claims and subsequent performance. Domestic experience with these arrangements can help Chinese companies and financial institutions operating abroad and strengthen China's contribution to international rules. International cooperation can improve the quality and use of information while respecting the local ecological conditions that determine each result's value and permissible use.

> **"Government can improve the performance of existing spending and draw on additional private funding to advance conservation goals, while continuing to fund public benefits and enforce protection rules."**

# Glossary of key terms.

| TERM | MEANING IN THIS REPORT |
|---|---|
| NATURE MARKET | For this study, transactions in products, services and ecological outcomes that aim to support conservation, restoration, sustainable use or reduced ecological pressure, together with financing that supports those activities. The report focuses on arrangements using nature credits. |
| NATURE CREDIT | A traceable, purchasable unit representing a measured and independently verified ecological outcome, covering biodiversity conservation and the maintenance or improvement of related ecosystem services. It has a stated duration and conditions of use. Credits can support existing payment arrangements or purchases for additional conservation. Evidence must support the intended use and claim; schemes differ in when they release units. |
| NATURAL CAPITAL | Renewable and non-renewable natural assets that provide benefits to people and economic activity. |
| ECOSYSTEM SERVICE | A benefit that people or companies receive from ecological processes, such as water regulation, pollination, soil retention or flood regulation. |
| ECOLOGICAL PROTECTION COMPENSATION | China's framework for sharing ecological protection costs and benefits through vertical fiscal transfers, horizontal interregional agreements and market-based compensation. Horizontal agreements link payments between governments to agreed ecological objectives. Market-based compensation provides the legal route for purchases made under market rules. |
| PUBLIC RESULTS-BASED PAYMENTS | A government, public body or utility funds an ecological service or result and links payment to performance. Nature credits may provide a common basis for measuring and checking outcomes under an existing budget. Public programmes and intergovernmental agreements retain their legal character; procurement can constitute a market transaction. |
| COMPLIANCE COMPENSATION | Restoration or compensation required under an applicable law, permit, compensation agreement or judgment. Authorities or the relevant legal process determine the obligation and how it is fulfilled. A market pathway exists where purchases from independent providers are accepted. |
| VALUE-CHAIN ARRANGEMENT | A company pays for protection in a sourcing area, watershed or operating landscape because the ecological service or result supports its operations, procurement or resilience. Business needs can motivate new nature-credit purchases for additional protection and continuing management. |
| FINANCING LINKED TO ECOLOGICAL PERFORMANCE | Financing terms depend on verified ecological performance. Finance can support protection work or credit purchases under either application. Where a financing condition prompts a purchase, the company making that purchase is the buyer. |
| FINANCIAL MATERIALITY | A nature-related dependence, impact, risk or opportunity is financially material when it can change a company's cash flow, financial position, access to finance, cost of capital or prospects. |
| VOLUNTARY CONTRIBUTION | A buyer chooses to purchase nature credits to support a specified conservation project and states the contribution it made. Records distinguish the outcomes purchased, existing commitments and the work funded by the payment. |

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