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A roundtable discussion: How financial institutions can measure biodiversity impacts and dependencies

Hosted by
Rathbone Greenbank Investments and British Ecological Society

Key takeaways

1

Biodiversity measurement techniques currently used by financial institutions rely heavily on financial and carbon data which risks oversimplifying assessments of complex ecosystems.

2

Emerging biodiversity-related regulation should accelerate the adoption of common impact assessment methodologies and data, but we need to see more governments backing mandatory reporting and ambitious plans to protect and restore biodiversity.

3

Definitive 'nature-positive' outcomes are difficult to envisage while financial institutions are still searching for more granular, location-specific data to understand the interactions of complex natural systems.

Background

Biodiversity experts from different stakeholder groups met to discuss how financial institutions can measure biodiversity impacts and dependencies. The participants included representatives from academia, data providers, NGOs, and financial institutions (see Appendix for a full list of contributors).

There were two specific aims:

1. To build connections between different groups working on biodiversity, who are currently operating in silos.
2. To illuminate the challenges facing financial institutions when integrating biodiversity considerations into their investment decisions.

This paper summarises the main highlights of the overall discussion within the group.

Why does this topic matter?

From an ecological perspective, global biodiversity is in a perilous state. We are currently using 1.6 times our total planetary resources and have transgressed significantly beyond our biodiversity boundary[1]. However, humanity's 'safe space' within these calculations isn't fixed and the methods we use to measure the health of global biodiversity do not reflect the planet's capacity to regenerate and renew when conditions allow.

Three questions were discussed and debated in detail:

1. Are the existing biodiversity measurement techniques being used by financial institutions driving the real-world outcomes we need to see?
2. Is new biodiversity-related regulation supporting the outcomes we need to see?
3. What does nature-positive investment look like?

1. Are the existing biodiversity measurement techniques being used by financial institutions driving the real-world outcomes we need to see?

Financial institutions are stepping up their action on biodiversity, but with so many measurement initiatives currently in play, they are still trying to understand the relevance of each and where they might overlap. These measurement initiatives include:

- The European Commission funded 'Align' project which aims to develop a generally accepted suite of methods, indicators and criteria for biodiversity measurement and valuation.
- Quantitative biodiversity footprint approaches such as the Biodiversity Footprint Financial Institutions (developed by CREM and PRé Sustainability, together with ASN Bank), Biodiversity Impact Analytics powered by Global Biodiversity Score (Carbon4Finance and CDC Biodiversité) and Corporate Biodiversity Footprint (developed by Iceberg Datalab and I Care Consult as a scientific partner)[2].
- The Integrated Biodiversity Assessment Tool (IBAT) which provides authoritative, location-based biodiversity data and now includes the STAR metric which uses threatened species data to estimate potential reductions in extinction risks.
- The Taskforce on Nature-related Financial Disclosures (TNFD) which is a market-led, science-based framework that enables organisations to report and act on evolving biodiversity risks (currently in v0.2 Beta Release and due to be finalised in 2023).
- ENCORE (Exploring Natural Capital Opportunities, Risk and Exposure) which is a web-based platform that helps financial institutions in understanding, assessing, and integrating natural capital risks in their financial activities by focusing on the goods and services that nature provides. It currently only focuses on the high impact mining and agriculture sectors but hopes to expand the scope soon.

Much of this data, however, is currently underutilised and some key measurement areas like soil quality and marine life need further development. This is partly due to the cost and resource required to access data and to use it effectively in driving actionable outcomes. To overcome this, it will require greater cross-sector collaboration to fine-tune and bring greater consistency and accessibility to the different techniques. A significant amount of global biodiversity data is collected by scientists and conservationists with limited resources - organisations that utilise this data should be willing to fund these mostly voluntary efforts to ensure they have the means to continue and expand.

Techniques used by financial institutions also rely heavily on financial and carbon data which risks oversimplifying assessments of complex ecosystems. We are however beginning to see the development of bottom-up and quantitative research approaches that relate directly to local impact and the function and condition of indigenous species and natural systems. Financial institutions must progress this through finding ways to quantify risk, supporting emerging legislation and engaging actively with investees. Financial institutions should not hesitate to use imperfect or qualitative data to make the first steps with biodiversity impact measurement while some of the wider challenges with data are being worked through, including bringing greater consistency to different approaches. This can help investors to understand the 'hotspots' of risk in their portfolio which require further analysis and can help prioritise engagement.

