

Sustainable Finance and Biodiversity: the beginning of a crucial journey

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“Nature, to be commanded, must be obeyed”, Francis Bacon

The financial sector is increasingly concerned by Environmental, Social and Governance (ESG) issues. Since the Paris Agreement in December 2015, the fight against climate change has become a priority in Europe, where it is supported by growing regulation and supervision. We are also seeing the first steps in the same direction in the rest of the world with the standards of the International Sustainability Standard Board (ISSB) published in July 2023.

Protecting biodiversity (or nature) has also become a political priority:

- at European level, where it forms part of the Green Deal alongside climate change and other environmental objectives (water, circular economy, pollution);
- at international level, where the Kunming-Montreal Agreement signed in December 2022 is the biodiversity equivalent of the Paris climate agreement.

Protecting biodiversity is also part of the solution to climate change, as biodiversity strengthens the carbon absorption capacity of the earth and the oceans¹.

There is a strong economic case for supporting this political priority, as described in many reports (see selective biography in annex) : the degradation of biodiversity has already negative consequences for many economic actors and communities and its continuing increase represents a strong menace for our future.

This new priority is beginning to apply to the financial sector and will do so increasingly in application of European regulations and the implementation at international level of the recommendations of the Taskforce for Nature-related Financial Disclosures (TFND), the final version of which was published in September 2023.

1. Biodiversity is one of the priorities of the European Union's Green Deal

The Green Deal, whose objectives were adopted by the European Union in 2020, includes **six priorities: the fight against climate change, the protection of biodiversity, the fight against pollution, the preservation of aquatic and marine resources, the fight against waste and the development of the circular economy.**

To date, around forty regulations have been adopted or have been the subject of political agreement for these various objectives.

The European Union has just adopted a regulation on nature restoration – not without difficulty in the European Parliament. The regulation stipulates that Member States must implement restoration measures in at least 20% of the EU's land areas and 20% of its seas by 2030.

The rules of sustainable transparency for financial and non-financial companies also apply to biodiversity (see number 3 below).

2. The Kunming-Montreal Agreement of December 2022 is the biodiversity equivalent of the Paris climate agreement

The United Nations Conference on Biodiversity (COP15) which began in Kunming (China), ended in Montreal, Canada, on 19 December 2022, with a historic agreement to guide global action in favour of nature until 2030. Representatives of 188 governments attended and signed the agreement, although it is regrettable that the United States, absent from the COP since its inception in 1992, did not sign.

1. <https://www.un.org/fr/climatechange/science/climate-issues/biodiversity>

COP15 resulted in the adoption of the Global Biodiversity Framework (GBF), which includes **four global objectives for the protection of nature**:

- to halt the extinction of endangered species due to human activity and reduce the extinction rate of all species by a factor of ten by 2050;
- to use and manage biodiversity sustainably to ensure that nature's contributions to humanity are valued, maintained and enhanced;
- share equitably the benefits arising from the use of genetic resources and information on the digital sequences of genetic resources;
- and to ensure that adequate means of implementing the Global Framework for Biodiversity are available to all parties, in particular the least developed countries and small island developing states.

The agreement includes **concrete measures to halt and reverse the loss of nature, in particular by protecting 30% of the planet and 30% of degraded ecosystems by 2030.**

The agreement² also contains **commitments in favour of the transparency of business activities (target 15.a)**: "Monitor, assess and disclose regularly and transparently their risks, dependencies and impacts on biodiversity, in particular by imposing requirements on all large companies, transnational corporations and financial institutions throughout their operations, supply and value chains and portfolios".

