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Biodiversity: a scoping report

ShareAction»

About ShareAction

ShareAction is a non-profit working to build a global investment sector which is responsible for its impacts on people and planet. We mobilise investors to take action to improve labour standards, tackle the climate crisis, and address pressing global health issues, such as childhood obesity. Over the last 15 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment. We want a future where all finance powers social progress.

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Introduction

ShareAction has a strategic goal to ensure investors and the companies they invest in act within safe ecological limits. The twin crises of climate change and biodiversity loss call for financial institutions - whether asset managers, asset owners or banks, to adopt and implement ambitious and integrated strategies at speed. Although investors are becoming more sophisticated in their responses to climate change, our recent asset manager ranking demonstrated that approaches to biodiversity lag far behind; while our banking research has highlighted that while banks are beginning to make deforestation commitments, these commitments are often weak and high level[i].

As the fifteenth Convention on Biological Diversity (CBD) Conference of Parties (COP 15) approaches, it is important that financial actors are "match fit" for when the global goals are agreed. This will require a coordinated set of responses from a broad range of actors to mobilise the financial sector beyond this current level of stasis where there are no consequences for inaction, to one where biodiversity dependencies, risks and impacts are understood and become an integral part of decision making.

With the support of our funders, ShareAction conducted a piece of research to identify the underlying causes and drivers for this current state of inaction, the key levers and opportunities that could be used to mobilise the finance community, as well as the ongoing challenges and barriers facing financial actors in tackling biodiversity loss. The work has been used to build ShareAction's understanding of the current biodiversity and finance landscape, including the multiple efforts and initiatives currently underway, and to determine how best to support the financial sector respond to the biodiversity crisis. Through this work, ShareAction has been able to develop a set of future work streams to enable it to play an active role in mobilising the financial sector to take action on biodiversity loss.

The scoping exercise involved desk-based research, a series of semi-structured interviews with 11 investor organisations (8 asset managers and 3 asset owners) and 10 technical expert organisations from a range of organisations including international conservation organisations, organisations responsible for global biodiversity tools and datasets and NGOs responsible for biodiversity-related benchmarks and frameworks.

Interviews were conducted between 20th May and 29th June.

Participants have not been named to retain their anonymity.

1. Current investor approaches to biodiversity

Many of the investors interviewed for this study could be considered relative 'leaders' on the topic of biodiversity. The approaches outlined below reinforce many of our findings from our recent Point of No Returns research, and provide further insight into the underlying drivers of these approaches, their limitations and the potential direction of travel. However, it is clear that even among this relatively progressive group of investors, there is a huge gulf between current approaches and what is needed by financial institutions to effectively address the systemic issue of biodiversity loss.

1.1 Few investors plan to establish commitments or strategies on biodiversity

The majority of interviewed investors said they planned to focus on biodiversity as an "engagement topic" but do not have plans to develop an overarching biodiversity policy or commitment on biodiversity. In general, investors cited three key reasons for this: i) a lack of understanding and the complexity and expansiveness of the topic, ii) the lack of credible metrics and data to measure progress towards biodiversity goals and targets and iii) the relatively esoteric nature of the proposed Convention on Biological Diversity goals on biodiversity (CBD Framework)[1]. For more information on these and other barriers to addressing biodiversity loss, see Section 3.

Only one investor said they considered biodiversity "as important as climate change" and were due to release a biodiversity commitment later this year, whereas most investors suggested there was a need to "focus on climate first" before moving onto biodiversity. The limitations and risks of this climate-first thinking, even to climate goals, is not well understood. This is despite the links between climate and biodiversity being well evidenced[ii].

1.2 Client demand is weak but growing

Asset managers had differing experiences regarding client demand for addressing biodiversity loss. Some asset managers said they were reviewing their priorities as a result of client demand in biodiversity and natural resources, while another asset manager said they had seen little to no demand from clients. Interviewed asset owners also demonstrated differing levels of interest in and engagement with biodiversity, some suggesting they would be guided by their asset managers on the issue rather than actively raising it themselves, while others cited significant resource constraints such as a lack of internal expertise or capacity.

1 The Zero-draft of the Treaty of the Convention on Biological Diversity has set the following vision: *"By 2050, biodiversity is valued, conserved, restored and wisely used, maintaining ecosystem services, sustaining a healthy planet and delivering benefits essential for all people." and a framework for delivering this vision which "has five long-term goals for 2050 related to the 2050 Vision for Biodiversity. Each of these goals has an associated outcome for 2030."* The goals cover the protection of ecosystems, threatened species, the preservation of genetic diversity, nature's contribution to people and he equitable sharing of genetic and traditional knowledge. https://www.cbd.int/doc/c/efb0/1f84/a892b98d2982a829962b6371/wg2020-02-03-en.pdf

One asset owner said they would like to see more public awareness of biodiversity and pressure by individuals on asset owners, which they suggested would in turn help add pressure to asset managers. Currently there appears to be little interest from pension scheme members in the topic (unlike climate change), although few schemes interviewed ask members for feedback on biodiversity issues specifically.

1.3 Assessment and integration approaches vary by institution

In general, biodiversity is still only a marginal consideration in ESG integration and analysis. Many investors suggested that this would remain the case in the absence of a strong financial materiality case and credible measurement approaches. Investors tended to agree that engagement would continue to be the most logical and effective way for biodiversity to be addressed within investment decision making, with many acknowledging the limitations of this approach.

Many asset managers make use of ESG screens to screen out companies from certain portfolios. For most investors, screens are typically applied to listed equity and to a lesser extent liquid fixed income asset classes. However, in almost all cases, investors only apply ESG screens to RI or thematic funds. Only a small number of investors apply screens across all portfolios. This underlines the inadequacy of current approaches given that biodiversity loss poses a systemic risk to all investments and the need for ESG screens to be applied across all finance activities.

In addition, screens do not always include biodiversity-related criteria and where criteria are used, it is often part of a broader ESG assessment and often at a high level, such as if a company is high impact on biodiversity or has a biodiversity policy in place. A small number of asset managers are using specific biodiversity-related criteria to exclude companies from portfolios, for instance companies that do not have zero deforestation commitments or have no time-bound targets for RSPO (Roundtable for Sustainable Palm Oil) certification, while another investor said they also exclude agrochemical companies[2] because they do not meet their biodiversity criteria.

A number of investors emphasised that they also carry out a further qualitative analysis to provide additional granularity to the ESG screening process and to refine the focus of their engagement with sectors and individual companies. In almost all cases, these analyses tend to focus exclusively on the extent to which companies have a *negative* impact on biodiversity with little attention on the potential for companies to have a *positive* impact. Two investors also said they had more robust due diligence processes in place for private assets, a view that was echoed by technical experts who suggested that the relationship between investors and clients was similar to that in project finance arrangements.

