Annex D. Integrating biodiversity into business and finance decision-making process

Annex D discusses key business actions and elements of a framework for businesses and financial actors to integrate biodiversity into key areas, including governance; strategy; impact and dependency assessment and risk management; due diligence; disclosure and external reporting; voluntary industry standards, labels and certification schemes; and communication.

Strategy

Embedding biodiversity issues in the strategy of businesses and financial actors (especially investors and lenders) is critical to integrate biodiversity in private sector decisions. Priorities include:

- Integrating biodiversity in the overall corporate strategy;
- Aligning corporate targets and goals with corporate strategy and management standards (including at site level); and
- Integrating biodiversity across investment strategies.

Corporations, investors and lenders can develop a biodiversity or environmental policy, strategy, plan or management plan to integrate biodiversity in overall corporate strategy. This is the case of several mining companies. AngloAmerican for instance developed Biodiversity Action Plans, in co-operation with Fauna & Flora International (AngloAmerican, 2018[34]). Leading companies like Kering have also developed broader sustainability strategies that incorporate quantitative biodiversity assessments. Corporations like Toshiba Group have also developed biodiversity guidelines and environmental action plan to assess and manage linkages between business activities and biodiversity (Smith et al., 2018[24]). Banks, asset owners and asset managers can also adopt sustainable strategies accounting for biodiversity. BNP Paribas Asset Management for instance launched in March 2019 a new Global Sustainable Strategy that considers environmental sustainability and set a target to support global efforts to halve forest loss by 2020 and end forest loss by 2030 (BNP Paribas Asset Management, 2019[35]). Business can also adhere to international and national rules, pledges and other international platforms that relate to biodiversity and incorporate them into corporate strategies.

Companies, investors and lenders also need to ensure that biodiversity targets and goals are feasible, credible and consistent with the corporation's strategy across operations and supply chain, including with management standards at site-level. Rio Tinto for instance adopted in 2004 a "net positive impact" commitment on biodiversity across its operations. However, Rio Tinto then concluded that this commitment was impractical, and instead adopted a more targeted and collaborative approach by developing in 2018 a new biodiversity protection and natural resource management standard (Rio Tinto, 2019[36]).

Banks, asset owners (especially pension funds and insurance companies) and asset managers can influence the behaviour of investee corporations across asset classes and investment strategies. Lessons from climate change suggest that relevant investment strategies to help integrate biodiversity factors into investment decisions include (adapted from (Ang and Copeland, 2018[37]) (OECD, 2017[38])):

- Active ownership (i.e. stewardship) and engagement, a strategy whereby investors use their ownership stake in a company to influence its decision-making (including but not limited to proxy voting on shareholder resolutions).
- Divestment, i.e. the action or process of selling off subsidiary business interests or investments motivated by risks like climate change or biodiversity (Baron and Fischer, 2015[16]). Norges Bank Investment Management for instance, which manages the USD 1 trillion Government Pension Fund of Norway, has set divestment criteria on unsustainable palm oil production for deforestation risk, as well as metals and mining companies for water and biodiversity risks (Norges Bank Investment Management, 2016[39])The French bank BNP Paribas has endorsed policies to protect ecosystems when financing activities which could impact them. Divestment for biodiversity risks however remains smaller than for climate risks.
- Exclusionary screening in the due diligence process, by blacklisting sectors or companies or excluding assets based on biodiversity metrics. Investors can exclude companies from major ESG indices due in part to their impact on biodiversity and ecosystem services. benchmark providers and credit ratings agencies can play a role in integrating biodiversity factors in benchmarks and equity indices, for investment strategies in listed equity (including passive investing).
- Best-in-class investing tailored to biodiversity. Best-in-class investing is a type of inclusionary screening strategy for the best-performing companies within each sector or industry, according to biodiversity or ESG factors or based on the expected investment effects of biodiversity or ESG factors.
- Thematic investment through investment in thematic funds or direct investment in sustainable businesses that have a positive impact on biodiversity and ecosystem services (e.g. natural infrastructure), including through impact investing strategies. REDD+ projects for example can attract impact investors (Mair, 2018[40]).

Governance

Aligning corporate governance frameworks with biodiversity factors through strong leadership and changes in governance at board and management level is critical to ensure consistency of business action for diversity across organisational levels (product, project, site, corporate, portfolio, supply chain, sectors). Available business action include, for example:

- strengthening the board’s and executive committee’s oversight of biodiversity;
- clarifying management’s role in addressing and managing biodiversity;
- creating incentives for the board and management to consider biodiversity;
- co-ordinating at group level the mainstreaming of biodiversity across key business activities and teams;
- appointing biodiversity experts to boards, and increasing in-house expertise (through recruitment of new staff, training and education); and
- aligning the selection of business or investment managers with corporate strategy on biodiversity.

