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*A newsletter on **business and biodiversity** by the Secretariat of the Convention on Biological Diversity*

BANKING FOR BIODIVERSITY

Message from the Secretariat

By **AHMED DJOGHLAF**, *Executive Secretary*

This issue of the *Business.2010* newsletter, which focuses on biodiversity in the financial services sector, is being released on the occasion of the UNEP FI 2007 Global Roundtable. I would thus like, first and foremost, to wish participants to this important event much success and fruitful discussions. I am particularly pleased that the Roundtable will provide the opportunity to illustrate the business case for biodiversity with, amongst other things, the launch of a *CEO Briefing* dedicated to biodiversity. I very much hope that this publication will resonate with many executives in the financial community. The financial services sector influences the rest of the economy in many profound ways — it is for this reason that Parties to the Convention, in adopting, in Curitiba in March 2006, the decision aimed at engaging business, have made a special reference to UNEP FI. It is therefore very encouraging to observe an increasing interest for biodiversity issues among the financial community.

From COP-8 to COP-9

Several events in the financial services sector which have occurred since COP-8 are extremely relevant to the work of the Convention. These include the UN Principles for Responsible Investment (PRI), launched in April 2006 at the New York Stock Exchange and in May 2006 at the Paris Bourse. The PRI, a joint initiative of the UNEP Finance Initiative and the UN Global Compact, mark an important step towards embedding Environmental Social and Governance issues into decision making. The PRI sends a clear message: ESG issues are no longer just for a fringe and exotic group of investors but have become strategic concerns for mainstream, forward looking, players. In time, the PRI will no doubt prove a significant entry point for biodiversity (also an ESG issue), for many financial institutions.

In late 2006, the UNEP Finance Initiative also established its first work stream on biodiversity and ecosystem services. I would like to congratulate the leading banks which have championed and carried this idea through. The CBD Secretariat has been delighted to actively participate in the Steering Committee of this workstream. I think that COP-9 will provide a very timely platform to discuss, amongst other things, progress on the development of a biodiversity benchmark which UNEP FI is developing, with a number of partners, for the food and beverages sector.

The financial services sector was, of course, actively involved in COP-8. The two day workshop organized by the Brazilian Foundation for Sustainable Development on the margins of the COP provided a particular focus on the financial services sector; the second edition of the biodiversity benchmark (which focused on mining, oil & gas, and utilities) was launched by Insight Investment and Fauna and Flora International; and the International Finance Corporation (IFC) launched its *Private Sector Guide to Biodiversity* as well as played a critical key role in ensuring the success of the business and biodiversity breakfast organized on the margins of the High Level Segment.

Responsible financial products

Over the years, financial institutions have experienced, often the hard way, the consequences of ignoring environmental issues associated with their investments. I believe that an increasing number of FIs now see the linkages and their responsibility in ensuring that environmental and social issues, including biodiversity, are taken into account. The industry is also using its inventiveness and leverage power to pro-actively address environmental challenges and sometimes turn these into business opportunities. This is evidenced with climate change, where new financial products have emerged and whole new markets have been created. This trend is now slowly shifting to biodiversity, as described in some of the articles contained in this issue. We are indebted to contributors for taking the time to highlight these market changes and to share their enthusiasm for building responsible financial products.

Articles in this issue cover a wide range of actors, including providers of micro-finance, mainstream retail banks, institutional banks, asset managers and multi-lateral banks. The issue showcases some of the leading efforts to address biodiversity, including through individual policies, global standards and the creation of new financial assets. This issue also considers the specific financial needs of 'biodiversity-based' SMEs in emerging markets. Clearly, biodiversity is becoming an increasing issue for the banking sector — but much still needs to be done and, in this regard, a number of contributors make several concrete suggestions. I would like to invite Parties, the financial services sector and other interested actors to consider the relevance of these suggestions to the work of the Convention, in light of the upcoming COP.

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Business and biodiversity

I would like to applaud the European Union initiative , under the leadership of Portugal, to convene in Lisbon on 12-13 November a high level event on Business and Biodiversity. This meeting, the first of its kind, will make a significant contribution in operationalizing the decision taken by the Parties in Curitiba and in paving the way for enhancing the partnership with the business community at the occasion of the ninth meeting of the Conference of the Parties to be held in Bonn, Germany, on 19-30 May 2008. The Secretariat is also actively engaged with Canadian partners for organizing a dialogue on biodiversity, starting in early 2008, with the Canadian business community. A follow up event to the 2005 London and São Paulo business meetings, organized in conjunction with Brazil and the United Kingdom, is also being planned.

These events will provide valuable inputs to Parties when they will meet in Bonn in May 2008. In this regard, I am indebted to Mr. Jochen Flasbarth, of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, for providing an update on preparations for COP-9. Throughout its EU and G8 presidency and now as Host to the next COP, Germany has placed a particular emphasis on business and biodiversity. Over the last few months, the CBD Secretariat has been liaising closely with the German government with respect to the German Business and Biodiversity Initiative. With this in mind, I invite companies, industry associations and organizations interested in business and biodiversity to contact the Secretariat and/or the German organizers to signal their interest in participating in the exhibition which will also be organized at COP-9. The Secretariat has, more generally, been receiving an increasing number of requests and suggestions for the COP. In particular, the Secretariat was approached with the idea of organizing, throughout the COP, a business and biodiversity 'clinic' (a suggestion which was first made in the May issue of this newsletter) — the Secretariat welcomes feedback on this proposal.

This is the last issue of the newsletter for 2007, in what has and continues to be a very lively year for business and biodiversity. The calendar is already lined up with two important issues in early 2008. The first will focus on Access and Benefit-sharing, and will be published to coincide with WGABS-6. The second, which will be released in February to coincide with SBSTTA-13, will focus on agribusiness. Finally, we will be releasing a more general issue on business and biodiversity ahead of the COP. I invite interested contributors to contact the editor for additional information. Let me also sincerely thank the twelve members of the advisory committee for agreeing to help the Secretariat in the continuous development of this newsletter. As always, we also look forward to your feedback and suggestions.