Investors use a variety of sources to develop their in-house screens and assessments, typically, this includes company reports, third-party data providers, NGO research and in-house analysis. However, given the challenges associated with data availability and measurement approaches (see technical barriers in Section 3), this information is likely to be limiting and incomplete.

2 Agrochemical companies, refers broadly, to those companies that produce seeds and products such as fertilisers and pesticides used in agricultural production.

1.4 Biodiversity is already a part of corporate engagement

A number of investors interviewed indicated that they had been engaging on biodiversity-*related* issues such as deforestation or water for a number of years. However, these investors also acknowledged that in these instances, engagement outcomes were rarely linked to biodiversity specific objectives, but instead to objectives such as reducing greenhouse gas emissions or improving supply chain traceability.

Most investors interviewed suggested biodiversity was particularly relevant to their engagement with the food and agriculture sector and specifically with food producers and manufacturers in soft commodity value chains such as palm, beef, soy and timber. There was limited engagement taking place with other sectors that are either high impact (such as construction or mining) or highly dependent on biodiversity (such as apparel and utilities). For instance, just two investors said they included biodiversity in their engagements with extractives companies and one investor mentioned engaging agrochemical companies on the topic of soil health. A number of investors said they were beginning to scope out their biodiversity engagement priorities and anticipated their sectoral focus to widen in the coming months and years. Encouragingly, two investors said they considered biodiversity relevant for all sectors and would be taking a sector-agnostic approach to biodiversity going forward.

A number of investors suggested it was important to sustain engagement with companies on complex issues such as deforestation however it was noted that this requires a long-term commitment and internal resource. One asset owner emphasised the importance of sustained engagement - *"We don't want them [our asset managers] to spend a year engaging on something and then it disappears again – which has happened a bit with palm oil."* They also suggested that it was important for asset owners to maintain pressure on asset managers, and equally that it was important for asset managers to report the outcomes of their engagement. The focus on reporting engagement outcomes in the new UK Stewardship Code is particularly welcome in this context.

Investors rarely mentioned engagement on company's *positive* impacts on biodiversity with only a minority engaging companies on the opportunities of practices such as regenerative agriculture and nature-positive metals and mineral extraction[iii]. In general, few investors demonstrated an awareness or understanding of the positive interventions or sector-wide transitions that are needed to ensure companies contribute to realising a net positive impact on biodiversity. For instance, only one investor noted that biodiversity considerations would play an important role in assessing how companies meet their 'net-zero commitments', particularly where commitments reference nature-based solutions, providing an important opportunity to scrutinise both climate and biodiversity performance simultaneously. This also reinforces the point made in 1.1 about the lack of understanding regarding the connection between climate change and biodiversity.

1.5 Escalation strategies

Asset managers were keen to stress that biodiversity was currently just one factor that is considered as part of an escalation process with companies. Many investors emphasised that a decision to vote against management was unlikely to be based solely on biodiversity performance alone; however, there were some exceptions. A small number of investors said they were prepared to escalate based specifically on biodiversity considerations and would be looking to support biodiversity-focused shareholder resolutions in the future.

Investors were also divided about the role of divestment as an escalation tactic. Some investors suggested they were open to keeping divestment on the table as an option. One investor said they had already divested from a company on biodiversity grounds while others said they would consider reinvesting if the company changed its approach. One asset owner suggested that divestment was a vital tool to protect their portfolio because integration and engagement alone would not be sufficient to shift entire business models that are becoming unviable.

2. Non-investor actors and biodiversity

Technical experts interviewed have extensive experience providing technical support to both the financial and corporate sector, either directly through client-consultancy relationships or indirectly via the production of resources and datasets. Many technical experts (and a small number of investors) shared observations on the role of non-investor actors such as companies, banks and state-owned actors, and the need for investors to actively engage with each group of actors in order to tackle biodiversity loss. This illustrates the systemic nature of the biodiversity crisis and the need for a greater level of engagement across the public and private spheres, and across all sectors and industries.

2.1 Company biodiversity commitments as a PR exercise

Several technical experts suggested that biodiversity was not properly prioritised within companies and was seen largely as a PR exercise.

> *"Most of the biodiversity function in companies is run by external affairs or stakeholder engagement - this is more of a PR relations management thing and I think that's extraordinary whereas it's should really be embedded within the sustainability function but also within the whole environmental and social management side of things….The past decade has been really about getting companies to recognize the business case and about getting them to kind of set up basic policies and standards within their own organizations. The finance sector should now be saying: 'right, that's the bare minimum, you have to have these in place and now the pressure is on to demonstrate this…' - we need much more pressure, I think, from the investment sector."* - Technical expert

Many technical experts emphasised the need for greater scrutiny by investors to ensure robust biodiversity policy commitments are i) introduced and ii) actually being implemented by companies. On the topic of deforestation, where there has been arguably more traction than any other biodiversity-related issue, experts and investors noted that although there have been a number of pledges and commitments made, many of them have yet to be realised[iv]. For instance, of the 180 companies operating within the Amsterdam Declaration countries[3], only 13 have a zero (or zero net) deforestation commitment (ZDC) across all of their supply chains and operations. Although many more companies have deforestation commitments for specific commodities, these are often weaker and companies are often not transparent about their implementation or progress made. Many

3 The Amsterdam Declaration launched on December 7th, 2015 is a pledge made by seven European countries (Denmark, France, Germany, the Netherlands, the United Kingdom, Italy and Norway) with the intention of achieving fully sustainable and deforestation-free agro-commodity supply chains in Europe by 2020. The Declaration encourages action by the private sector to adopt and implement deforestation commitments (focussed on cocoa, palm oil and soy), policy action by the EU, and public-private partnerships to deliver on 2020 goals and remove deforestation from supply chains. https://www.globalcanopy.org/publications/eliminating-deforestation-supply-chains-2020-review-amsterdam-declaration-countries

participants noted that although there are a number of collaborative investor engagement efforts on the topic of deforestation, there needs to be stronger pressure on companies (and other actors) to address exposure to deforestation.

Some participants felt that although there had been good progress within individual companies, particularly in sectors such as consumer goods and extractives which had received greater stakeholder scrutiny, much more work was needed to ensure this progress become more widespread and that learning was being shared within and across sectors[4].

2.2 Banks and their financing activities are being overlooked

A number of technical and investor participants emphasised the need to engage banks as financiers of companies in high impact sectors and to apply greater scrutiny over their due diligence processes.