Impact assessment and risk management

Businesses and financial institutions can usefully integrate biodiversity in their risk management. Several tools and approaches are available for corporations to better consider biodiversity-related risks in their risk management. Beyond the measurement approaches described in the Table A C.1., existing tools include:

- Biodiversity risk screening tools and calculating devices to assess biodiversity risks for companies, such as: the Integrated Biodiversity Assessment Tool (IBAT) for Business, a programme led by BirdLife International, Conservation International, IUCN and UNEP-WCMC (Dempsey, 2013[41]).
- Biodiversity monitoring tools to evaluate and monitor the impacts of business activities and decisions on biodiversity and determine the effectiveness of mitigation measures. These include, for example, the Rangelands Production & Biodiversity Model developed by Stanford University's Natural Capital Project (Smith et al., 2018[24]); a programme by Japanese company Ajinomoto for tagging bonito fish in order to track their location and migration patterns (Ajinomoto, 2015[42]); and Toshiba's Fifth Employee Assistance Programme (EAP), which assessed the effects of the company's efforts to protect more than 100 rare species with surveys to monitor progress (Smith et al., 2018[24]) Better sharing of data is needed to assist decision-making and feed into adaptive management approach, i.e. management systems to monitor ecological change and revise management policy, practice and systems accordingly. Biodiversity monitoring tools need to be better tailored to specific sectors, e.g. agriculture (Powers and Jetz, 2019[43]).
- Valuation techniques, e.g.: WBCSD's 2011 Guide to Corporate Ecosystem Valuation (CEV) provided information on how to assess quantitatively risks and opportunities related to ecosystem services (Hanson et al., 2012[44]). Several corporate champions have used measurement approaches to assess their environmental impacts and dependencies, despite challenges to factor biodiversity (Zeller et al., 2016[45]). Hugo Boss, for instance, developed environmental impact valuation for its Sustainable Fashion strategy, drawing on the life cycle assessment (LCA) and Natural Capital Protocol (NCP) approaches (Zeller et al., 2016[45]).
- Materiality risk assessment, such as Unilever's matrix (Unilever, 2019[18]).

Additional work is needed to integrate local biodiversity impact assessment in corporate- or portfolio-level risk management and valuation techniques.

Due Diligence

In addition to assessing impacts, dependencies and risks associated with biodiversity at site-level, businesses, lenders and investors need to integrate biodiversity and broader responsible business conduct (RBC) risks in their due diligence process. The *OECD Guidelines for Multinational Enterprises* recommend that enterprises conduct due diligence in order to identify, prevent or mitigate and account for how actual and potential adverse impacts associated with their operations, supply chains and other business relationships are addressed (OECD, 2011[7]).Responsible business conduct (RBC) risks are defined as possible adverse impacts on society and the environment related to the environment, human rights, workers, bribery, consumers and corporate governance. The *OECD Due Diligence Guidance for Responsible Business Conduct* provides practical support to enterprises on the implementation of the OECD Guidelines (OECD, 2018[46]). OECD due diligence approach can help businesses and investors prioritise RBC impacts, including biodiversity.

The OECD has also developed sector-specific guidance in agriculture, garment and footwear, mineral supply chains, and financial sector, such as: the *OECD-FAO Guidance for Responsible Agricultural Supply Chains* (OECD/FAO, 2016[21]); the *OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector* (OECD, 2017[47]); and the *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas* (OECD, 2016[48]), In addition, the OECD report *Responsible Business Conduct for Institutional Investors* explains the application of the *OECD Guidelines for Multinational Enterprises* in the context of institutional investors (OECD, 2017[49]). The paper highlights key considerations for institutional investors in carrying out due diligence that will help to identify and respond to environmental and social risks.