2. Is new biodiversity-related regulation supporting the outcomes we need to see?

It is encouraging that nature and natural capital thinking is increasingly being integrated into policymaking. There is also more awareness in the private sector that biodiversity loss represents a significant risk to global economic growth. Future improvements in regulation and reporting standards from the likes of the Global Reporting Initiative and the TNFD should provide corporations and financial institutions with more comprehensive data to understand their biodiversity-related risks and the methods they can adopt to measure and mitigate them. The Network for Greening the Financial System also recently assessed the implications of biodiversity loss for central banks and supervisory bodies, highlighting the importance of their complementary support for government-led initiatives. Additionally, the targets currently being negotiated by the Convention on Biological

Diversity ahead of COP15 (which stands for the 15th meeting of the Conference of the Parties and has been delayed until December 2022) should provide greater clarity on common biodiversity goals. It is also encouraging to see financial institutions participating in the COP15 negotiations for the first time as official observers to the process, and pushing for an ambitious Global Biodiversity Framework to be agreed.

Agreements like COP15's Global Biodiversity Framework and the introduction of the TNFD framework should accelerate the adoption of common impact assessment methodologies and data, but we need to see more government backing for mandatory reporting and nationwide plans to protect and restore biodiversity. In France, Article 29 of the French law on Energy and Climate clearly details the expectations for financial institutions to disclose information on the portion of their assets which are compliant with the environmental criteria established in the EU taxonomy for sustainable activities[3]. This has helped raise the issue up the agenda for French financial institutions, but there is still much upskilling to be done.

3. What does nature-positive investment look like?

Overall, definitive nature-positive outcomes are difficult to envisage while financial institutions are still searching for more granular, location-specific data to understand the interactions of complex natural systems. The TNFD defines nature-related opportunities as activities that create positive outcomes for nature by avoiding or reducing impacts or contributing to restoration. For now, this is an acceptable reflection of nature-positive investment as it avoids controversy over the concept of net-gain.

In the short-term therefore, financial institutions should continue to follow the principles of 'the mitigation hierarchy' in addressing current impacts, before progressing towards a more transformative nature-positive future. The mitigation hierarchy is a tool that supports users towards limiting the negative impacts on biodiversity as far as possible by emphasising, avoiding or minimising any negative impacts, then restoring, before finally considering offsetting residual impacts[4].

There also remain questions about the size and availability of funding and whether nature-positive is a possible outcome for any company or financial institution. Nature-based solutions need to be location sensitive. Innovative technologies that allow for granular, place-based analysis, such as Environmental DNA (eDNA) techniques can enable scientists to monitor wildlife and measure biodiversity by taking samples from a given location. Technologies such as this have the potential to radically change how we monitor biodiversity.

From an ecological perspective, it is not yet commonly accepted that the world's natural resources should be paid for as an economic necessity. With a dearth of funding to support existing conservation and restoration efforts, there is also not enough discussion about the reparations that could be sought for past environmental damage and profiteering. Additionally, the level of environmental taxes focused on biodiversity restoration is a tiny proportion of the total funding pool, which in turn is a small proportion of taxes overall. More private sector finance must be mobilised for nature-based solutions in order to bolster insufficient levels of public funding.

Notes

1 https://www.worldwildlife.org/threats/the-human-footprint

2 https://www.financeforbiodiversity.org/wp-content/uploads/Finance-for-Biodiversity_Guide-on-biodiversity-measurement-approaches_2nd-edition.pdf

3 Read more information about the requirements of Article 29 here: https://globalcanopy.org/insights/insight/frances-article-29-biodiversity-disclosure-requirements-sign-of-whats-to-come/

4 See The Biodiversity Consultancy for further information on this tool: https://www.thebiodiversityconsultancy.com/our-work/our-expertise/strategy/mitigation-hierarchy/

What did contributors take away from the discussion

> We need to discuss more between silos to find out how we can work together on this topic.

> There is a need to develop a common language between different spheres working on biodiversity (financial institutions, policymakers, and scientists).

> There is a huge divergence of experience between those working in the biodiversity/finance nexus and those coming from an academic biodiversity background.

> Much of the current innovation in corporate biodiversity measurement is occurring without input from the academic community. This input could help push greater progress.

> There is more data out there than people think. Data should be paid for and data systems should be developed to support this.

> More exchanges like this are needed. Breaking down the complexity of the topic needs a multistakeholder approach, we can all learn from each other.

> The concept of "net positive impact" is a hot and debated topic.

Conclusion from the organisers

The level of enthusiasm from the contributors showed how great the appetite is to advance the measurement of biodiversity impacts and dependencies among financial institutions. The passion shown by all contributors also indicates a willingness to tackle the issues together. The role that financial institutions can play in this issue is only one element of a much wider system. We expect to return for further collaborative discussions.

Appendix

About the hosts

British Ecological Society has been fostering the science of ecology since it was founded in 1913. It has 7,000 members around the world and brings people together across regional, national and global scales to advance ecological science. The Society's vision is for nature and people to thrive in a world inspired by ecology.

Rathbone Greenbank Investments is the dedicated ethical, sustainable and impact investment business within Rathbones Group Plc. Greenbank's mission is to create long-term value for clients, through tailored investment services with positive impact, always delivered with expertise and passion.

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