In context: financial services

FINANCIAL SERVICES

This short note intends to put the financial services sector in context and give new readers a way into the Convention on Biological Diversity.

This issue of the newsletter primarily focuses on the opportunities and challenges of integrating biodiversity into policies and practices in the financial services sector [1]. It also touches upon some aspects of conservation finance — a major issue under the Convention (as seen by provisions under articles 20 and 21) [2].

The financial services in COP decisions

The financial services sector has been explicitly mentioned in a number of COP decisions. For instance, in the proposed voluntary guidelines for Parties for review of National Biodiversity Strategies and Action Plans, contained in the Annex to **Decision VIII/8** (Implementation of the Convention and its Strategic Plan), Parties "are asked to review whether biodiversity concerns are being effectively integrated into relevant sectors. Integration can be considered in terms of: Other sectors beside the environment, such as (…) finance (…)". **Decision VIII/9** (Implications of the findings of the Millennium Ecosystem Assessment), in its paragraph 15, urges "Parties and other Governments to promote dialogue among different sectors, to mainstream biodiversity, at the regional and national levels including, when appropriate, through the processes of the Convention, to address linkages between the conservation and sustainable use of biodiversity and, amongst others (…) finance (…) in order to contribute to the more effective implementation of the Convention, in particular its Article 6". Other decisions refer to the financial services sector in the context of Additional financial resources, including **Decisions VII/21** and **VI/16**.

Decision VIII/17, the first decision to focus exclusively on business engagement, in its paragraph 5, also refers explicitly to the financial services sector when it invites "businesses and relevant organizations and partnerships, such as the Finance Initiative of the United Nations Environment Programme, to develop and promote the business case for biodiversity, to develop and promote the wider use of good practice guidelines, benchmarks, certification schemes and reporting guidelines and standards, in particular performance standards in line with the 2010 indicators, to share information on biodiversity status and trends, and to prepare and communicate to the Conference of the Parties any voluntary commitments that will contribute to the 2010 target".

Activities of the Secretariat

In 2005, the Secretariat organized, with Brazil, the United Kingdom and others, two meetings to explore ideas for engaging business in the implementation of the Convention. A particular focus was given to the financial services sector — the report of the São Paulo meeting contains a summary of discussions and recommendations [3]. Further to these meetings and to Decision VIII/17, the Secretariat has been working closely with UNEP FI, and others, in the context of the UNEP FI Biodiversity and Ecosystem Services workstream (see articles contained in this issue) [4].

The Secretariat is interested in hearing from Parties, financial institutions and other organizations with respect to potential activities related to this sector at COP-9. For more information, please contact Nicolas Bertrand, Focal point for business (*nicolas.bertrand@cbd.int*).

Acronyms used in this issue

COP	Conference of the Parties
CSR	Corporate Social Responsibility
EP	Equator Principles
ESG	Environmental, Social and Governance issues
FI	Financial Institution
GHG	Greenhouse Gas
IFC	International Finance Corporation
PES	Payments for Ecosystem Services
PRI	Principles for Responsible Investment
SRI	Socially Responsible Investment

[1] By COP-9, this newsletter will have covered three economic sectors — tourism, in issue 2(1); the financial services sector, in this issue; and agribusiness, 3(2) — as well as three cross-cutting issues — climate change, 2(2); technology transfer, 2(3); and ABS, 3(1). The Secretariat welcomes contributions on other issues/sectors. Issue 3(3), in particular, will provide an opportunity to examine contributions and suggestions to COP-9 from a range of sectors.

[2] See www.cbd.int/financial/default.shtml for more information on Financial Resources and Mechanism.

[3] www.cbd.int/doc/meetings/biodiv/b2010-02/official/b2010-02-03-en.pdf

[4] www.unepfi.org/work_streams/biodiversity

Think global, act local

MARTIN HANCOCK *and* **EMMA HERD** *see new market opportunities emerging for biodiversity in Australia.*

Biodiversity, once seen as a nice to have, is now regarded as a fundamental necessity in terms of the functioning of our personal and commercial lives. The key difficulty, of course, is placing a value on those services that biodiversity provides and attempting to internalise the externalities caused by the unsustainable use of natural capital. As most biodiversity and ecosystem services are public goods, we also enter that conflicting state of the Tragedy of the Commons. How do we break that deadlock?

Building capacity

Awareness is certainly the first stage in addressing the implications of the loss of biodiversity, but this needs to be supplemented with an action orientated capacity building programme. At the United Nations Environment Programme Finance Initiative (UNEP FI), we now have a dedicated Working Group on Biodiversity and Ecosystem Services (BES). This is a multi stakeholder initiative that is looking into the risks and opportunities associated with biodiversity loss, and building up the business case for action. This is not an easy task, but one which has the commitment and energy from a wide and experienced group of individuals and organisations. Toolkits are also being developed to assist in the identification and mitigation of potential biodiversity loss. The Working Group will not only concentrate on the potential direct effects of biodiversity loss, but also look at the indirect effects through aspects such as supply chain management.

This is an exciting development in a sector that can really help make a difference given its breadth and depth of operations in the areas of banking, insurance and asset management, which in turn cover both the retail and commercial sectors.

> *Biodiversity, once seen as a nice to have, is now regarded as a fundamental necessity in terms of the functioning of our personal and commercial lives*

How we address biodiversity

At Westpac, a UNEP FI signatory, we have already started to address the issue of biodiversity, which is particularly important to us given the implications for key areas such as tourism, forestry and agriculture, which are at the greatest risk from biodiversity loss. Westpac strongly supports initiatives to maintain and restore Australia's unique biodiversity, through our day-to-day risk and lending policies and practices, via market mechanisms and through the volunteer efforts of our employees.

Westpac's Environmental Lending Policy seeks to identify and mitigate environmental risks when evaluating lending proposals to avoid causing environmental harm and unacceptable credit risk, in accordance with environmental law and regulation in every jurisdiction in which we undertake business activities. Westpac's Environmental Lending Policy forms part of a comprehensive framework to manage the Environmental, Social and Governance (ESG) impacts of our business activities, including:

- The adoption of the Equator Principles;
- Being signatory to the United Nations Principles for Responsible Investment; and
- Offering a range of environmentally-linked products and services.