> *"The reality is that for a lot of these companies, they are living on debt, quite frankly, and as much as, we're trying to influence the equity allocations - when the banks are willing to provide companies [with] historically unfettered access to debt, it makes it more difficult for shareholders to influence the Exco."* - Technical expert

Participants noted that banks had limited understanding of the implications of biodiversity risk and were not integrating biodiversity factors into their lending or financing strategies. However, participants also acknowledged the additional costs of introducing additional due diligence standards relating to biodiversity. This was a view shared by one investor who also suggested a lack of resource and competing priorities (such as increased financial sector regulation) meant issues such as biodiversity were not considered a priority for banks.

> *"I think the challenge for banks, understandably, especially in the debt provision space, is that your lending makes a profit - it's difficult for them to elect to take on additional costs which don't necessarily give them a competitive advantage."* - Technical expert

One technical participant suggested that although companies were claiming to meet minimum standards such as the International Finance Corporation Performance Standards 6 (IFC S6)[v] and the Equator Principles[vi], these standards are not verified and are open to being exploited.

One investor cited the Banking Environment Initiative's Soft Commodities Compact which set a net zero deforestation goal by 2020 (which has not been met), as an example of the banking sector's lack of progress:

> *"A, they don't speak about the initiative much anymore. B, even some of the banks that are members of that initiative have not established dedicated policies or procedures around the highlighted commodities soy, timber, and dairy."* - Asset Manager

4 One participant cited efforts such as The Cross-Sector Biodiversity Initiative http://www.csbi.org.uk/ which could be helpful for disseminating knowledge but at present the initiative only involved one or two sectors.

There are however some emerging examples of leading practices in the banking sector – for instance ASN Bank has committed to a net positive impact on biodiversity by 2030 although, again, it is not clear how this will be delivered[vii].

2.3 Engaging states and state-owned organisations

Many participants noted the central role of state and state-owned actors in tackling biodiversity loss.

In some regions state owned banks, investors and producing companies play an important role in regions of high biodiversity and where a large proportion of high impact activities take place. A number of technical experts and investors suggested it was difficult to engage and influence companies where the state was heavily involved because the state can often be motivated by different and sometimes competing interests (to those looking to protect biodiversity). A commonly cited example was of a well-known state-owned bank in South East Asia whose mandate is to stimulate local job creation and which often conflicted with targets to protect local forests where the jobs would take place. Participants emphasised the need to build links with local actors to better understand and influence these regional actors.

States themselves can also provide major impediments to achieving progress and meeting international biodiversity targets. A number of participants noted how the actions of individual governments can force investors to act swiftly citing the recent engagement between investors and the Brazilian government[viii], and, again, emphasised the increasing importance of working closely with local state and non-state actors. One investor noted how his organisation had recently prioritised improving their current deforestation policy as a result of recent events:

> *"To be honest with you, the current Brazilian regime has kind of forced our hand. It's become a really political topic now so, I'm quite confident that we'll be able to have something in place [on] deforestation that's far more comprehensive that we currently do."* - Asset Owner

Recent research by Planet Tracker, and a partnership between WWF and Ninety-One have drawn attention to "sovereign health" and the sovereign bond risks associated with national dependencies on nature[ix]. These assessments are also helpful in understanding country level exposure to nature-related risks which are also important for making company-level assessments[x].

3. Barriers to addressing biodiversity loss

Investors and technical experts identified a number of challenges that investors, and to an extent, companies face when understanding, measuring and taking action to reduce biodiversity loss.

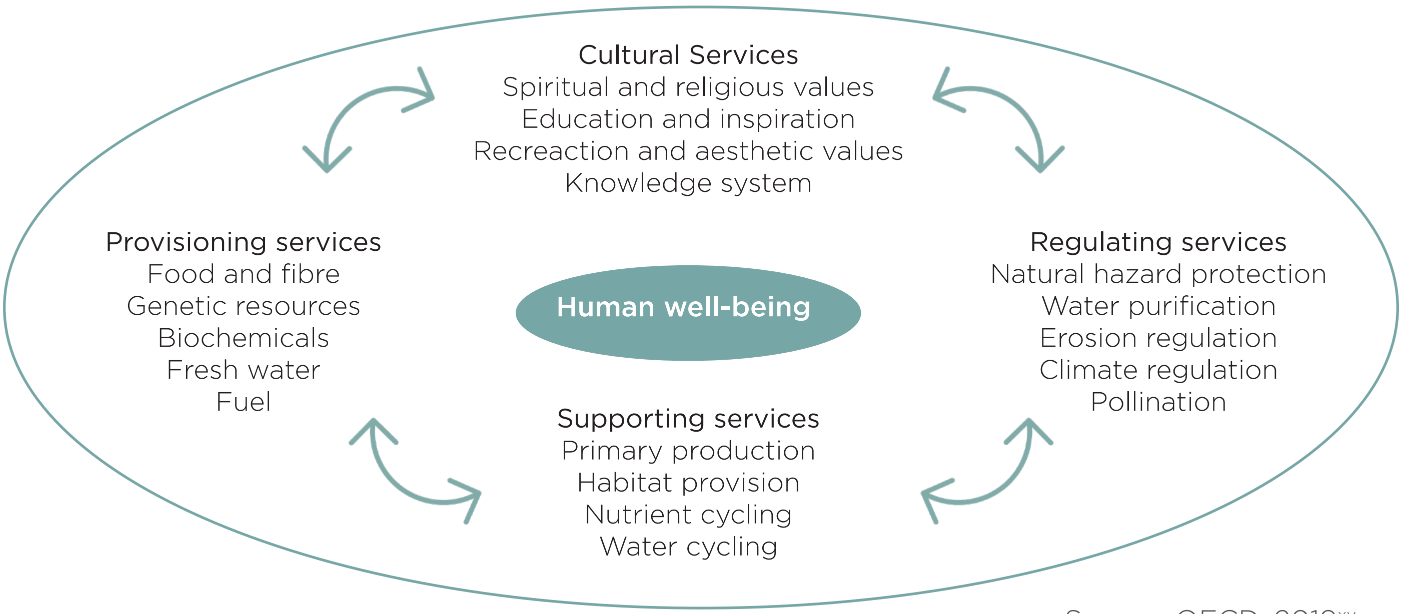
3.1 Conceptual barriers

i. "Biodiversity means different things to different people"

Many interviewed investors acknowledged that their understanding of biodiversity was limited and that they were only just beginning to develop their overall approach to the issue of biodiversity loss. This is despite interviewed investors having a better understanding of the topic and the need to act, relative to their peers[xi]. Of the interviewed investors, only a small number demonstrated having an advanced level of understanding and being involved in collaborative efforts to address some of the barriers cited in this section. More broadly, investors and technical experts agreed that awareness of biodiversity loss and the need to act in the investment sector is currently very limited.