Finally, it contains a **commitment to increase funding for biodiversity programmes**, particularly for developing countries (*target 19*): "Substantially and progressively increase the level of financial resources from all sources, in an effective, timely and easily accessible manner, including domestic, international, public and private resources to implement national biodiversity strategies and action plans, by mobilising by 2030 at least \$200 billion per year, in particular by:

- increasing total international financial resources related to biodiversity from developed countries, including official development assistance, and from countries voluntarily assuming the obligations of developed countries, to developing countries, in particular least developed countries and small island developing states, as well as countries with economies in transition, to at least USD 20 billion per year by 2025, and at least USD 30 billion per year by 2030;
- Leveraging private finance, promoting blended finance, implementing strategies to raise new

and additional resources, and encouraging the private sector to invest in biodiversity, including through impact funds and other instruments;

- stimulating innovative systems such as payments for ecosystem services, green bonds, biodiversity offsets and credits, benefit-sharing mechanisms, and environmental and social guarantees".

The regulation on nature restoration agreed by the EU political institutions is fully in line with the Kunming-Montréal Agreement.

3. The challenge of the transparency requirements for financial and non-financial companies

For a company, **the first action to take in favor of biodiversity is to measure its impact and its dependency *vis-à-vis* biodiversity.** Companies which have a significant impact and/or dependency should then re-orient their business strategies accordingly. Transparency requirements have the objective to induce or oblige companies to do this measurement and eventually the necessary re-orientation of its strategy, but also to create a pool of data which will be useful for the economic and the financial sector, and for the other stakeholders.

1) In France, a pioneering country on this subject, under Article 29 of the 2019 Energy and Climate Act, **financial investors must publish an annual report on the impact and dependence of their portfolio on biodiversity.** This law is based on the "comply or explain" principle.

The first publications took place in July 2022. The results of these publications are mixed, as shown by a specific ADEME report³: a few good performers (e.g. Mirova calculated its biodiversity footprint on the scope of listed shares, BNPParibasAM calculated this synthetic index on 70% of assets invested in companies), but the vast majority of investors only responded very partially (e.g. Covea was unable to publish quantified targets, others only published on some of their funds) and above all more than half of the thousand investors concerned postponed this publication until the following year.

2) In the European Union, the CSRD (Corporate Sustainability Reporting Directive) requires large companies **to publish information on this**

2. Text of the Kunming-Montreal Agreement: <https://www.cbd.int/doc/c/0bde/b7c0/00c058bbfd77574515f170bd/cop-15-l-25-fr.pdf>

3. ADEME: "Article 29 LEC, statistical study on 2022 reports", March 2023.

https://climate-transparency-hub.ademe.fr/wp-content/uploads/2023/04/analyse_statistique_article29lec_mars2023_librairie-ademe.pdf

impact by 2025 (2024 accounts), and the ESRS (European Sustainability Reporting Standards) include information on strategy, governance and risks, as well as numerous indicators relating to the company's impact on biodiversity and the protection of ecosystems.

Several of these indicators are only requested if they are significant for the company concerned; this is the so-called "materiality test". This test has not yet been sufficiently clarified by legislation and would at least benefit from guidelines from the European authorities: the Commission and/or EFRAG, the European Financial Reporting Advisory Group, which advises the Commission on sustainable reporting standards.

A concrete difficulty of implementing this framework comes from the scarcity of relevant data and their heterogeneity, and thus the difficulty to compare them and aggregate them.

3) At global level, the TFND (Taskforce for Financial-related Nature Disclosure) is proposing a reporting framework⁴ inspired by the TCFD (Taskforce on Climate-related Financial Disclosures), which also inspired the ISSB standards. The TFND has worked with EFRAG to ensure that their recommendations are compatible with the EU regulation.

At the outset, the Taskforce recognised that the central challenge to design a set of nature-related recommended disclosures was to strike the best possible balance between the complexity of the science and the creation of practical recommendations that enable cost-effective action within an annual corporate reporting cycle that is subject to third-party assurance. The framework is compatible with simple materiality (whereby a company discloses the impact of an environmental risk that may have a financial impact on it) and double materiality (whereby a company must also disclose its environmental impacts even if there is no clear financial risk linked to it). The European Union applies double materiality, while corporates of the rest of the world generally apply single materiality on a voluntary basis.

The TFND framework focuses on 4 areas: 1) governance, including the explanation of the links between nature and business models; **2) strategy and finance**; **3) risk management**; and **4) the metrics used and targets set**. The fourth area is, like for the implementation of the EU regulation, the most difficult.