Disclosure and external reporting

Disclosure and external reporting of biodiversity impacts, dependencies, risks and opportunities remain limited so far compared to climate disclosure. A recent study assessed the sustainability reports of the top 100 of the 2016 Fortune 500 Global companies (the Fortune 100) to estimate the current state of corporate biodiversity accountability and reporting (Addison, Bull and Milner-Gulland, 2018[50]). Results showed that while half (49) of the Fortune 100 mentioned biodiversity in their reports, only 31 included clear biodiversity commitments, of which only five were specific, measurable and time bound. In addition, companies rarely report or disclose biodiversity impacts and internal impact assessments, and instead focus on qualitative narrative on biodiversity actions. According to the same study, while several companies disclosed biodiversity-related activities (e.g. managing impacts, investing in biodiversity and restoring biodiversity), only nine companies provided quantitative indicators to verify the impacts of their activities; and no company reporting quantitative biodiversity outcomes (Addison, Bull and Milner-Gulland, 2018[51]). Another study assessed over 100 companies' reporting under the EU Non-Financial Reporting Directive (NFRD; see Section 4.4). Results show that companies that did identify biodiversity risks in their reporting typically did not report on concrete biodiversity impacts and their management (Alliance for Corporate Transparency Project, 2019[22]). Unlike for climate change, companies need to disclosure how they assess the impacts and dependencies of their operations and value chain on biodiversity, society and the environment, not just risks and opportunities for their businesses. The study highlights challenges to measure impacts on biodiversity by means of standardised quantitative performance indicators, also known as key performance indicators (KPIs). Corporate reporting could usefully specify which concrete information is material, such as adverse impacts on land use, or identification of concrete biodiversity risks and impacts, and how to manage them.

Businesses, banks and investors can thus significantly improve the mainstreaming of biodiversity indicators and measurement approaches in their reporting and disclosure schemes, including through integrated reporting of both financial and non-financial criteria. Conversely, any approach towards a harmonised framework or protocol for measuring biodiversity should ensure it is compatible with existing reporting and disclosure frameworks. Key reporting and disclosure initiatives and frameworks that could be targeted to integrate biodiversity in non-financial disclosure include:

- Global Reporting Initiative (GRI);
- Climate Disclosure Project (CDP);
- EU Directive on Non-Financial Reporting Directive (NFRD; see section 4.4.);
- corporate annual reports;
- Post-2020 SDGs (especially SDG 14);
- Natural Capital Protocol;
- ISO 14040;
- FSC annual reports;
- Dow Jones SI; and
- biodiversity benchmarks.

Financial institutions have a key role to play in encouraging investee corporations to better integrate biodiversity and other environmental, social and governance (ESG) factors in their decision-making, as corporates are lagging behind investors in disclosing ESG factors (PwC, 2019[52]).

Voluntary industry standards and certification schemes

Voluntary industry standards, labels and certification schemes can help companies to embed biodiversity concerns in products, services, operations and supply chains. Examples include: standards and certification schemes in the garment and footwear sector (e.g. from Textile Exchange on cotton, down, wool and organic content) (Textile Exchange, 2019[53]); certification standards for sustainable palm oil trade (RSPO, 2019[54]) (Azizuddin, 2018[55]); multiple eco-labelling schemes for organic agriculture and sustainable forestry and fisheries.

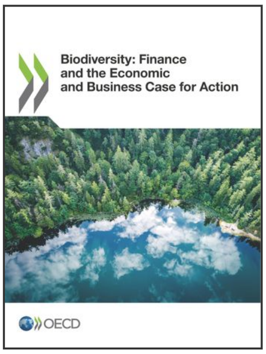
Internal and external communication

Communicating internally and externally on biodiversity impacts and dependencies is critical for businesses to raise awareness about biodiversity, and encourage education, knowledge sharing and engagement with key stakeholders. This entails notably:

- Communication to and education of corporate staff, to raise awareness about biodiversity internally, e.g. amongst employees. Toshiba for instance runs environmental education events environmental certification programmes for employees (Smith et al., 2018[24]).
- Communication to and education of consumers, to influence consumer behaviour.
- Public awareness raising of local communities. In the UK for instance, Gatwick airport has launched various initiatives to improve understanding of biodiversity amongst their employees and the local community (Smith et al., 2018[24]).
- Communication to shareholders (including through external reporting).

Business efforts should build on public education initiatives, which are important to sensitise an increasingly urbanised world to the importance of biodiversity.

Stakeholder engagement of civil society and local communities is also particularly important to consider human wellbeing and human rights issues, and factor potential trade-offs between desired biodiversity outcomes and desired social outcomes (e.g. land rights and human rights issues with indigenous communities and deforestation). Additional work is needed to better communicate on biodiversity benefits in terms of employment, social inequalities and regional disparities (e.g. in terms of local rural development) and global food challenges. SUSTAIN-Africa initiative for instance works to integrate water, land and ecosystem management with sustainable business to demonstrate inclusive green growth, through collaboration between communities, business and governments.



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