Where security offered may be subject to environmental risk, we require evidence of responsible and adequate management of the environmental issues associated with that security. Where dealing with customers or security associated with industries with the most significant environmental impacts, we may require an external environmental assessment to be carried out before any loan approval.

Westpac's Institutional Bank assesses environmental risk at the individual corporation or institutional level based on its industry category. Transactions with perceived environmental risks are subject to an initial environmental screening using assessment processes to determine whether a potential risk exists and whether that risk impacts the customer capacity to meet its financial obligations. Environmental risk assessment includes:

- Compliance with all regulatory requirements;
- Management and financial capacity;
- External advice and site inspections where relevant ; and
- Whether the activities are likely to cause harm, despite expertise available to mitigate the risk.

Markets for biodiversity

As a bank, Westpac is, unsurprisingly, supportive of market-based systems which encourage innovation and best practice around reducing greenhouse gas emissions, water efficiency or biodiversity management. On 1 March 2007, Westpac announced a partnership with Landcare Australia to establish CarbonSMART, an innovative, not-for-profit carbon trading pool and brokering service for Australia.

CarbonSMART gives landowners the opportunity to secure a regular income for up to 30 years just by maintaining and growing the vegetation on their land. CarbonSMART aims at conservation activities such as erosion control, salinity

Photo courtesy of Baba Mdogo / flickr.com reduction and streamside rehabilitation. The areas of most interest are sites that landholders consider permanent plantings [1].

Westpac has also worked with Landcare Australia to develop and launch the Westpac Landcare Deposit account. For every dollar invested in a Westpac Landcare Term Deposit, Westpac lends the equivalent to Landcare farmers across Australia with a view to supporting more sustainable agriculture endeavours. As at 30 September 2006, the product held AUD 1.4m in balances, and AUD 2.9m in lending was consequently directed to Landcare farmers or farmers practising sustainable agriculture.

We see enormous potential in using product-based, trading and market mechanisms to achieve environmental goals, particularly through the use of carbon offsetting mechanisms to create additional revenue streams for farmers and help improve local biodiversity through reforestation.

Community involvement

Our employee volunteering programme, 'Operation Backyard' was established in partnership with Landcare Australia. It provides funding for the protection of our biodiversity through habitat restoration projects.

Whether it is fishing European Carp out of waterways in Moree NSW or re-vegetating sand banks and fencing off protected areas in Victor Harbour South Australia, this program provides our people with great opportunities to address environmental issues in their local community.

Since it began in 1998, we have provided circa AUD 1.4m to help around 250 environmental projects in local communities across Australia. As you can see from the above, there are many ways to address the issue of biodiversity loss. Action can be taken at both the individual and corporate level, and forward looking and enlightened companies are providing the impetus for that change.

Whilst we all need to think global, we also need to act local !

[1] www.carbonsmart.com.au

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FINANCIAL SERVICES

Failing biodiversity... up till now

Investors and financial analysts face many challenges when trying to incorporate biodiversity into company valuations, says **PHILIPPE SPICHER**.

Climate change is now clearly recognized as an important issue for business, bearing both risks and opportunities. Many companies are taking measures to limit their GHG emissions, adopting strategies and plans to compete in a carbon-constrained world and are disclosing information related to these activities. Investors, asset managers and insurers are also growingly adapting their strategies, practices and product lines to take into account climate change issue.

Biodiversity, however, does not yet appear to be an issue which is fully taken into account in investment decision making. This is not to say that this issue is not considered at all. There is evidence that investors are considering biodiversity as an important topic. For example, biodiversity gets an average rating of 3.65 (on a scale from 0 to 5) in the Thomson Extel & UKSIF SRI & Extra-Financial Survey 2006 [1].

Emerging obstacles

In our view, there are some obstacles to overcome in order for biodiversity to be considered by financial markets the same way climate change is considered now:

1. Market mechanism — As there is currently no apparent cost associated with the depletion of biodiversity due to economic activity, companies typically externalize this cost. Consequently, investors and financial analysts tend to consider this issue as not relevant in the valuation of companies.

2. Methodological aspects — Biodiversity and the services rendered by ecosystems are complex issues. Except for some specific economic activities having a direct and visible impact on ecosystems (such as oil & gas, mining), the links and reciprocal influences between corporate activities and biodiversity are mostly diffuse and indirect. Therefore, there is a need to develop further the understanding of business risks and opportunities associated with biodiversity and to develop appropriate models and metrics to help investors factor this issue into their decision making.

3. Reporting and availability of data — As SiRi research shows, corporate reporting related to biodiversity is still at an infant stage. Out of 134 international companies surveyed (active in sectors such as oil and gas, mining, construction materials for which biodiversity is considered as a highly relevant issue), 119 were found to disclose insufficient information.

Mainstreaming biodiversity

Looking back at what happened in the past five years with climate change, one can expect that a market for valuing biodiversity may emerge in the coming years. Together with an increased understanding of the issue, this will lead to improved — qualitatively and quantitatively — corporate reporting and the development of suitable assessment and evaluation tools which may well trigger the mainstreaming of biodiversity. In the meantime, and considering the recent developments of thematic investment approaches (renewable energies, water, mobility, and so on), there is certainly some potential for innovative solutions that would integrate biodiversity considerations in a thematic fund.

[1] Thomson Extel & UKSIF, 13 July 2006, "SRI & Extra-Financial Survey 2006" (www.innovestgroup.com/pdfs/2006-07-13_THOMSON_EXTEL.pdf)

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A different investment in forests

Photo © International Finance Corporation

RACHEL KYTE *looks at how the International Finance Corporation (IFC), in collaboration with other financial institutions and partners, is looking to create financial products that allow for the valuation and payment, and thus the protection, of biodiversity.*

Market economies usually give tradeable goods and services a price, based on supply and demand, and at the same time allow for the providers of these goods and services to be paid. There does not exist, as yet, a regulatory framework that enables biodiversity and ecosystem services to be valued and traded.