A number of technical experts suggested that, in general, investors often perceive biodiversity as a *species* issue and failed to grasp the underpinning role of nature to all life on earth. Indeed, many investors often framed their understanding of biodiversity in relation to specific issues such as deforestation or anti-microbial resistance, often focussing on topics where there was a ready supply of external information.

Few investors expressed an understanding of the critical role biodiversity plays in underpinning human life and wellbeing, and ultimately the stability and resilience of society and the economy as a whole – as illustrated by the ecosystem services in the diagram below.



Source: OECD, 2019[xv]

ii. Institutional capacity to engage with complexity

Investors suggested their lack of understanding was exacerbated by the inherent complexity of biodiversity which encompasses a range of different topics (as alluded to above) but also is interconnected with other systemic issues. For instance, many asset managers suggested that although they had been engaging on biodiversity-related topics for a number of years, it was still difficult to isolate biodiversity specific objectives given how interlinked they were with other issues such as climate change, supply chains, labour and human rights.

However, some technical experts suggested this barrier was self-inflicted and that the investor community had displayed a conceptual "lethargy" when it came to grasping the inter-related crises of climate change and biodiversity loss (as discussed in 1.1). Another technical participant suggested investors, and specifically fund managers, were not trained or equipped to consider complex inter-connected issues such as biodiversity loss indicating more endemic barriers specific to the investment sector rather than particularly relating to the topic of biodiversity.

Interestingly, and perhaps paradoxically, many investors emphasised the practical imperative to integrate biodiversity into their *existing* work streams. This would help to manage some of the corporate fatigue envisaged with raising a perceived new and complex topic. Asset owners in particular, felt making these links was important to convince scheme trustees that taking on biodiversity was not going to unduly stretch resources.

Another technical participant suggested investors were missing the crucial link between nature, biodiversity loss and companies' social licence to operate.

> *"There's very little discourse on the importance of dependencies of local communities on natural resources and the need for those to be maintained, healthy and functional, or the interconnectedness of these issues with climate, water security and energy security, for example. I think the whole way that we think about biodiversity and the role it plays in our broader economy and in the broader social and political stability of countries and local operating contexts is fundamental."* - Technical expert

Indeed, few investors are approaching biodiversity loss and climate change as inter-connected crises and only one investor referred to the connection between biodiversity loss and human rights. In general, there was very little attention given by either the investor or technical expert participants to the social dimension of biodiversity loss. This is despite the CBD Zero-Draft making a strong link to the delivery of the 2030 Agenda for Sustainable Development and its Sustainable Development Goals and growing calls by some for human rights to be considered as "an enabling condition" in the CBD Framework[xii].

iii. Global goals on biodiversity require translation

In general, investors emphasised the need for governments to adopt national strategies that translate the global goals into targets for the private sector on a country-by-country basis. Without this many investors expressed scepticism of the potential impact of the CBD framework and felt the goals would seem irrelevant to investors and wider private sector.

Although investors were generally optimistic about the new CBD Framework, few had plans to make them an integral component of an overall approach to biodiversity. Few investors seemed aware of the different dimensions of biodiversity outlined in the CBD Framework, again highlighting the low level of understanding regarding the multifaceted nature of biodiversity and all that it encompasses. Investors expressed a preference for a single "Paris-like" goal for biodiversity in order for the CBD Framework goals to have a similarly galvanising effect on investors and the broader international community, although this was not a view shared by technical experts[5].

> *"Unlike greenhouse gas emissions biodiversity is place-specific, it's not fungible. You can't just make the equivalence between an impact in one continent and in another".* - Technical expert

> *"I don't think we need to short change [ourselves] - just because we've gotten a fungible kind of volume that comes out in tons for carbon we [don't] need the same, single number for biodiversity."* - Technical expert

Interestingly, a small number of investors noted that even with a relatively "straightforward" target of limiting global average temperature increase to 1.5 degrees above pre-industrial levels, there were serious challenges with climate-related methodologies and reporting tools and they imagined this would be replicated with biodiversity.

This underscores the need for investors and the wider financial sector to challenge assumptions about approaches to addressing systemic risks such as biodiversity loss. Indeed, while the global community has been able to coalesce around a single target for climate change, this is not the case for biodiversity nor for the social and human rights landscape.

3.2 Technical barriers

i. Measurement approaches – a work in progress and not a 'silver bullet'

A key challenge that all participants flagged was the lack of an agreed methodology to measure and *quantify* impacts and dependencies on biodiversity at the portfolio level.

There are currently multiple parallel efforts underway to develop measurement approaches to measure biodiversity *impacts* at the site, asset and portfolio level [see Appendix 1]. A number of interviewed investors are actively supporting and/or piloting the development of such methodologies. Experts noted that although advances had been made in measuring species diversity, this was not the case for other dimensions of biodiversity highlighted in the CBD Framework such as ecosystems, genetic diversity and nature's contribution to people.

Some investors and experts suggested that these multiple efforts could lead to confusion among investors and companies, who want clarity and are interested in comparing their performance against peers[6]. A number of experts suggested that from a technical perspective, although there were multiple measurement approaches, the topic of biodiversity requires a range of measurement approaches to suit different business applications at different temporal and spatial scales. These

5 See footnote 2
6 Work is already underway to develop a "unified approach on the use of biodiversity measurement approaches and address international goals corporate disclosure and accounting" by the Aligning Biodiversity Measures for Business Initiative https://www.unep-wcmc.org/system/comfy/cms/files/files/000/001/611/original/Aligning_Biodiversity_Measures_for_Business_Slides_from_Workshop_2.PDF

experts expressed some confidence that in time, consensus would emerge around a common set of approaches[xiii].

Despite multiple efforts to measure impacts there is comparatively little activity to develop a methodology to quantify biodiversity *dependencies*[7]. Since biodiversity-related risks and opportunities are derived from *both* impacts and dependencies, investors will need measurement approaches to quantify the risks from both impacts and dependencies to develop a complete picture of their impact and exposure. Many investors suggested that this work was needed to make the financial materiality of biodiversity clearer to the investment sector.

Investors and technical experts also suggested that measurement tools alone would not be a silver bullet. A small number of investors noted that even climate methodologies contain a high degree of uncertainty and lack granularity, and that they expected the level of uncertainty to be "an order of magnitude worse" for biodiversity methodologies. Some experts suggested that there was a risk of placing too much emphasis on measurement at the expense of taking action. Recent analysis by the World Economic Forum (WEF) and UN Environment Programme World Conservation Monitoring Centre (UNEP-WCMC) have been consistent in highlighting the sectors that are responsible for the greatest impacts and dependencies on biodiversity, suggesting that investors need not wait for measurement approaches to be finalised before directing their efforts[xiv].