The TFND advocates a **prioritisation approach** by the company, which must be integrated into its strategy, and recommends the publication of quantified objectives and indicators. It is therefore a framework for reflection and guidance for companies. The TFND will be publishing sector-specific guides in the coming months, the first of which will be for financial institutions (with metrics comparable to SFDR's Principal Adverse Impacts).

At the Davos meeting last January, the TFND published the list of the **320 organizations which have committed to implement its recommendations**. They are present in 46 countries on the five continents. They represent an astronomical sum of assets: about \$4 trillion accumulated market capitalization for companies, and \$14 trillion in assets under management on the finance side.

As we know from the English people, "the proof of the pudding is in the eating": we will have to wait now for the implementation of the framework to be sure that it represents a significant progress in front of the huge challenge of nature preservation and restoration.

4) Also at global level, the Network for Greening the Financial System (NGFS, a network of central banks and financial supervisors, of which around a hundred countries are members) published a "Conceptual Framework"⁵, intended for central banks and financial supervisors, and therefore for the financial sector.

The framework aims to 1) identify the sources of physical and transition risks; 2) assess economic risks; and 3) assess risks to the financial system.

This conceptual framework will be enriched and completed by the end of the first half of 2024 at the latest. In particular, there is a need for scenarios to assess future risks.

4. Development of measurement tools

Apart from the lack of relevant and of quality data, another important challenge for the inclusion of biodiversity in the reporting framework of financial and non-financial companies is that **there is not a synthetic indicator** as clearly related to the objective (and thus easy to understand) **as the tonne of CO2 emitted for the fight against climate change**.

4. TFND Taskforce for Nature-related Financial Disclosures (TFND): "Recommendations", September 2023, amended in November 2023 <https://tnfd.global/publication/recommendations-of-the-taskforce-on-nature-related-financial-disclosures/>

5. NGFS: "Conceptual framework on biodiversity", September 2023. https://www.ngfs.net/sites/default/files/medias/documents/ngfs_conceptual-framework-on-nature-related-risks.pdf

The IPBES (International Platform for Biodiversity and Ecosystem Services), the equivalent of the IPCC (International Platform for Climate Change) for biodiversity, recommends that priority be given to measuring land artificialisation, overexploitation of nature (deforestation, overfishing, etc.) and greenhouse gas emissions, with their impact on land, water and the sea.

Three countries lead the way in publishing biodiversity indicators: France, the Netherlands and the United Kingdom.

In France, *CDC-Biodiversité* and Iceberg Data Lab have each developed a methodology for measuring a company's impact on biodiversity.

In 2020, *CDC-Biodiversité* launched a biodiversity footprint measurement tool (with a group of companies). In particular, it provides an impact score expressed in MSA.km². To give two simple examples, 1 car park represents an MSA (Mean Species Abundance) of 0, and a natural forest an MSA of 100%. The MSA level is then multiplied by the surface area impacted to give a score in MSA.km². For the moment, this tool has not been developed to cover maritime sector nor invasive species.

In their annual reports, BNPParibasAM published a figure of 8,000 MSA.km² on 70% of invested assets and Schneider a figure of 3,600 MSA.km².

Iceberg Data Lab has developed another method for calculating the Corporate Biodiversity Footprint, which measures the degradation of the company's natural environment in terms of land use, the deposition of nitrogen compounds, greenhouse gas emissions and the quantity of toxic elements discharged. Example: Danone's biodiversity footprint, calculated using this method, reached 10,486 km² in 2021, more than the surface area of Lebanon.

Interest in this type of synthetic indicator is bound to increase with the publication of sustainable reporting standards required by European Union regulations and by transition plans that include biodiversity.

To overcome the problem of insufficient data, *CDC-Biodiversité* has worked with Carbon4Finance and financial investors to build a database covering 5,000 companies. They also want to disseminate their tool internationally. TFND could recognise this tool, which would facilitate its dissemination.

