EU Community of Practice Finance and Biodiversity

Minutes of the 2\textsuperscript{nd} meeting of 29 June 2017

Opening and welcome at Interface

The ASN Bank is host for the second meeting of the Community of Practice (CoP) Finance and Biodiversity. They invest in the green company \textit{Interface} and that’s why the meeting took place in the Awarehouse on their premises at Scherpenzeel in the Netherlands. This meeting aimed to convene CoP members and their key experts to discuss the topic of “biodiversity accounting”. This includes tools, methodologies and approaches that are able to measure impact of investments or integrate biodiversity in portfolio and risk management.

\textbf{Interface’s inspiring “Zero Emission” journey}

As a worldwide market leader in modular flooring, Interface built its success on aiming to become a restorative enterprise creating an inclusive and circular economy inspired by nature. The day before the meeting they were named for the 20\textsuperscript{th} time as a global sustainability leader. All years in the top 4 and this year number 3. \url{http://sustainability.com/our-work/reports/2017-sustainability-leaders/}

Interface’s main factory in Europe represented an ideal location to host the second CoP meeting on Biodiversity Accounting. The CoP members and invited experts were welcomed by Jan Hasselman, CFO of Interface EMEA, who gave an inspiring speech on the development of the company. “Showing it is possible to create a better world, being restorative by the power of our influence” lays at the foundation of Interface’s disruptive strategy inspired by the company’s founder, Ray Anderson, since the 1990s. Anderson’s thinking of an ambition and a vision started with a question from a client in California. The ambition ‘Mission Zero®’ shows Interface’s promise to eliminate any negative impact the company has on the environment by 2020. Achieving this goal implied a radical redesign of the company’s products and industrial model.

Since 1994, Interface embarked on a journey to eliminate waste and benign emission, use renewable energy sources, and improve non-labour resource efficiency by investing in sustainable inputs which enabled closing the loop. The programme also aimed to invest in resource efficient transportation, redesign commerce and raise awareness among the company’s employees. Although costly, LCA is used to focus on the areas of main impact within the whole supply chain. The efforts quickly paid off by resulting in lower costs, better reputation and more engaged employees. The change was also responsible for driving new innovations and ideas. The development of random designs based on nature (this biomimicry-inspiration has reduced waste during production considerably). Another innovation is the launch of the Net-Works\textsuperscript{®} programme which harvests discarded fishing nets, that are then recycled into new yarn. In this way a new self funding inclusive and circular supply chain is created. Challenges are in the area of leasing carpet and how to finance this in an ethical way. ‘What is the value of carpet after one year of use?’
With the Mission Zero goal in sight, the company started to look beyond 2020. With the “Climate Take Back” strategy, the company aims to transition from a restorative to a regenerative company, i.e. going from “factories to zero” to “factories as forests”, from recycling closed loop materials to products from dispersed materials, from low carbon to sequester carbon, etc. Through CFO Jan Hasselman, Interface clearly demonstrated that humans have the power to change our whole planet, and that the biggest threat to the world isn’t climate change, but attitude.

Guided tour of Interface
The CoP members were invited to for a guided tour within Interface’s factory.
Mike Sharman (CISL) presented his ongoing work within the Natural Capital Impact Group¹ to co-develop metrics that are influential in decision making, practical to use and meaningful across the value chain. He argued the quest for ecosystem metrics are intrinsically linked to SDG targets (“maintain ecologically sound landscapes and seas for nature and people”). Leading companies are keen to provide evidence of improvement through robust metrics.

Taking the example of a cotton shirt and based on available data on location, materials and quantity, Mike Sharman presented the results of research aiming to develop robust biodiversity impact metrics. The metric, which is expressed in hectare equivalent, be calculated as follows:

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\text{Impact on bio} = \text{land area} \times \text{impact on bio quantity} \times \text{impact on bio quality} = \text{ha equivalent}
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With underlying variables being:

- **Land area**: hectares --> derived from company data on quantity of purchased raw materials, company data on sourcing location and yield data (company or external data);
- **Impact on biodiversity quantity**: calculated using the Biodiversity Intactness Index (e.g. land use type, land use intensity) measuring species richness relative to original baseline.
- **Impact on biodiversity quality**: calculated using globally available datasets to establish biodiversity context. This will help determine sourcing location. Quality can be derived from proportion of forest cover or proportion of ecoregion that is covered by bio hotspot.

Key assumptions include:

- The metric focusses solely on the impact of agricultural practices;
- Impact is based solely on the land required for production;
- All crop types have the same impact under the same intensity;
- All livestock types have the same impact under the same intensity;
- Freely available biodiversity data will be coarse scale.

Key takeaways include:

- The methodology works, we can use it;
- It appears to be providing “reasonable” results, and now requires further testing;
- It highlighted that we need more diversity of data for the quality coefficient;
- There are key areas still under development, e.g. biodiversity friendly activities and narrative.

Platform Biodiversity Accounting Financials (PBAF) – Mark Goedkoop, PRé Consult

Mark Goedkoop (Pre Consult) presented the method developed for ASN Bank to measure the impact of ASN Bank’s 2014 portfolio on biodiversity (all ASN asset classes were accounted for). Biodiversity represents one of the main pillars of ASN Bank’s sustainability strategy next to climate change and human rights. The bank was inspired by Interface’s strategy and ambition. The bank has committed to a strict biodiversity policy that lead to divert from a range of sectors such as mining, fossil energy, palm oil and fisheries. This policy also leads the bank to scrutinise every business in which it is investing.