> *"I think the mistake we've had in the past is we've tried to count everything and we've tried to go down a sort of very reductionist process. We don't want to procrastinate and [avoid] doing anything around management because we don't have enough information – we know what's enough".* - Technical expert

ii. Reporting frameworks – learning the lessons from climate

In addition to methodologies to measure biodiversity performance and impacts, there are also a number of frameworks being developed to enable companies and investors to *report* their performance and efforts to manage their biodiversity impacts and dependencies.

Many investors said the lack of an agreed framework or standard, prevented companies from understanding "how much was enough" in terms of the kind of information they needed to collect and disclose. A number of investors were encouraged by recent developments such as the Taskforce for Nature-related Financial Disclosure (TNFD) and The Science-based Targets Network (SBTN) [see Appendix 1]. One investor commented on the integral role the Taskforce for Climate-related Disclosure (TCFD) has played in mainstreaming understanding and disclosure on climate risk, i.e. the *dependencies* of climate change. However technical experts also suggested that lessons needed to be learnt from the TCFD where some argued there had been too great a focus on *disclosure* and the *financial* risks to financial institutions, and much less on the impact of financing on rising emissions and action to address climate change.

iii. A lack of corporate data and the 'dance around data'

Many participants agreed that a key challenge for methodologies and other benchmarking tools was the lack of corporate disclosure. There was a strong emphasis in particular, on the lack of corporate location data both for the company's own operations and its supply chain.

7 The extent to which company activities and business models are dependent on biodiversity and ecosystem services.

> *"We consider that if you don't know where a company operates, you can really have zero understanding of what specific risks to that company might be. We know that some investors use risk platforms that are based on national data. And based on where the assets are, then there'll be, you know, maybe a higher level of governance risk or maybe a higher level of deforestation of these kinds of things. But the truth is that for most of the companies we look at, there is no information. There's a lot of free tools like Global Forest Watch that can help you see where there's deforestation, but if you don't know who owns the land where the deforestation is, then it's completely a moot point."* - Technical expert

Some investors suggested that they were concerned about the accuracy of the data they had access to, with many investors relying on ESG ratings agencies to provide corporate data. Many technical experts were openly critical about the role of ESG ratings agencies, criticising their use of high level, easy to measure proxies which do not provide accurate insights into biodiversity impacts and are likely to contain a high degree of uncertainty. More generally, a number of technical experts suggested there was a need for consolidation in the broader ESG landscape given how saturated it had become with competing methodologies and indicators.

"[Ratings agency data] gives you a fairly high-level review of what's going on. And we know from a lot of the companies we work with - the minute you scratched under the surface, there was all sorts of horrible things going on that would never pass the due diligence of an investor." Technical expert
One investor said they have found themselves playing the role of adjudicator when data conflicted with information from local actors. Investors said they felt it was inappropriate given their expertise and resource for them to play this role.

> *"It's very easy to get into the discussion - when you speak to the company and when you speak to local people who make complaints, local communities or local environmental groups, you will be dealing with two different sets of evidence, and it's quite hard for us to understand what's happening on the ground. And imagine that you have a portfolio of companies in it without thousands or tens of thousands of different sites and projects. It becomes a very difficult issue for us to have a good oversight on every single aspect."* - Asset Manager

Many investor and technical interviewees acknowledged the challenges companies experience in obtaining and disclosing location data for their supply chains, particularly for those sourcing from specific sourcing regions and with complex supply chains. While progress had been made in some value chains such as palm oil and consumer facing sectors where stakeholder pressure has been greatest, there were significant barriers to full traceability.

However, one participant suggested investors were currently engaged in a "dance around data", where companies were not disclosing enough data on their value chains and investors were not pushing companies to disclose this data. Indeed, some investors even suggested that lack of data was a red herring and not a sufficient barrier to action - "lack of data doesn't mean there is no data", alluding to the various tools and datasets that already exist [See Appendix 1]. Some investors went further to suggest that "we already know what we need to know" in terms of the activities that cause the most harmful impacts on biodiversity. One investor was trying to find alternative ways to obtain accurate supply chain data by partnering with a company that provides remote sensing satellite data on forest-risk supply chains.

4. The role of regulation

Investors and technical experts recognised the need for regulation that would help address many of the barriers cited above. Regulation was needed both in terms of ensuring greater protection for ecosystems and species, but also through financial and corporate sector regulation that included incentives and penalties to mobilise the private sector to reduce negative biodiversity impacts.

4.1 National regulation on biodiversity targets

A number of investors said national regulation that translated the CBD framework goals into targets for state and private sector actors was essential to enabling the financial sector to play its part in delivering global biodiversity goals.

4.2 Due diligence and disclosure requirements for fiduciaries and companies

A number of investors and technical experts said there was a need for regulation that mandated that financial actors account for their biodiversity impacts and dependencies. Many suggested this was necessary to incentivise investors and companies to allocate resources to measuring, managing and disclosing their biodiversity impacts.

Some investors were open about the tension that exists within investment organisations, suggesting that although there was a recognition of the urgency of the biodiversity crisis and of the need to act among ESG and engagement teams, this was not a view shared by portfolio managers and senior colleagues who needed to be convinced of the financial materiality. These investors suggested that financial penalties were needed to move the industry at the pace required. Recent regulatory advances in France were cited as an example of the positive role regulation has in moving the industry forward[8].

A number of participants suggested a number of other policy developments that could help drive better measurement and disclosure practices by companies and financial actors. At the EU level, the European Green Deal and the European Commission's action plan on financing sustainable growth were cited as examples. In particular, the Non-financial Reporting Directive, the Sustainable Finance Disclosure Regulation[9] and the recently announced legislative proposal on mandatory environmental

8 For example: The French Parliament recently amended Article 173-vi of French Energy Transition Law (relating specifically to investors) to require investors and companies to disclose biodiversity impacts. France also set up a Biodiversity Agency in 2020 and will also set a National Biodiversity Strategy in 2021.

9 Table 1 titled 'Principle adverse impacts statement' includes indicators on three biodiversity themes - Biodiversity and ecosystem preservation practices, Natural species and protected areas and Deforestation https://www.esma.europa.eu/press-news/esma-news/esas-consult-environmental-social-and-governance-disclosure-rules

and human rights due diligence for companies[xvi] all provide opportunities to improve both the flow of information between financial and non-financial actors, and the potential to hold financial institutions and companies accountable for their biodiversity impacts.

4.3 Sectoral policy and transition pathways

Participants also flagged the need for substantive sectoral policies that provide a clear pathway to transition toward global goals. Some promising recent developments include the EU's Biodiversity and Farm to Fork strategy, both of which provide a roadmap to restore ecosystems and provide a robust and resilient food[10].