As a consequence, what has for long appeared without an economic value, and as such has been easily overused, or destroyed, is now quickly becoming scarce. So scarce, that the trend is reversing: in some parts of the world, biodiversity is suddenly becoming extremely expensive. That is, for example, what is occurring with the wetlands in the United States of America.

Two components are needed to change this state of play. First, the stick: to create a system where those that destroy nature must, in one way or the other, pay for it. Second, the carrot: to create a system where optimal nature protection is an essential part of the value proposition, where products accrue a value through their sustainable production and where the actual protection of biodiversity — nature stewardship — is a marketable service. In collaboration with other financial institutions and other partners, such as non-governmental organizations, IFC is actively researching and developing new financial products that can protect biodiversity by giving it a value and a payment mechanism.

Where destroying nature gets expensive

Since April 2006, IFC includes in the environmental and social conditions it imposes to its clients a performance standard on biodiversity [1]. The standard provides for the protection of ecosystems and habitats, regardless of whether they are legally protected or not, or how much they may have been modified from their pristine status. The message to client companies is clear: no financing without proper protection and conservation of the fauna, flora and ecosystems.

Beyond IFC, more than 50 international and local financial institutions have taken on similar conditions in the shape of the Equator Principles. Today, nearly all project finance taking place in emerging markets applies the same environmental and social conditions.

Key actors have joined forces to raise the bar. The hope is that these standards spread to most financial institutions and all kinds of investment modes so that it soon proves impossible for companies to obtain financing without respecting biodiversity.

Similarly, NGOs, producers, buyers and financiers like IFC are working together in formally organized “roundtables” to agree on best practices in the production of commodities and throughout the value chain. The Roundtable on Sustainable Palm Oil (RSPO), for example, is working on standards to avoid deforestation in the production of palm oil [2]. Once those standards become widely accepted, fewer financiers will accept to finance unsustainable commodity production, buyers will prefer certified products, and careful producers should be in a better position to handle careless competitors.

The financial instruments for sustainable resource management

The main challenge that sustainable enterprises currently face is the lack of access to long-term finance, an option that would make finance more in tune with the delivery of biodiversity benefits, which can take several years to several decades, and in turn, would allow its valuation and monetization. This is the case, for example, in sustainable tropical forest management. To support that industry, IFC, in partnership with the United Kingdom Department for International Development (DFID), HSBC and Forum for the Future, is working on sustainable forestry bonds which would generate long-term income payments in return for investment capital [3].

The objective is to provide forest operators with access to the up-front finance required for the implementation of sustainable forestry. The issuing organization builds up a diversified portfolio of fast-growing plantations and slow-growing natural forests across a number of operators and countries to balance risks and stabilize revenue flows. The future income streams flowing from this portfolio are securitized to form a bond. Although the concept is not new, its application to tropical forests and ecosystem services is a novelty.

IFC is also supporting entrepreneurs that sustainably collect, produce, transform and commercialize goods and services derived from native biodiversity. The niche of “naturals” among the cosmetic, food and pharmaceutical industries has grown considerably over the last two decades. New product categories have emerged such as natural food supplements, nutraceuticals and cosmeceuticals.

In Africa and Latin America, IFC is developing a number of pilot projects where the natural products include

What has for long appeared without an economic value, and as such has been easily overused, or destroyed, is now quickly becoming scarce. So scarce, that the trend is reversing: in some parts of the world, biodiversity is suddenly becoming extremely expensive cosmetic oil, herbal teas and medicinal plants. IFC facilitates access to finance for start-up companies, communities, and trade associations that do not qualify for regular bank loans. IFC helps small producers identify and access new markets and join forces to produce the quantities and qualities required by the markets. IFC also helps producers and buyers use certification as market differentiator and verification mechanism.

Value for the future

Over the past 10 years, IFC and its partners have pioneered a number of financial instruments that help companies market biodiversity-based products and services. Despite considerable efforts by businesses, financial institutions and others, biodiversity and business is still a nascent marriage. But IFC is committed to continuing its activities in standard setting, quality assurance, opportunity seizing and knowledge sharing, and to collaborating with the CBD Secretariat, business and NGOs to find innovative and profitable ways to conserve and protect biodiversity.

[1] www.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/pol_PerformanceStandards2006_PS6/$FILE/PS_6_BiodivConservation.pdf

[2] www.rspo.org

[3] www.ecosecuritisation.com

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www.ifc.org

Photo courtesy of julkastro / flickr.com

Convincing financial markets to value biodiversity

FINANCIAL SERVICES

Asset managers do not buy and sell companies on the basis of their biodiversity risks. **ROBERT BARRINGTON** *and* **SAGARIKA CHATTERJEE** *explain why they might.*

Asset managers exist to make money. They have in their care the savings and pensions of millions of people and consider it their duty to maximise the financial returns of those investments to their shareholders.

Biodiversity conservation does not make anybody any much money — or at least, not on the scale to register as important among the trillions of dollars traded daily on the world's financial markets. As long as this is the case, there will be no incentive for asset managers to consider biodiversity when making investment decisions, and therefore little pressure on companies from their shareholders to change their practices. From the perspective of the biodiversity conservation community, this should represent a problem. Many sectors, and certain sectors in particular, have an enormous negative impact on biodiversity. Others benefit hugely from ecosystem services — but without realising it or paying for them.

However, the picture is not entirely bleak. First, there are stirrings of interest among the asset management community. Secondly, there is a small but growing body of examples in which biodiversity-related issues can be directly linked to share prices. Thirdly, some companies are seeing biodiversity-related opportunities for making profits. Finally, there is the potential for a series of actions by governments and others to make biodiversity far more material to companies, and therefore to their shareholders.

What do asset managers think about biodiversity?

The vast majority of individual fund managers will not be familiar with the concept of biodiversity. But ten years ago, most of them ignored climate change — if they had heard of it at all. Five years ago, many fund managers would have heard about it, but very few believed it to be relevant to their investment decisions. Today, it is not possible for a fund manager to value a European utilities company without understanding how it might be penalised by, or benefit from, the Emissions Trading Scheme. News of movements in the price of carbon will cause fund managers to buy or sell affected companies.

