Unlocking nature-based solutions with mitigation banking

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Natural capital has long been seen as an effective portfolio diversifier for investors, offering an attractive balance of environmental and income characteristics. However, entering these markets has proved challenging for many.

Mitigation banking, an often-overlooked opportunity, is providing much-needed entry points to U.S. ecosystem restoration markets, allowing investors to participate in nature-based solutions (NbS) through a compliance-driven market framework.

Ecological risk remains an economic risk

With over half of global GDP dependent on nature and its services, degrading land and water resources poses material risks to economies worldwide. The U.S. faces acute exposure, with an estimated $2.1 trillion of GDP tied to nature-dependent sectors, one of the highest concentrations globally, according to the World Economic Forum.

Globally, wetlands filter water and prevent flooding; streams support fisheries and agricultural productivity; and diverse habitats underpin industries from tourism to pharmaceuticals. When these resources decline, economic value erodes with them.

These threats, however, create investment opportunities in NbS. NbS strategies that directly address biodiversity loss, climate change and pollution have potential to generate attractive financial returns where measurable environmental benefits can be monetized.

The challenge for investors has been finding scalable, transparent ways to access these opportunities.

Natural capital's entry challenge

Despite growing interest in natural capital investments, institutional investors face significant challenges. Natural capital assets like timberland and farmland have well-established investment frameworks, but newer NbS opportunities often lack:

- Mature market infrastructure with clear price discovery mechanisms
- Regulatory frameworks driving predictable demand
- Standardized metrics for measuring environmental outcomes
- Scalable investment vehicles with meaningful liquidity profiles

These gaps have left many investors sidelined, interested but uncertain how to participate meaningfully.

How mitigation banking breaks barriers

Mitigation banking is a market-based framework addressing these challenges directly, creating opportunities for investors to contribute to solutions addressing nature loss.

Rooted in federal legislation from the 1970s, mitigation banking markets have developed over three decades into a sophisticated ecosystem restoration mechanism. The policy foundation is straightforward: development cannot result in net loss of critical environmental resources. When impacts from development to wetlands, streams or protected species habitats are unavoidable, they must be offset through restoration of ecologically similar areas.

This policy creates consistent, compliance-driven demand for mitigation bank credits, the tradeable units representing restored ecosystem value.

Here's how it works:

- Specialized investors acquire degraded land with restoration potential—such as drained wetlands, channelized streams or damaged species habitat.
- Capital is invested upfront to restore ecosystem structure and function according to detailed plans approved by government agencies.
- As restoration achieves performance milestones, mitigation credits are released.
- Credits are sold to developers of for example, highways, residential projects, pipelines or industrial facilities who must offset unavoidable environmental impacts to secure project permits.

The result is a market-based framework where private capital funds ecosystem restoration, generates measurable environmental benefits, earning returns through credit sales. This robust regulatory structure ensures permanence through conservation easements and long-term management requirements.

Scale and maturity of the opportunity

U.S. ecosystem restoration markets are already operating at meaningful scale, research shows that:

- Nearly $4 billion in annual revenue generated across wetland, stream and species habitat mitigation markets
- 2,414 wetland and stream mitigation banks established between 1995 and 2024
- 176 species habitat banks operating nationwide, concentrated in states with active development
- Steady 6% annual growth in mitigation bank transactions from 2000 to 2024

Restoration activity tends to be concentrated in regions with active land development and protected natural resources. For example, the Southeast leads in wetland and stream credit activity, driven by population growth and infrastructure development.

All mitigation credit markets are local. Regulations require impacts be offset within the same watershed where they occur, creating distinct local markets insulated from broader credit price movements and ensuring impacted areas are matched with restored areas.

Because mitigation credit demand stems from local development activity, spanning public infrastructure, residential construction, industrial projects and resource extraction, there is a lack of correlation with agricultural commodity prices and forest product markets driving timberland and farmland returns. Local market dynamics further insulate returns from regional or national economic trends affecting traditional natural capital investments.

Unlike voluntary carbon or biodiversity markets still seeking scale, mitigation banking operates within a mandatory compliance framework backed by federal environmental law established 50 years ago. Developers of projects with unavoidable impacts to protected land or water resources cannot proceed without addressing environmental impacts, creating structural and recurring demand.

Understanding the risks

Mitigation banking carries its own risk profile, which investors must navigate carefully. Market and policy risk are major challenges. Credit demand is exposed to local market volatility, stemming from economic downturns which could delay credit sales or impact prices. Environmental regulation changes carry the risk of narrowing the scope of protected resources, reducing offset requirements.

Restoration markets provide ample opportunity

Mitigation banking represents more than an alternative investment opportunity. It shows how well-structured market-based frameworks can channel private capital to address urgent environmental challenges while delivering financial returns.

As interest grows in developing similar market-based frameworks for restoration and biodiversity globally, the U.S. market provides proof of concept and immediate investment opportunity.

The convergence of nature risk, regulatory momentum and investor demand shows ecosystem restoration markets warrant serious exploration by investors seeking environmental impact and portfolio enhancement.

All investments carry a certain degree of risk, including possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. Past performance does not guarantee future results.

Scan below for a detailed review of U.S. markets for ecosystem restoration.: