Business, biodiversity & natural capital | Ambitions, risks & opportunities

4 October 2017: EU B@B Annual Conference | How to set an ambition level?

Summary of the Finance breakout session

1. **Background**

On 4-5 October 2017, the EU Business and Biodiversity Platform (EU B@B) and the Global Nature Fund (GNF) joined forces to organise an international conference with the aim to tackle the challenge for businesses in integrating biodiversity and natural capital. Under the common motto ‘Business, biodiversity & natural capital | Ambitions, risks & opportunities’ the conference brought front-runners and newcomers together with leading scientists, government officials and nature conservation organisations at the Nestle Competence Centre in Frankfurt, Germany. A short summary of the event can be found [online](#).

In the afternoon of 4 October, real working sessions were organised in parallel groups focusing on (1) natural capital accounting (NCA), (2) tools to support ambitious business and biodiversity innovations, and (3) finance and biodiversity. The thematic breakout session on Finance aimed to investigate the question ‘**How can the finance sector set its own biodiversity target and support businesses in achieving theirs?**’

The main objectives were to: 1) create awareness and understanding of the type(s) of ambitions financial institutions (FIs) are working on, and the type(s) of challenges they are facing when doing so; and 2) use the knowledge and experiences of other stakeholders / participants to address and ‘solve’ the challenges FIs are facing when setting an ambition level for biodiversity. The results aim to feed the work of the working group of the Community of Practice (CoP) on Finance at Biodiversity (F@B) on ‘How to set an ambition level?’.

During the breakout, four FI representatives presented their challenges when setting an ambition level, and explored potential solutions in small groups. Each subgroup was then asked to report the results of the discussion on ‘What can a FI do?’ and ‘Where to engage with others?’.

The four subgroups included:

A. “Where does a FI responsibility stop?”, Maxime Molenaar, ESG Analyst ACTIAM
B. “How to bridge the gap of short term financial disadvantages in a long term transition process?”, Bas Rüter, Director Sustainability, Rabobank
C. “How can FIs set targets on a local level?”, Dimitrios Dimopoulos, Director Environment Unit, Piraeus Bank
D. “How operational is the concept of biodiversity when considering dependencies?”, Martin Halle, Senior Researcher, Natural Capital Finance Alliance.
2. Summary of the subgroup discussions

**Subgroup A: Where does a FI responsibility stop?**

**Speaker/moderator:** Maxime Molenaar, ESG Analyst ACTIAM

**Subquestion:** Do we look at financial risks in relation to biodiversity, or also at risks for planet earth?

**To determine a FI responsibility, some starting points need to be clarified:**

- The responsibility depends on *type of finance*, or the so-called investment mechanism (e.g. project finance versus listed equity).
  - In the case of project finance, FIs have much more ex-ante specific information and (therefore) more responsibility for a specific project. For publicly listed private equity, by contrast, FIs are not expected to know all the project details, as only publicly available information is available.
  - One should make the distinction between asset management (fiduciary duty), and direct credit, which implies a return (and hence a profit).
- FIs need to have been *provided with all relevant data*. Responsibility depends on their impacts and whether they are able to measure their impacts.
- FIs need to have been given the *mandate by clients*.
- Responsibility can only be exercised if they are *alternatives*.