At the turn of the millennium, a small number of fund managers had in fact started to think about climate change. The genesis of this was not the portfolio managers themselves, but the SRI teams that existed in about half a dozen London investment houses. Similarly, biodiversity is starting to register on the radar screens of fund managers. Two of those SRI teams, F&C Asset Management and Insight Investment have published research reports identifying the investment risks associated with biodiversity [1].

Apart from those stirrings in the SRI community, there is every reason to believe that biodiversity will follow the path of climate change as an issue that asset managers need to understand when making investment decisions in certain sectors.

Most importantly, the work done by companies themselves over the past five years has revealed a great deal about the nature of biodiversity risk. Extractive companies, in particular, have repeatedly cited biodiversity in risk assessments to investors, such as 401K declarations and Operating & Financial Reviews (OFR) in annual reports. To date, there has been no clear evidence that good biodiversity management has given a competitive advantage, or that poor biodiversity management has led to revenue loss. However, extractive companies, unlike the majority of their shareholders, are used to planning for 30-50 year scenarios, and their move towards better biodiversity risk management indicates a long-term view of where the materiality of the biodiversity debate is heading — particularly the ability of companies to access and exploit land and marine areas. Three other sectors that have begun to make progress — often in response to consumer, regulatory and media pressure, rather than that of investors — are the Equator Principles banks, utilities companies and sections of the agro-industry.

Moreover, there are two major differences

CHART 1 - *BP share price, European oil/gas index and Brent crude oil price rebased to 100 with environmental and social issues facing the company over the last two years.*

Reproduced from *Global Energy: Enhanced ESG Framework*, 9 October 2006, by kind permission of Goldman Sachs from seven years ago, when climate change began to creep onto the agenda, which suggest that investment awareness of biodiversity might move faster. First, there has been a significant increase in the number of brokers and investors that claim to analyse ESG (a term that has started to replace SRI) risks — due in part to two initiatives, the UN's Principles for Responsible Investment [2], and the Enhanced Analytics Initiative [3]. They are actively looking for ESG risks and opportunities in a way that was previously only happening among the small community of SRI investors. Secondly, because of climate change, there is a much greater awareness of business opportunities that are related to the environment. New industries have entered stock markets — such as biofuel companies — and investors need to understand the regulatory and consumer drivers behind their business models in order to decide how to invest.

Among the research that has been emerging in the past year from the brokerage houses that provide investment analysis to fund managers have been some clear references to biodiversity and ecosystem services, for the first time. Again, this has often sprung from research looking primarily at the impacts of climate change. Some research notes have shown a very full understanding of the complex links between, for example, climate change, the cost of water, the provision of other ecosystem services and the potential impact on company valuations. The most specific research has been about Australia, where investment analysts are beginning to understand the enormous potential affect of environmental change on the agricultural and related industries [4].

Finally, there is the emerging body of tangible examples where mis-calculating biodiversity risks has had a negative impact on the share price. Ultimately, that is what makes the majority of the investment community sit up and take notice.

The impact on share price

To understand the share price impact of biodiversity, it is first necessary to understand the nature of ESG risks, and how they affect share prices.

Although ESG risks at times have a direct effect on share price, it is unusual to be able to trace a direct cause and effect. This is for three reasons. First, the immediate financial value of an ESG risk is usually negligible in the context of the market capitalisation of a large company. For example, a one-off fine of USD 100-200m would be considered as relatively

The most interesting development would be for governments to stimulate trading in ecosystem services. This is the kind of mechanism the financial markets understand and like. People can make money from it. It would require a shake-up in the way most conservationists view biodiversity

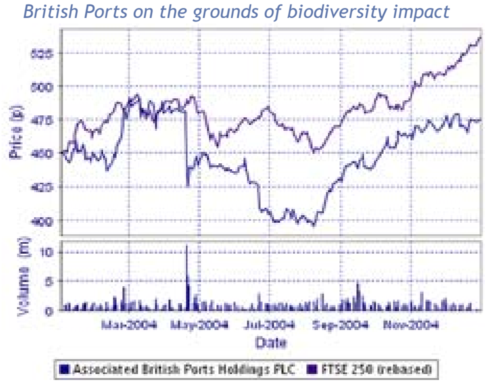
immaterial in a company with a market cap of several billion dollars, as long as that company was otherwise doing well. Secondly, the impact of the risk or a negative event may be felt by the company in the long-term or in intangible ways — which the markets seldom reflect in valuations. Thirdly, there is so much 'noise' in the valuation and movement of a particular share price that it is difficult to disaggregate a positive or negative ESG event from all the other daily influences on a large company's share price — which will include both the company's own performance, how the markets are viewing the prospects of the sector as a whole, and how well the company's competitors are doing.

However, financial analysts have become more sophisticated in understanding ESG risks and analysing how they may affect valuations. Some of the leading work in this area has been undertaken by Goldman Sachs. This does not seek to establish a causal relationship between ESG risks and share price, but examines the correlation between good ESG management and high cash returns. Chart 1 shows Goldman Sachs analysis of the share price at BP between December 2004 and September 2006, and the correlation with a series of ESG incidents at the company. Having started the period trading at a premium to its peers, the company proceeded to underperform relative to its peers and, more significantly, temporarily break the connection between the price of oil and the share price — an unusual circumstance for a major oil company, in which the oil price is usually the single largest factor in the share price. Goldman Sachs' conclusion was that "ESG issues can cause share volatility: recent events at BP have shown how ongoing ESG issues can directly affect a company's share price".

The BP case, and the Goldman Sachs analysis, demonstrates that when the evidence is sufficiently compelling, ESG events will have an effect on the share price. This reinforces the need for fund managers to understand them. But can the same be said of biodiversity specifically, or is it still an issue that will not be sufficiently material to affect a share price?