Other notable efforts include the EU's consultation to minimize the region's contribution to deforestation and forest degradation[xvii] and national efforts by France[11] and the UK[12] to combat imported deforestation. Investors felt governments were responsible for setting a vision for the transition of different sectors in order to meet biodiversity goals, in order to provide the parameters for private sector activity and investment.

> *"I do think it will come down to regulation – the market [is] designed by regulation. So ...any soft commodity that involves the felling or destruction of tropical rainforests needs to be rethought and reframed in a way that doesn't involve the destruction of those rain forests, and I think that needs to be the priority. Before we start talking about data, and how do we measure this or that, if we don't agree on a long term vision for ending deforestation - I do think that a sort of that long term vision and goal and aim needs to be set out first, loudly and clearly. And from that, the variety of different industries that have relied on deforestation then come into play. And then we can plan and say well how are these industries viable? What's the way to wind down these industries. If we have a timeline for instance that deforestation has to stop now."* - Asset Owner

At the international level, it was noted that there was much more work needed to introduce meaningful international laws protecting biodiversity. However, one participant noted the work on Biodiversity Beyond National Jurisdictions (BBNJ), which could have wider implications for marine environments as well as national approaches to managing natural resources.

> *"So what comes out of the Biodiversity Beyond National Jurisdiction work will have an influence on fisheries, how biodiversity and protected areas of marine environments... - that will have repercussions on how we deal with Global Commons, also how we start to think about resources, who has access rights to them, and that that needs to be reflected in national policy, too."* - Technical expert

10 The EU's Biodiversity Strategy "aims to build our societies' resilience to future threats such as climate change impacts, forest fires, food insecurity or disease outbreaks, including by protecting wildlife and fighting illegal wildlife trade" while the Farm to Fork Strategy "aims to accelerate our transition to a sustainable food system" which includes a goal to reduce biodiversity loss. https://ec.europa.eu/environment/nature/biodiversity/strategy/index_en.htm https://ec.europa.eu/food/farm2fork_en
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4.4 Economic policy

A small number of participants also suggested there was a need for a wider shift in the way society values nature. A number of investors and experts agreed that government had an important role to play in embedding nature into post-COVID recovery packages, however many were pragmatic (and at times sceptical) about the tensions and trade-offs facing governments, particularly between addressing short-term objectives such as job creation and economic recovery and long-term concerns about nature and planetary boundaries. Although participants acknowledged this tension, no participant explicitly acknowledged the tension between reversing biodiversity loss and the predominant model of economic growth despite evidence suggesting that these two goals are incompatible[xviii].

5. Conclusion and future areas of work

5.1 Conceptual barriers to action need to be challenged and dismantled

Biodiversity loss presents a number of conceptual challenges for investors. There is currently limited understanding of biodiversity loss as a systemic issue affecting all aspects of the economy and society. Without this understanding financial actors are failing to recognise the urgency of the biodiversity crisis and its deep links with climate change, human rights and the Sustainable Development Goals (SDGs). In fact, many investors risk exacerbating the biodiversity crisis by taking a 'climate first' approach.

The relative simplicity offered by a single measurable target and the predominantly quantitative methodologies that aim to assess progress toward this target, appears unique to climate change. The process for determining goals or targets and methods for measuring progress is more complex for biodiversity and indeed other ecological and social phenomena. As such, the financial sector needs to rethink the way it approaches systemic issues such as biodiversity loss, and its connection to other existing crises. There are, for instance, significant risks associated with using climate methodologies that do not account for factors such as biodiversity loss, and implications for societal goals that aim to eradicate poverty and reduce inequality if measures to tackle them do not also address the need for equitable access to healthy natural systems.

Future work in this area

We see an opportunity, partnering with leading conservation NGOs, to produce analytical and accessible research pieces for financial actors. Alongside this we see a need to run an associated programme of engagement to support financial actors' 'connect the dots' on biodiversity and other systemic issues. The objective being to build understanding of the underpinning role that biodiversity plays in all aspects of society and economy.

Investors interviewed emphasised a practical imperative to integrate biodiversity into their existing work streams on climate and in the social sphere. There is therefore a particular need to produce analysis on the relationship between biodiversity loss and climate change, as well as human rights and inequality. This would help to manage some of the corporate fatigue envisaged with raising a perceived 'new' and complex issue such as biodiversity loss. Pension scheme executives felt making these links was important to convince scheme trustees that taking on biodiversity was not going to unduly stretch internal resources.

Investors also indicated that there was a need for a translation mechanism which leveraged the technical expertise of the 'biodiversity community' to ensure it was more widely shared and made more accessible to financial actors. We see an opportunity to support this 'translation' effort, using global biodiversity datasets and experts within the conservation community to show how biodiversity hotspots are impacted by specific business activities and sectors, including their impacts on local communities and economies.

5.2 Waiting for the perfect dataset risks deepening the crisis – we know enough to take action

Biodiversity loss presents an urgent and devastating threat to the integrity of the planet. Recent global assessments have demonstrated that biodiversity has been in freefall for decades and that the impacts of this decline are already causing damage to a number of services on which society depends, such as pollination, soil quality, coastal protection and climate resilience.

Despite this, investors currently call for more and better data before they say they can systematically act on biodiversity loss. While there are a number of important efforts underway to measure and quantify businesses impacts and dependencies on biodiversity, they are a number of years away from being finalised and mainstreamed. It is also highly likely that these approaches will contain a high degree of uncertainty given the complexity of biodiversity and its dynamic relationship with climate change and social development. Waiting or delaying action until these measurement approaches and datasets are formalised is likely to be catastrophic for biodiversity and society.

Instead, there is a need for the finance sector to take action *alongside* these emerging measurement approaches. This would involve financial actors urgently accelerating the movement of finance away from destructive activities and sectors, and toward the regenerative practices that can help restore biodiversity and ecosystem health. Many leading investors acknowledged the risks of future exogenous shocks such as pandemics, highlighting the possibility of leveraging the finance sector's capacity to respond with greater force and urgency than has been the case in the past.

Future work in this area

We see an opportunity to educate and mobilise financial actors as part of a wider campaign to shift capital away from high impact sectors and the most harmful activities where the evidence for biodiversity loss is already clear, and toward practices that will support the regeneration of biodiversity. This work will be vital to ensuring the financial sector takes an active role in halting current trends of biodiversity loss, rather than tacitly enabling activities which are well known to be destructive to natural systems. This work will need to mobilise equity and bond investors to apply pressure on companies in high impact sectors, as well as the banks that provide them with large amounts of finance.

