

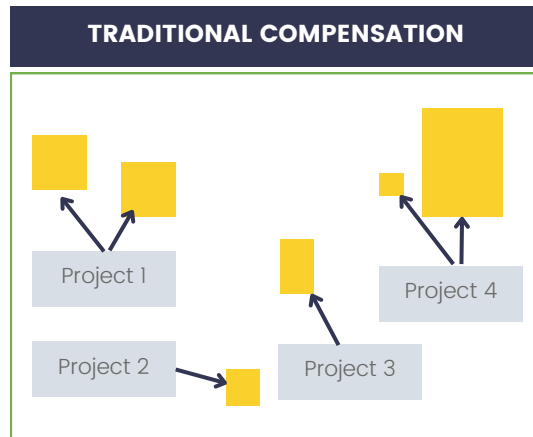
HOW HABITAT BANKING WORKS

A quick primer

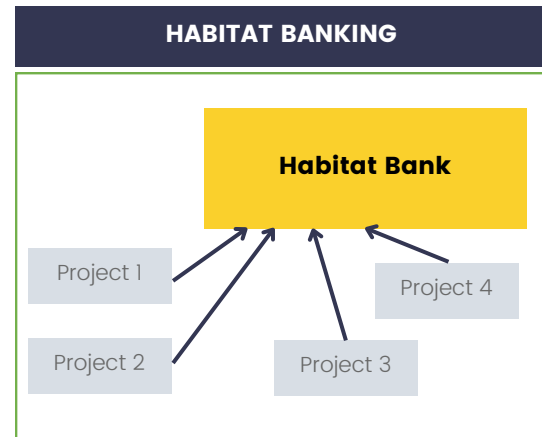
Mariana Sarmiento, Charles Bedford, and Timothy Male

Private habitat banking companies anticipate environmental compensation requirements that countries require of project developers. They then identify strategic locations and structure and invest in large scale conservation and restoration projects that have a minimum duration of minimum 30 years.

Each site and associated project is constituted in a habitat bank that delivers environmental, social and financial returns. Landowners, habitat developers and third parties participate as investors. The payments are only made by infrastructure companies when the results from conservation and restoration are met.



- High transaction costs
- Uncertain implementation costs
- Reduced impact
- Mismatched timing between projects and duties
- Non-permanence of investments and impacts



- Early investment
- Performance based payments
- Secured land
- Reduction transaction costs
- Economies of scale
- Reduced financial risk and uncertainty for companies

HOW HABITAT BANKING WORKS

The basic assumptions of the habitat bank business model:

<p>01 ▶</p>	<p>Revenue Source</p> <p>Habitat banks generate revenue through the sale of compensation credits that are mandated through national or regional laws requiring like for like compensation for destruction of natural habitat.</p>	<p>02 ▶</p>	<p>Payment Scheme</p> <p>Payments for these credits are made through a pay-for-results scheme, where the infrastructure company pays based on the achievement of contractual execution milestones.</p>
<p>03 ▶</p>	<p>Revenue Collection</p> <p>Revenue is collected within the first 5-15 years of each habitat bank's operation, then paid out over time in accordance with the financial plan.</p>	<p>04 ▶</p>	<p>Activities</p> <p>The habitat bank implements both environmental restoration and conservation.</p>
<p>05 ▶</p>	<p>Cost and Expense Structure</p> <p>Costs and expenses include the execution of tasks, obtaining land tenure, labor and the purchase of supplies related to restoration and conservation, along with the costs of structuring and managing the business model.</p>	<p>06 ▶</p>	<p>Land Use Rights</p> <p>The right to use the land that makes up the habitat bank is typically obtained through a partial usufruct contract, which grants land use rights without transferring ownership and compensates at a rate equal to or higher than the opportunity cost of the alternative use of that land, or through fee title transfer.</p>
<p>07 ▶</p>	<p>Duration</p> <p>Habitat banks typically have a lifespan of 30 years to permanence, depending on the legislation.</p>	<p>08 ▶</p>	<p>Sinking Fund</p> <p>To ensure the availability of resources to support operations throughout the project's life, this fund allocates part of the revenue from the first fifteen years to ensure the project can operate at least until year 30. This fund ends up looking like a pension fund for nature where habitat banks exist.</p>

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