The case of Associated British Ports (chart 2) clearly demonstrates that biodiversity-related issues can affect the share price. The company had an expansion strategy that involved developing a new port facility at Dibden Bay on the UK's south coast. It was an area of high biodiversity value, and had three types of protected area status. However, the company pressed ahead with its plans, presumably believing that it could make the case that the need for more shipping and transport infrastructure on the south coast outweighed the need for protected areas. In the event, permission was turned down by the Department of Transport. Unusually, in its ruling, the Department of Transport specifically cited 'environmental impact on…internationally protected sites' as its rationale. The share price immediately dropped by 12%. The company did not recover the lost ground in its share price until the subject of bid speculation and was eventually taken into private ownership.

CHART 2 - *Planning permission denied to Associated British Ports on the grounds of biodiversity impact*



Source: Financial Times, 2 September 2004 (www.ft.com); ABP; Department of Transport www.dft.gov.uk/press/speechesstatements/statements/decisionondibdenbayporttermi5916

What does the ABP case actually tell us? There are two important lessons. First, that the company itself mis-calculated the biodiversity risks it was facing. Secondly, that investors did not understand the nature of the risks facing the company. An investor understanding the biodiversity risks might fairly have concluded that it was necessary to sell the company's shares before the Department of Transport's decision or, earlier in the process, engaged the company's management in well-informed discussion about whether it was pursuing the correct strategy. Investment analysts at the brokers might also have spotted the risk embedded in the strategy and issued a 'sell' recommendation before the government's decision.

Where next?

In most cases, biodiversity and ecosystem services are not sufficiently material for investment analysts to consider them when valuing a company for investment or making the decision to buy or sell. However, the picture is changing, due in part to a greater awareness of environmental impacts and opportunities related to climate change, and in part to the greater awareness of government, regulators, civil society and the media about biodiversity loss and the concept of ecosystem services. The actions identified above that governments could take would make biodiversity become more material more quickly to the financial markets. Irrespective of what mechanisms government may chose to implement, as natural resources become more scarce, and ecosystems no longer deliver the services that companies have come to rely on, the effects will be felt in the financial markets. We have not reached the point yet, but in future the interests of investors, companies and conservationists will become more closely aligned. Governments could provide the framework for this, and in doing so can regulate it. Is this an investor calling for more regulation? It is indeed: but only for good regulation, that understands that companies will need to continue making money, and that means they need to have access to natural resources, be rewarded by the markets for effective biodiversity management, and benefit from biodiversity-related business opportunities. Governments can set the rules — and, if they want investors to consider biodiversity when making investment decisions, it is time for the rules to be set.

[1] See www.fandc.com/new/aboutus/Default.aspx?id=75986 and www.insightinvestment.com/responsibility/investor_responsibility_home.asp

[2] http://www.unpri.org

[3] http://www.enhancedanalytics.com

[4] See, for example, 'Climate Impacts, Adaptation & Vulnerability: water, coasts, ecosystems and agriculture require early adaptation' Citigroup, 12 June 2007; and 'Food & Beverages Sector: worsening drought = worsening earnings outlook', JP Morgan, 21 September 2007.

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As natural resources become more scarce, and ecosystems no longer deliver the services that companies have come to rely on, the effects will be felt in the financial markets. We have not reached the point yet, but in future the interests of investors, companies and conservationists will become more closely aligned

What could make a difference?

The cases above suggest that, in certain circumstances, ESG issues, including biodiversity, substantially affect a company's share price. This strengthens the case for investment analysts to understand better the risks and opportunities related to ESG events. Although such case studies for biodiversity specifically are rare, three actions by governments could substantially affect the materiality of biodiversity and therefore how it will be considered by investors.

- **PROCUREMENT & CERTIFICATION** — The most obvious, but perhaps the most difficult, is in the area of government procurement. If governments were to commit to buying only from sources certified as biodiversity-friendly, then there would be a revolution in supply. This could stretch from meals provided in schools and hospitals to aggregates used for road-building — and from hydrocarbons used in government vehicles to building materials for government offices. In fact, the UK government has already moved in this direction through its timber-sourcing policies [5]. Fundamentally, the buying power of governments is sufficiently large that it could be used to generate the 'missing link' in the market — rewarding companies for good performance relative to biodiversity, and punishing those that ignore it.

- **FINES** — Most governments have a system in place to fine companies for environmental mismanagement. However, the level of fines is immaterial to a large company - such that it will be ignored by investors and will not register even the smallest blip in the share price. Regulators need to have, and exercise, the power to issue large fines for negative biodiversity-related impacts if they want financial markets to take biodiversity risks more seriously. This would not necessarily be favoured by investors, as there is a high risk of political manipulation in areas where the rule of law is weak.

- **ECOSYSTEM SERVICES** — The most interesting development would be for governments to stimulate trading in ecosystem services — just as a mixture of government and voluntary action has created trading in climate change-related credits. This is the kind of mechanism the financial markets understand and like. People can make money from it. It would require a shake-up in the way most conservationists view biodiversity: valuing species and habitats according to their contribution to ecosystem services and human well-being rather than according to abundance or diversity or the degree of threat they face. In other words, a biodiversity 'hotspot' in a remote area may provide a 'cultural service', but be less economically 'valuable' than a relatively common habitat type in a river basin that enhances water supply and purity for a large human population. Governments - through a Conference of Parties - would need to decide what relative weights to give such services, and the debates might pit conservation purists against hard-line free marketers. However, it is another mechanism for internalising external costs. Companies that are dependent on ecosystem services would have to pay for them — and those that want to damage them would need to buy enough credits to do so. Some first steps have been taken by off-set arrangements and through the Clean Development Mechanism. A thesis could be written — no doubt many have and many will — on the viability of trading ecosystem services, and the different mechanisms that could be used. Suffice it to say that many sceptics felt a cap and trade system would not work for carbon dioxide emissions, and some question how effective the current systems are; but they put environmental debates into the language and mechanisms of trade, and that is what investors understand best.

[5] www.sustainable-development.gov.uk/government/estates/#sustainableprocurement

Principles as a point of leverage

MARK ECKSTEIN *examines how the Equator Principles transformed the way the financial services sector approaches biodiversity issues.*

In the past five years there has been a significant change in the way that the financial sector approaches environmental and social (E&S) risk. These changes have been driven by a growing recognition that E&S issues represent material reputational and lending risks to a range of financial institutions – especially where there is clear attribution of E&S issues to a specific financial transaction. Nowhere is this link clearer than in project finance – where a bank's lending activities can be clearly linked to a defined and clearly articulated 'project'.

Financing projects

The oil and gas sector relies on project finance in particular as a vehicle for financing the development of new assets, and the recent furor over the financing of the Sakhalin II project is testament to the leverage that is being exerted on the financial sector. But project finance is an important financing tool across a range of other industry sectors also, and as the potential for exposure and reputational damage has increased [1] the response from the financial sector has been to establish a set of principles (the Equator Principles) that serve as the basis for project finance E&S due diligence.

They are based on the International Finance Corporation's (IFC) Performance Standards which include requirements for the protection and sustainable use of biodiversity: "protect and conserve biodiversity and promote the sustainable management and use of natural resources through the adoption of practices that integrate conservation needs and development priorities" [2].

Principles for biodiversity

The Equator Principles (EPs) provide a voluntary framework for addressing biodiversity issues in project financing and require project sponsors to assess a project's impacts on biodiversity (including specifically, impacts to ecosystem services and natural habitats, the introduction of invasive alien species, sustainable use, and social impacts).

> *It is early days yet to gauge the impact of the Equator Principles, but indications are that they have raised the profile of biodiversity in both financial institutions and also the companies that are seeking finance*

Importantly, the EPs stipulate circumstances where biodiversity impacts would be so significant as to preclude the banks' involvement. Such circumstances include:

- Impacts to critical natural habitats (such as protected areas);
- Significant loss or conversion of natural habitats;
- The introduction of invasive alien species as a direct or indirect consequence of the project;
- Significant impacts to habitats or endangered species that might be apparent through supply chains (*e.g.* in forestry or fisheries projects).

This places the onus on project sponsors to assess potential biodiversity impacts, avoid impacts where possible and mitigate remaining impacts through habitat and species management plans, offsets or other mechanisms. In all circumstances where biodiversity issues are identified and require management in a project finance transaction, the bank and sponsor develop an Action Plan that defines how impacts will be managed (essentially this would resemble a legally binding Biodiversity Action Plan) which is then included in the loan documentation and which, in theory at least, provides an extremely high level of leverage that can be applied to the sponsor if progress in delivering the Action Plan is not as planned. To help EP banks and their clients understand the requirements of the biodiversity Performance Standard, IFC has developed a good practice guide [3].

Biodiversity profile

Since the Equator Principles came into effect (in 2003), adopting banks have grown from 4 to over 50 institutions and an estimated 85% of global project finance is now covered by EP requirements, thus potential leverage (especially in locations where state / public capacity to manage biodiversity and land use may be weak) is considerable. It is early days yet to gauge the impact of the EPs, but indications are that they have raised the profile of biodiversity in both financial institutions and also the companies that are seeking finance.

Interestingly, it is also clear that some banks are informally extending the use of the Performance Standards to a range of other financial products and services (such as corporate loans) which further extends the reach and influence of the Standards. Further, the impact of the EPs on project finance biodiversity assessment and management provide a particular point of reference and source of good practice in relation to wider moves within the financial sector.

[1] For instance, BankTrack focuses on the activities of the financial sector and the environmental and social impacts of lending and investment practices (www.banktrack.org).

[2] Equator adopters undertake to apply the International Financial Corporation's Performance Standards to certain types of project financing. These Standards include specific expectations and requirements in relation to both biodiversity and ecosystem services. (www.equator-principles.com).

[3] www.ifc.org/ifcext/enviro.nsf/Content/Publications_GoodPractice_Biodiversity

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People, biodiversity and banking in South Africa

FINANCIAL SERVICES

Photo © Nedbank

JUSTIN SMITH *looks back at 17 years of environmental initiatives at Nedbank and sees biodiveristy increasingly shaping the bank's policies.*

As an adopter of the Equator Principles (actually, the only African bank to have done so) and a member of the UNEP Finance Initiative Biodiversity & Ecosystem Services Workstream, I think it is clear that biodiversity is an important consideration for us. As a bank located in South Africa — the third most biodiverse country in the world — we understand the need for our business to be aligned with South Africa's national policies, as reflected in the National Environmental Management: Biodiversity Act of 2004, as well as a National Biodiversity Strategy and Action plan.

Commitments to biodiversity

Nedbank is, in fact, committed to understanding and integrating sustainability considerations into its business strategy and processes, and has a particular dedication to environmental responsibility as South Africa's 'green' bank, as seen by our corporate colours. A number of activities demonstrate Nedbank's commitment to biodiversity, including:

• Nedbank's environmental management programme includes reducing consumption of natural resources, recycling programmes and staff awareness campaigns.

• Nedbank's Climate change programme which recognises that climate change and biodiversity are closely interlinked: natural ecosystems play a key role in locking up GHG emissions; the impacts of natural disasters are compounded by loss of biodiversity; water supply and sanitation services are underpinned by healthy ecosystems and; the role of BES in providing food and water, building materials, medicines and other goods and services to many rural communities is extremely significant. Nedbank's resource consumption and lending activities underpin the climate change programme for the Group.

• In 2005 Nedbank launched the Nedbank Capital Green Mining awards as an opportunity to engage with clients in the sector regarding sustainability issues, and recognise clients who have developed innovative solutions to integrating social and environmental considerations into their operations.

• Nedbank undertook a biodiversity assessment at Olwazini, its learning centre, which is situated in the Cradle of Humankind World Heritage site, in line with the provincial government biodiversity strategy for the area. This includes clearing alien vegetation, upgrading water treatment facilities and aligning the future development plan for the facility with provincial government plans.

the threatened cape Fynbos and grasslands ecosystems by engaging with landowners in the management of their resources.

A significant focus has always been the interaction between people and the environment, with a concern that it is the poorest of the poor that most suffer when environmental degradation occurs. The link between poverty and the natural environment has often been recognized as a vicious self-reinforcing circle between poverty and a degraded environment. I think we all agree that people must be empowered to manage their own environment and that a healthy natural environment is a first step to ensuring that marginal and vulnerable communities are buffered from the worst effects of poverty.