A number of data sources exist that can be used to construct sector-specific campaigns to transform the biodiversity performance of individual companies and industries. For instance, analysis by ENCORE[13] and others have identified priority industries which have the most significant impacts and dependencies on biodiversity, and datasets such as SPOTT and TRASE which provide detailed information at the sector level. Since financial actors have a limited understanding of the relevance of biodiversity to sectors beyond agriculture, it will be important to elevate how other industries such as chemicals, apparel, mining and construction also impact and are impacted by biodiversity.

13 https://naturalcapital.finance/wp-content/uploads/2020/06/Beyond-Business-As-Usual-Full-Report.pdf - the 10 sub-industries identified are Agricultural Products, Apparel, Accessories & Luxury Goods, Brewers, Electric Utilities, Independent Power Producers & Energy Traders, Agricultural Products, Distribution, Mining, Oil & Gas Exploration & Production, Oil & Gas Storage & Transportation. Industries were identified based on the impacts and dependencies on biodiversity.

5.3 Financial actors will not address the biodiversity crisis alone

Financial sector actors play an important role in influencing the way companies operate, however addressing biodiversity loss will require coordinated responses from a range of actors. Investors are centrally placed to engage not only with companies and banks but also increasingly with governments and policy makers. It is likely that investors and banks themselves will be subject to growing scrutiny and regulatory pressure to reduce their negative impacts and deliver positive outcomes for biodiversity. As many leading investors noted, market regulation is critical to securing buy-in from senior management and a pre-requisite for action on biodiversity loss.

Regulation that translates global biodiversity goals into targets for the private sector will be key to helping financial institutions understand the scale of the contribution that is required, although these will require formalised processes for measuring and reporting progress. Investors also indicated a need for national and regional sectoral pathways that provide financial actors and companies with guidance on the transitions required by different sectors to meet global biodiversity targets. Currently, the financial impacts of biodiversity loss are not carried by the companies that produce them - regulation is needed to help investors and banks recognise the financial risks within their portfolios and respond with the urgency required.

Future work in this area

We see a need to leverage investors and banks to engage directly with policy makers on key upcoming policy decisions at the UK and EU level. In May 2020, the European Commission published a comprehensive new strategy on biodiversity as part of the European Green Deal[xix]. Since then, DG Fisma (responsible for financial services regulation at EU level) has highlighted biodiversity risks and impacts in its sustainable finance policy announcements. Along with work sponsored by the UK Treasury on the Economics of Biodiversity[xx], this represents a highly encouraging shift in thinking within Europe's financial policy making circles. Building on these developments, detailed work is now needed to ensure a regulatory regime that drives the behaviours needed and creates the incentives required to shift financial capital away from activities that damage biodiversity and towards activities that enable regeneration.

Related to this, there are opportunities to mobilise individuals (as well as civil society and technical experts) with a commitment to action on biodiversity loss to engage with sustainable finance policy discussions. Public interest and awareness of biodiversity loss is likely to continue to grow as a result of high-profile publications and media events. It will be important to harness this interest to build public pressure at important policy opportunities, but also to apply pressure on asset owners such as pension schemes via their scheme members, which in turn can help create pressure on asset managers.

Appendix 1

Appendix 1 - The measurement and reporting landscape

The post 2020 Global biodiversity Framework

The CBD zero-draft outlines five goals[xxi]. Broadly, the targets cover ecosystems, species extinction, genetic diversity, nature's benefits to people and the equitable sharing of benefits from genetic resources and traditional knowledge.

A number of efforts are underway to support companies and financial actors measure, disclose and improve their performance against each biodiversity goal.

i) Methodologies are being developed to measure biodiversity impacts (and dependencies) to enable organisations assess their biodiversity performance[14].

ii) Data tools are available or being developed to enable companies and financial institutions to improve their biodiversity performance and make informed decisions about their current and planned business and investment activities.

iii) Reporting frameworks and standards are being developed to enable companies and financial actors to disclose their performance and strategy to improve their performance over time.

iv) A number of collaborative initiatives have also emerged to provide support and resources to organisations when conducting the above activities.

A non-comprehensive list of these efforts is given below, with a brief summary of its purpose and target audience.

i) Measurement methodologies

There are multiple efforts currently in development to help quantify company and investors impacts on biodiversity. Listed below are four of these approaches. Each methodology is underpinned by an individual metric or combination of metrics. While some aim to calculate the overall biodiversity footprint, others assessing the relative contribution of threat to biodiversity or by combining multiple criteria into one single composite score[xxii].

BFFI, Biodiversity Footprint Financials Institutions, ASN Bank, PRé Consultants and CREM

Assesses the biodiversity footprint of a financial institution at a portfolio level based on the drivers of biodiversity loss. Uses data from the 'EXIOBASE' database to assess the pressures on biodiversity by different economic activities and uses the ReciPe model to calculate the impact of these pressures on biodiversity. It also quantifies positive impacts on biodiversity. Applied by ASN Bank who have a commitment to Net positive effect on biodiversity in 2030.

14 Most approaches measure species richness (a good proxy for the integrity of ecosystems) or species extinction risk. Measurement approaches do not currently cover marine or genetic biodiversity. Most methodologies focus on measuring the biodiversity footprint i.e. biodiversity *impacts*, while few measure biodiversity *dependencies*. Work is also underway by the ENCORE team to develop a tool that would enable financial actors to assess how well aligned their portfolios are with the CBD global goals.

GBS – Global Biodiversity Score, CDC Biodiversité

Assesses the biodiversity footprint of a company's value chain and/or the footprint of a financial institution's portfolio. Uses data from the GLOBIO and EXIOBASE databases to link economic activity data to pressures and impacts on biodiversity. Scores are expressed using the Mean Species Abundance Metric (see MSA). The GBS is expecting to carry out a first tranche of company assessments in Q4 of 2020.

BIM - Biodiversity Impact Metric, Cambridge Institute of Sustainability Leadership

Calculates the quantity of biodiversity lost, and then adjusts the score based on the quality of biodiversity in the area impacted. Uses the Mean Species Abundance Metric (see MSA). Can be used by companies with global supply chains to measure and compare the biodiversity impacts of commodity production when making sourcing decisions. Provides companies that lack complete data on their supply chains with an alternative way to calculate their biodiversity impacts. Has been piloted by the luxury fashion brand Kering who have published a biodiversity strategy and made a commitment to have a net positive impact on biodiversity by 2025.

STAR – Species Threat Abatement and Recovery, International Union for Conservation of Nature (IUCN)

Measures the potential contribution that investments can make to reducing species risk. Can be used at the site and company level, can also be used by banks and investors in project finance or in conservation finance applications. Uses information from the IUCN Red-List to calculate the distribution of the species at the site, the threats facing the species, and the contribution of those threats to species extinction risk. The STAR metric reflects the CBD target relating to species extinction risk.