5. The commitment of many financial and non-financial companies

As with the fight against climate change, several coalitions of major companies, NGOs and experts are beginning to work on protecting biodiversity.

This is the aim of **the Science Based Targets Network (SBTN)**, a global coalition of over 80 environmental non-profit and mission organisations, which has published the first corporate science-based nature targets⁶. These nature targets build on and complement the existing climate targets, which have been set by over 2,600 companies as part of the Science Based Targets Initiative (SBTI). They should enable companies to assess their environmental impacts and set targets, starting with freshwater and soil, in order to reduce their negative impacts and increase their positive impacts on nature and people. More specifically, the first nature targets will help companies to improve their impacts on freshwater quality (specific to nitrogen and phosphorus) and quantity, and to protect and restore ecosystems. To achieve a balance between scientific rigor and feasibility, **more than 200 organisations have already helped shape the initial methods, tools and guidelines.** This includes 115 companies, the majority of which participate in the SBTN's corporate engagement programme – representing some 20 sectors in 25 countries with over \$4 bn in market capitalisation. SBTN also provides guidance to all companies to help them holistically assess and prioritise their environmental impacts, starting with freshwater and soil quality.

In the financial sector, the **Finance for Biodiversity Pledge (FBP)** was launched in September 2020 and now has 153 signatories from 24 countries representing total assets of \$21,400 billion. They have decided to work together to share the different methodologies for measuring biodiversity, to conduct a policy of active dialogue with the companies in which they are shareholders to reduce their negative impacts, and to set targets to reduce the negative impact of their portfolios and increase their positive impact. The Finance for Biodiversity Foundation, created by the BPF signatories, has published a guide for financial companies "Act now! The why and how of biodiversity integration of financial institutions"⁷. This guide provides financial companies with advice and recommendations on how to integrate biodiversity into their strategy and decision-making process, by measuring their impact and setting targets.

6. SBTN: "The first science-based targets for nature", May 2023.
<https://sciencebasedtargetsnetwork.org/how-it-works/the-first-science-based-targets-for-nature/>

7. Finance for Biodiversity Foundation: "Act now! The why and how of biodiversity integration of financial institutions", December 2022.
<https://www.financeforbiodiversity.org/publications/act-now-the-why-and-how-of-biodiversity-integration-by-financial-institutions>.

More recently, 190 investors have come together in the **Nature Action 100** Initiative, created in December 2022 in Montreal at COP15. This initiative is intended to be the counterpart of Climate Action 100+, dedicated to biodiversity issues. These investors have just drawn up a list of 100 companies which they will hold to account. Eight economic sectors in particular are being targeted for their high impact on nature, including agri-food, mining and distribution. These 100 companies (including Amazon, BASF, Carrefour, Danone, Glencore, L'Oréal, McDonald's, Pfizer and Solvay) have been listed because of their significant negative impact on biodiversity and the heavy dependence of their business model on natural resources. As in the case of climate change, Nature Action 100 plans to launch a collective shareholder dialogue with major companies to ask them to shed light on the means they are using to preserve biodiversity, as part of the global framework on biodiversity set out in the Kunming-Montreal Accord.

6. The need for strong growth in public and, above all, private funding

Preserving and restoring biodiversity requires substantial funding. According to the Dasgupta report of 2021, **this funding amounts to around \$100 billion per year, but this leaves a funding gap of around \$700 billion** according to COP15 estimates, including \$200 billion for developing countries. Until now, the funding has come mainly from the public sector (subsidies, funding from public development banks), with some additional funding from the NGOs and foundations most committed to nature conservation, but there is relatively little private funding, especially in developing countries. Public funding must continue, because it is often a question of financing the protection and restoration of public assets (a maritime shoreline, for example). But a sharp increase in private funding is needed, primarily to improve the impact of companies on nature. Even in the case of public assets, private funding is necessary, in partnership with public funding (and/or NGOs and foundations) to develop activities that create incomes and jobs (for example in the maritime sector: sustainable tourism, aquaculture, responsible fishing, algae and plastic treatment, etc.).