In 2017 the Platform Biodiversity Accounting Financials (PBAF) was initiated by Actiam and the ASN Bank. It started with four other financial institutions (FIs) to explore other asset classes in order to reach consensus on a common biodiversity accounting approach. This would be supported by common principles, criteria, and a scope to be taken along in calculations. The Platform aims to develop an approach for informed decision making and communication and a biodiversity accounting guidance. Through this platform members aim to learn from each other and share experiences with regards common challenges and potential solutions. The Platform aims to share experiences in working groups on asset classes, for example project finance, listed equity and mortgages/real estate, and learn from other biodiversity accounting examples. A starting document ‘Biodiversity footprint methodologies and points of departure’ PBAF was published by Crem consultancy in July 2017.

The biodiversity footprint method includes three steps:

- Understand the impact of an investment: Which co-responsibility do you have? Which supply chains are supported? Which part of this is to be included (scoping)?
- How do we link the activities in a supply-chain to emissions, land and water-use in which country or region?
- How much biodiversity damage is caused by these emissions, land and water use?

On methods for measuring impact the work for the ASN Bank learned that:

- Both Globio2 and ReCiPe3 are designed to assess the impact on biodiversity resulting from impact drivers like climate change, using dose-response relations. Globio can be used to assess location specific impacts (and needs location specific data as an input), while ReCiPe is not designed to take

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2 Developed by Netherlands Environmental Assessment Agency (PBL), UNEP GRID-Arendal and UNEP-World Conservation Monitoring Centre (UNEP-WCMC).
3 Developed by PRé, Radbout University, CML, RIVM (2008 version); and by RIVM, Radbout University, NTNU Trondheim (2016 version).
into account location specific characteristics (apart from water scarcity on a country level) and does not need location specific data. Consequently, ReCiPe can be used on an investment portfolio level to identify biodiversity impact hot spots, while Globio can be used to zoom in on these hot spots on an entity level (e.g. a specific project investment).

- Both Globio and ReCiPe need environmental impact data as an input. One of the datasets used is Exiobase, a so called ‘Extended input-output database’ providing data on trade between countries and sectors and sector data on environmental impacts. Exiobase was developed by an international consortium in two EU funded projects. The example of NIKE was provided to illustrate the methodology, its impact throughout the supply chain.

The impact of climate change and biodiversity are measured with Globio\(^4\) and ReCiPe\(^5\). Also datasets include, an environmental impact database of industrial sectors which is funded in the EU. The example of NIKE was provided to illustrate the methodology, its impact throughout the supply chain.

- Supporting starting points include:
  - A focus on biodiversity as the basis for maintaining ecological function, provision of goods and services, and nature as nature;
  - Impacts are only partially modelled in a location-specific way (per country);
  - The use of extended Input-Output tables does not take into account FIs’ investment criteria;
  - Both ReCiPe and Exiobase have significant uncertainties;
  - Given the limitations of the methodologies used, results should mainly be used to identify impact ‘hotspots’;
  - The quantitative footprint needs to be complemented by a qualitative analysis & interpretation;
  - Including scope 3 can imply double counting when other FIs (investing in those upstream activities) start calculating their footprint as well;
  - The PCAF approach is used to calculate GHG emissions. While for other impacts PBAF chooses its own scope.

**Exploring the topics behind ‘biodiversity accounting’ in sub-groups**

In the next stage, the CoP members broke down in smaller groups to discuss the three topics that emerged from the questions that came up during the presentations. Each group was asked to identify the exact scope of the topic, elaborate on the questions to answer, identify answers and suggest ways how these could be answered like finding partners to collaborate with.

The three subgroups included:

- Group 1 - Accounting principles
- Group 2 - Develop metrics for engaging with SME’s to establish progress
- Group 3 - Pro-biodiversity

**Key takeaways from the meeting on biodiversity accounting**

- Financials require robust metrics that enable them to assess direct or indirect impacts of their investment on the ground;
- Methodologies for biodiversity accounting for financials depend on ‘on-site’ data on biodiversity and natural capital and ecosystem services. The issue of granularity of the methodology (i.e. whether it is

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applicable at farm level to whole countries or global regions for a robust assessment) was highlighted as one key issue with regards to metric development;

- CISL showed how a ha-unit can be used by FI’s to assess degraded land per invested/financed Dollar/Euro;
- LCA is a key management tool to identify the areas that need action/change. ReCiPe with EU database and Exiobase help to get insight on hotspot asset classes / sectors (as was concluded from ASN Bank practice);
- There exist various international databases or sources at international (FAO, WRI, etc.) and EU level (KIPINCA, MAES, etc.). These could represent key data sources to help develop methodologies and make biodiversity accounting for financials meaningful;
- Also the use of (upcoming) satellite data could help get access to key information on ecosystems quality on specific locations;
- Biodiversity accounting could be a proxy for an integral (holistic) approach;
- There exists a strong connection between biodiversity accounting and the SDGs;
- FIs are more interested in understanding the risks from NC dependencies than impacts;
- Minimising negative risks represents a first step towards positive impact;
- Positive impact can be assessed by the area (in ha) restored or conserved following the CISL methodology;
- The insights form biodiversity accounting can be used for better-informed decision making internally. Communicating the results to a larger audience is a challenge.

Questions that remain unanswered:

- How to disclose/obtain information from investees on production locations and resource locations?
- In what way can the new EU guidelines on non-financial reporting be of help for this?
- Can we benchmark specific corporate biodiversity performance with average sector performances?
- Can we test the performance of biodiversity accounting methodologies at investments and portfolio’s?

Some important dates

- High Level Expert Group Sustainable Finance DG FISMA 18 July Brussels
- Participation CoP F@B at 4th October Frankfurt as part of the annual meeting of the Platform B@B on setting an ambition.
- 7 & 8 November: third meeting CoP F@B in Greece on investing in pro-biodiversity.
- World Forum on Natural Capital 27 and 28 November