**Different levels and types of responsibility were explored:**

1. **Compliance** with (financial) legislation.
2. **Ethical behaviour**.
3. **Application of ethical criteria and environmental criteria to investment decisions**;
   - FIs have the responsibility to look into the business that they finance. And there need to be consequences in case of financing non-ethical practices.
   - FIs should also look at the consequences of their actions (e.g. speculation in soft commodities has led to increased / heavily fluctuating prices, and made food unaffordable for the poorest).
4. **Contracts with clients and investee companies; also fiduciary duty**.
   - The financial sector is a driving force and should positively influence companies. The leverage of each FI depends on a case by case basis (e.g. project finance vs. large share holdings, minority listed shareholder).
   - Responsibility is strongly linked to the national legal context (e.g. Santander has been held responsible for deforestation in the supply chain in Brazil).
   - Look at the bigger company context rather and do not limit your analysis to a single project (e.g. FIs also need to address weakness of management of a company).
   - Furthermore, look at progress of a company, and not only at its final result or impact.
   - FIs can build a business case and is bound by information of the investee company (plus FIs strongly depend on investee companies to do their own check).
   - In addition, responsibility in an ethical way changes over time. You can apply a staggered approach: to observe duties at the time of decision-making. After that the FI is bound to the agreement that it made with client/investee company.
5. **Stretch responsibility as far as possible**. However FIs can only be held responsible if they have been provided with ALL relevant information and this is the responsibility of the company. In case of general funding, responsibility should not go as far as at the project level.
6. **To be a force for good**. It is a double-edged sword, the sector also has a history of having negative influence (e.g. extracting large profits with negative effects on others). They should leverage their power for positive influence.
What can a Financial Institution do about this, what is the perspective of acting, options for solving?

- Define your responsibility and business-strategy, formulate a code of conduct;
- Understand the dependencies of nature and biodiversity of your investments, like the need for fertile soil or water to be able to produce food;
- For all investments, FIs, like other companies, should use the mitigation hierarchy:
  - First avoid negative impact and dependencies;
  - Then, minimize negative impact and dependencies;
  - Finally, compensate negative impact and dependencies.
- Look for alternatives as responsibility can only be exercised if there are alternatives.

Where do you need to engage with other stakeholders to tackle this challenge?

- Engage with asset owners / clients to include Environmental, Social and Governance criteria in their mandates.
- Push business to excel;
- Apply the mitigation hierarchy;
- FIs have the responsibility, the need, to know relevant sustainability data in order to make the right investment decisions. Ask for more data and information from investments (go beyond legal constraints).

Remaining challenges:

- Should there be consequences?
- If so, which?
- Does ethical choice change over time/situation

Subgroup B: How to bridge the gap of short term financial disadvantages in a long term transition process?

**Speaker/moderator:** Bas Rüter, Director Sustainability, Rabobank

What can a Financial Institution do about this, what is the perspective of acting, options for solving?

- Product development beyond lower percentages
- Explain what you can & cannot do towards investments and clients
- Tighten minimum standards
- Internalise ecosystem thinking and acting in targets & culture

Where do you need to engage with other stakeholders to tackle this challenge?

- Work landscape – not commodity-based
- Multi-stakeholder trust and cooperation inspires!
- Set examples for a systemic approach (create oil spills)

Additional answers:

- Make use of scenario thinking: dependent on the match of an investment with a scenario: forbid, support or agree
- In the race to the top, including peer pressure, consensus on performance is increasing
Subgroup C: How can FIs set targets on a local level? How do you raise awareness on a local level?

Speaker/moderator: Dimitrios Dimopoulos, Director Environment Unit, Piraeus Bank

Questions to explore:
- How do you raise awareness among local SMEs on the importance of biodiversity and ecosystems for their business?
- How can high level policies and strategies reach the ground level SMEs?
- How to promote the business case of biodiversity? How do you engage SMEs?
- Can FIs go beyond risks and focus on positive impacts?
- Can FIs play an ‘educational’ role and drive SMEs to invest in biodiversity?
- Can FIs be agents for conveying EU and national policies-strategies to a local level?
- Who else to engage with?
- What is the role of governments and local authorities?

What can FIs do to set targets on a local level regarding SMEs?
- Collaborate with scientists or NGOs to acquire local knowledge of biodiversity (particular habitats and species, threats, opportunities, priorities etc.);
- Define target groups (e.g. farmers, fishers) - segmentation of local SMEs;
- Clarify what biodiversity is and define scope (e.g. area, timeframe, level (genes, species, ecosystems);
- Explain how biodiversity relates to various clusters of business (dependencies and opportunities);
- Design mosaics of business and develop landscape approach targets for protection and restoration;
- Step by step portfolio investment approach – steer capital;
- Explore blended finance opportunities (grants etc), FIs are the vehicle to finance.