Individual metrics

MSA - Mean Species Abundance, GLOBIO consortium (PBL Netherlands, UNEP GRIDArendal, UNEPWCMC)

Compares the average decline in abundance of all species in a disturbed area to their abundance in undisturbed habitat. Scores are expressed as a percentage of the intactness of ecosystems. An MSA of 0% reflects a completely destructed ecosystem, whereas 100 per cent represents an undisturbed pristine ecosystem.

ii) Tools and datasets

Methodologies are being developed, but a range of tools exist to help companies and investors carry out initial screenings and mapping exercises of their impacts and dependencies on biodiversity. Many of these tools are being developed to better suit the needs of a range of financial institutions.

IBAT - Integrated Biodiversity Assessment Tool

IBAT brings together three global biodiversity-related datasets: the World Database on Protected Areas, the IUCN Red List of Threatened Species, and the World Database of Key Biodiversity Areas. IBAT enables companies and financial institutions to understand the impacts of business operations on species and key biodiversity areas for specific project sites. The tool is most relevant for conducting high-level and early stage risk screening necessary for project finance. The IBAT Alliance has indicated that it is working on mapping the tool's biodiversity datasets against individual companies' assets, which will help actors in the financial sector build a better picture of their exposure to biodiversity-related risks in the context of corporate global operations.

ENCORE - Exploring Natural Capital Opportunities, Risks and Exposure

ENCORE allows financial institutions (originally designed for banks) to better understand their *dependency* on biodiversity and ecosystem services at the portfolio level. ENCORE allows users to carry out an initial mapping exercise to generate qualitative information that can be used to understand how different sectors are reliant on different types of biodiversity assets and ecosystem services, and how declines in these assets through environmental change might affect sectors operating in specific locations. Work is currently underway to make the tool more accessible to a wide range of financial institutions including to enable financial institutions understand how their portfolios are aligned with the CBD goals.

Trase & Trase Finance

Trase enables users to visualise data on the trade flows and the embedded deforestation-related risks in key agricultural commodity supply chains. It currently includes data on soy, palm oil, timber and beef and aims to cover over 70% of the total traded volume of major forest risk commodities by 2021.

Trase Finance (to be launched in 2020) will provide financial institutions information on their exposure to deforestation across their portfolios. The tool can be used to support advanced due diligence processes, monitor portfolios of companies and support product innovation.

SPOTT (Sustainability Policy Transparency Toolkit)

A benchmarking tool that assesses the public disclosure of soft commodity producers and traders on a number of environment, social and governance issues. The tool current assesses companies in the tropical forestry, palm oil and natural rubber sectors. The assessments can be used by financial institutions, buyers and others to inform stakeholder engagement, manage ESG risk, and increase transparency across multiple industries.

iii) Reporting frameworks and standards

A number of frameworks are being updated or developed, some in preparation for the forthcoming CBD goals to help facilitate and drive better measurement and reporting practices among companies and financial institutions.

NCP - The Natural Capital Protocol

The Natural Capital Protocol is a decision making framework that is aimed at supporting companies to identify, measure and value their direct and indirect impacts and dependencies on natural capital. The Protocol doesn't aim to be prescriptive, instead it states that "all available natural capital tools and methodologies are compatible with an application of the Natural Capital Protocol".

The Natural Capital Protocol – Finance Sector Supplement provides tailored guidance to financial institutions on how to assess the natural capital impacts and dependencies of their portfolios.

BDP - The Biological Diversity Protocol

Currently in consultation phase, the Biological Diversity Protocol provides a framework and guidance to **companies** on how to measure biodiversity impacts. It is intended to support business address Step 6 of the Natural Capital Protocol ('Measure changes in the state of natural capital').

EU NFRD - EU Non-Financial Reporting Directive

The Directive requires **companies** to disclose a non-financial statement that covers four sustainability issues including "environmental matters". The Directive is due to be updated following a public consultation in 2020 and it is anticipated that disclosure requirements will seek to define "environmental matters" to explicitly include biodiversity[xxiii].

GRI - Global Reporting Initiative

The Global Reporting Initiative produces a set of **corporate reporting standards** which include Standard 304 on Biodiversity. The current standard include four reporting requirements, however the standard was last reviewed in 2016.

SBTN - The Science Based Targets Network

The Science Based Targets Network is an offshoot of the Science Based Targets Initiative (which sets greenhouse gas emission reduction targets in line with climate science). The network will aim to downscale the global goals into science-based targets for nature for different actors such as **companies** and **financial institutions**. The targets will cover a company's impacts to five earth systems – biodiversity, land, water, oceans and climate. Interim Guidance has recently been released to enable companies and cities (and financial institutions) begin the process of setting science-based targets for nature.

TNFD - The Task Force for Nature-Related Financial Disclosures

The Task Force will establish a reporting framework for finance institutions to report their impacts and dependencies on nature. The framework will be launched in 2021 and is a complement to the Task Force on Climate-related Financial Disclosures.

iv) Collaborative initiatives

There are a number of efforts aimed at supporting companies and financial institutions streamline and consolidate the measurement and reporting landscape.

Aligning Biodiversity Measures for Business Initiative

Aims to form a common view amongst key stakeholders on the measurement, monitoring and disclosure of corporate biodiversity impacts and dependencies. It will encourage the development of more credible indicators of corporate contribution to global biodiversity goals into corporate reporting and global policy frameworks.

EU Business @ Biodiversity platform

A platform for financial institutions, policy and other measurement organisations to "share experiences, raise awareness and promote best practices at EU level on how to integrate biodiversity and natural capital into mainstream financial activities and foster investments in natural capital as a new asset class." Conducts work streams on 'assessing nature-related impacts and risks' and 'biodiversity disclosure'.

Natural Capital Finance Alliance (NCFA)

Originally formed to support the signatories of the Natural Capital Declaration (NCD) and launched at the Rio+20 conference in 2012. The Alliance has produced a Finance sector supplement to the Natural Capital Protocol and manages the ENCORE tool mentioned above.

Metrics and measurement methodologies

BIM
BFFI
MSA
STAR
GBS

Reporting frameworks

NCP
GRI
BDP
SBTN
EU NFRD
TNFD

ENCORE
IBAT
SPOTT
Trase / Trase Finance

Data tools

Aligning Biodiversity Measures for Business Initiative
EU Business @ Biodiversity platform
Natural Capital Finance Alliance

Collaborative initiatives

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About ShareAction

ShareAction is a non-profit working to build a global investment sector which is responsible for its impacts on people and planet. We mobilise investors to take action to improve labour standards, tackle the climate crisis, and address pressing global health issues, such as childhood obesity. Over the last 15 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment. We want a future where all finance powers social progress.

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