The protection of biodiversity can benefit from specific financing, in particular Green Bonds or

Blue Bonds for the maritime sector. To my knowledge, there is no estimate of the volume of Green Bonds devoted to biodiversity. It is certainly much lower than the amount invested in renewable energies, for example. As for Blue Bonds, which finance almost exclusively actions to protect marine biodiversity, they will amount to just \$5 billion between 2018 and 2022 (source: Environmental Finance⁸). There are also funds specialising in biodiversity, which have been launched by European and American asset managers.

New financial initiatives have been taken to protect biodiversity of developing countries: debt-for-nature swaps. In June 2023, Ecuador has negotiated the fourth "debt-for-nature swap" dedicated to the protection of marine ecosystems, after Seychelles, Belize and Barbados. Ecuador's debt-for-nature swap provides for the redemption of \$1.63 billion at 40% of their face value, financed by the issue of Blue Bonds by an ad hoc entity, which then grants a loan to the country. It must contribute to conservation programmes in the Galapagos Islands area. In addition to the debt rebate of over \$1 billion, the transaction is expected to unlock over \$300 million for conservation over 18 years. The blue bonds were issued with an interest rate three times lower than Ecuador's traditional debt, thanks to the provision of guarantees by the Inter-American Development Bank and the International Development Finance Corporation.

Finally, many financial investors also have a **policy of shareholder engagement** on this issue, as shown by the example of the Nature Action 100 initiative mentioned above. Another example: **a hundred or so European green funds exclude investing in sectors that have a negative impact on biodiversity**: palm oil, deforestation, destruction of animal species' habitats, etc.

Conclusion

Protecting and restoring biodiversity has become a major political objective in the European Union and in many countries around the world, although it is regrettable that this is not the case in the United States. It is also based on a very solid economic analysis which shows that the continuous deterioration of biodiversity has already today very negative consequences and is a growing menace for our future.

To achieve this objective, the European Union and many countries around the world are taking action

8. Environmental finance: "ICMA publishes blue bond guide...", September 2023. <https://www.environmental-finance.com/content/news/icma-publishes-blue-bond-guide-in-big-step-forward-for-market.html>

and asking financial and non-financial companies first to measure their impact on nature, and then to progressively reduce it as transparently as possible. **Many financial and non-financial companies have taken action to meet these objectives**, supported by the development of new analysis and measurement tools.

Implementing this policy will require serious efforts on the part of businesses, often in partnership with the public sector, at a time when the economic situation is not brilliant and when the energy transition also needs to be made. But the energy transition and the protection of biodiversity go hand in hand, and improving the situation for one also benefits the other.

We are only at the beginning of the development of this policy. There will be two significant tests of the growing importance of biodiversity protection worldwide, notably for the financial sector:

- **The first one will be the implementation of the EU reporting framework on biodiversity and the TFND framework around the globe.** This implementation is challenging because of the complexity of the measurements and the lack of data, but development of specific tools and cooperation between financial and non-financial companies, and also with supervisors (like the NGFS) should help to progressively overcome the difficulties.
- **The second and most important test will be the growth in investment and funding devoted to it.** The most reliable estimates point to a global funding requirement of \$700 billion a year between now and 2030, including \$200 billion in developing countries. Public funding, which is currently predominant, needs to be further increased, particularly for the poorest countries, with the support of the Multilateral Development Banks. And private funding needs to do more than just support it: it needs to take over, and therefore increase much faster. At a recent conference, an official of the International Finance Corporation (IFC), a subsidiary of the World Bank, estimated that «funding for biodiversity protection could exceed funding for climate change»⁹ ; and an official of the American asset manager Fidelity said that «biodiversity is the strongest investment trend in our lifetime»¹⁰ ... However, these judgements appear to be optimistic for the time being.

Companies committed to preserving and restoring biodiversity have yet to show that their commitments also have a decisive impact in terms of investment and financing.

For the fight against climate change, strategic adaptations have generally started, even if they need to be accelerated. For the preservation and restoration of biodiversity, we are only at the beginning of the journey, which will have to be continued with growing efforts.

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