How can FIs raise awareness among local SMEs
- Openness, transparency, effective communication
- Potential channels of communication include clients of FIs, vendors – supply chain, trade associations, NGOs, local opinion leaders, local politicians, schools, market pressure (consumers’ behaviour change), inspire, educate, motivate SMEs. Other means to engage SMEs include incentives – (e.g. low interest rates, special services), regulators.

What can a Financial Institution do about this, what is the perspective of acting, options for solving?
- Explain how biodiversity relates to various clusters of business (dependencies and opportunities)
- Clarify what biodiversity is and define scope (e.g. area, timeframe, level (genes, species, ecosystems)
- Work closely with scientists, regulators, investors, opinion leaders, planners, grant providers, politicians (EU, national, local), NGOs

Where do you need to engage with other stakeholders to tackle this challenge?
- Small targets, small groups, step-by-step approach
- Local opinion leaders, NGO’s, Scientists
- Landscape approach
- Grant providers
- Incentives
Subgroup D: How operational is the concept of biodiversity when considering dependencies?

Speaker/moderator: Martin Halle, Senior Researcher, Natural Capital Finance Alliance

- How does it relate to existing work looking at this issue using the language of natural capital?
- How to measure dependencies of 15,000 investments/businesses? Is there 1 indicator we can use?
- What are the key features of biodiversity that need to be focused on when considering dependencies?
- How can we enable rapid assessments in the context of large investment portfolios and complex environmental data? How do we see through the complexity to highlight the salient issues?

The sessions aimed to discuss the language of biodiversity versus that of natural capital and explore the best ways to sensitise business and finance to the need to consider biodiversity. The following ideas were discussed:

- Focus on iconic species or components of natural capital that have a more immediate appeal than the more technical language of biodiversity or natural capital.
- Start simple by focusing on most relevant impacts and only then go into more depth to reveal the complexity.
- Frame things in a positive manner, focusing on opportunities rather than risks and on the possibilities to have a positive contribution rather than highlighting current negative practice.
- Focus on aspects that are concrete for the businesses, such as water quality or air quality. No need to use terms such as biodiversity or natural capital if they are not well understood by the audience.
- Beware of the negative connotation that the term “natural capital” can have as people link it to valuation and the associated risk of confusing operational and intrinsic values.
- Recognise that many businesses have shown willingness to engage on reducing their biodiversity impacts e.g. through greening infrastructure even when materiality was not proven. They may have multiple motivations so we shouldn’t assume that they are only moved by profit or material risk.

What can a Financial Institution do to promote the increased consideration of biodiversity in businesses’ decision making?

- Set criteria for their funding to promote biodiversity;
- Set an aspirational goal, inspiring others and developing methods to reach it (e.g. ASN’s no net loss commitment);
- Collect examples of investments or loans that have underperformed because of natural capital or biodiversity issues to enable cross-learning;
- Require more disclosure from companies about their impacts, dependencies, and mitigation strategies, e.g. how do they deal with operation in water-stressed areas?
- Creating new financial products that reward better consideration of biodiversity risks to generate interest in the market (less operational risk/compliance risk).

Where do financial institutions need to engage with other stakeholders to tackle this challenge?

- Join with other FIs;
- Collaborate with rating agencies to get them to ask different/additional questions (note the fact that the risk is that business resent the growing reporting burden).
3. Top 3 highlights that were reported to the plenary session

What can a Financial Institution do about this, what is the perspective of acting, options for solving?

1. Define your responsibility and business-strategy, formulate a code of conduct
2. Explain what you can & cannot do towards investments and clients
3. Product development beyond lower percentages

Where do you need to engage with other stakeholders to tackle this challenge?

1. Push business to excel
2. Work at a landscape level (horizontal) – not commodity based (vertical)
3. Multi-stakeholder trust & cooperation inspires!