Under the partnership, Nedbank works with WWF South Africa to improve its own environmental performance and environmental policies, provide opportunities for staff awareness and engagement on Green Trust projects

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Trusting partners

We have been working on improving our environmental policies and performance through a conservation partnership with WWF signed in 2005. In actual fact, our relationship with WWF goes back some 17 years. Through the Green Trust, funds are raised for conservation by client support of green affinity banking products. The Trust has so far supported more than 140 projects, which reach across a broad spectrum of environmental conservation concerns within South Africa. Specific focus has also been placed on ecosystem protection through projects such as the Biodiversity and wine initiative and Ekangala Grasslands programme. These programmes attempt to bolster government efforts in protecting

and set joint environmental targets over a 5-year period. The Green Trust exemplifies successful partnerships, from the partnership between WWF-SA and Nedbank, to the myriad of partner NGOs and conservation agencies that implement our projects. The Trust's success is testimony to its ability to engage with a wide variety of stakeholders and partners from grassroots communities through to government and corporates in a constructive and innovative way.

Justin Smith is Head: Governance and Sustainability, Nedbank.

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Enhancing livelihoods

An Interview with Dr. **JAMES MWANGI**, *Managing Director and CEO, Equity Bank Limited*

Equity Bank's "Best Bank in Kenya" 2007 Euromoney award is a clear sign that the switch to microfinance — banking the un bankable — in the 1990's proved a winning strategy. Do you think this model can be successfully exported to other markets?

The Equity business model is a market led and customer focused model which is easy, effective and accessible, hence it can be replicated in any market especially across Africa. The model is rooted in the African community and is customer responsive, providing services that meet customer needs. The near homogeneity of African culture and similar economic conditions makes it easier to roll it out in other African countries.

As a follow-up to the 2005 International Year of Micro credit, you took part in the UN Advisors Group on Inclusive Financial Sectors. Where do you see the barriers for further building an "inclusive financial sector"?

The legal framework and structures as they exist today provide challenges. Technological barriers still exist. Innovation barriers exist in existing institutional frameworks and organization cultures.

How do you think microfinance can help fight biodiversity loss?

The main role of microfinance institutions is to lend money to the community to enhance their livelihood. By empowering the community, the bank assists to raise the level of income which translates into better livelihoods. By raising the household income, communities start using modern energy sources such as solar energy in place of kerosene for lighting up their homesteads, gas for cooking in place of firewood which translate into direct environmental benefits. Microfinance institutions can also avoid financing projects that disrupt and threaten biodiversity.

Could you explain the bank's involvement in promoting women entrepreneurs?

Most of Equity bank clients are in micro and small enterprises. Women comprise over 53% of clients. Loan absorption capacity by women owned business remains low and many business women require more than funds to grow their businesses. Launching a successful business requires more than finances, it requires an awareness of one's knowledge, skills, abilities, aptitudes, values and preferences. The bank also realized that loan policies and procedures are not sensitive to women. This limits their access to loan products. The bank developed a product for small scale businesses that required flexible collateral, which has proven to be popular among women. Coupled with business support services, the bank has realized that women have great potential to excel in business, if they are given the necessary support such as flexible securities and training on business management.

To respond to the special needs of women entrepreneurs, the bank has developed a package of Fanikisha (a Kiswahili word meaning: It can be done!) loan products that addresses their financial needs at all levels of business growth. Integrating women in economic activities on a larger scale would have massive positive social economic impacts on the family, community and the economy. An economy that excludes women cannot hope to achieve rapid economic growth and development and better equity or distribution of income. Empowering women financially is the most effective way to reduce poverty in our country. The bank is using both group methodology approach and an individual approach to lend to women entrepreneurs.

Lack of basic skills hinders women entrepreneurs from growing their businesses. What is the bank doing to enhance their capacity?

The bank has embarked on training women entrepreneurs in basic business skills to ensure that they are able to run successful businesses. Women are encouraged to form enterprise clubs which act as incubators allowing the bank to provide tailor made trainings. Through the enterprise clubs, women will also network, form business linkages, share experiences on best business practices.

To enhance women participation in global trade, Equity bank has teamed up with UNDP to promote local and international business linkages. Through this partnership, UNDP provides women with technical capacity, especially training on entrepreneurship, as well as helps them in creating business linkages both locally and internationally. Women are also exposed to modern marketing skills such as the use of modern information communication technology. These ultimately equip women with skills and upscale their capacity to access and compete globally with their goods and services.

Could you explain how the Equity Bank Code of corporate practices and conduct (approved in March 2005) is implemented in practice?

The bank's Corporate Social Responsibility (CSR) programme involves having the various branches participate in clean up exercises and also sponsor tree planting and reafforestation initiatives where they are located. All construction projects to be funded by the bank must receive certificate of compliance from the country environmental watchdog, the National Environmental Management Authority (NEMA). This ensures that the bank does not fund projects which are deemed to be detrimental to the environment and the general well being of the public. The bank actively participates in environment

continued on page 36

The bank has realized that women have great potential to excel in business, if they are given the necessary support such as flexible securities and training on business management

Creating a new asset class

Photo © New Forests Pty Limited

DAVID BRAND *has built a company based on developing investment models that incorporate the value of nature's ecosystem services. He believes the world of environmental investment is poised for growth.*

What is an EIMO and why does the world need them? EIMO stands for Ecosystem Investment Management Organization, an expansion on the Timberland Investment Management Organization (TIMO) model that is dominating private investment in forests worldwide. In contrast to the timber-focused TIMO model, EIMOs develop investment programmes that generate value based on the ecosystem services provided by forests. These ecosystem services are forming the basis of new markets and payment schemes for conservation, creating a new asset class of ecological products. Eco products include carbon credits from forestry and land management, endangered species banks, wetlands banks, water quality credits and other cutting-edge instruments for environmental transactions.

The development of eco products has initially been seen as a cottage industry. Firms involved in early carbon trading experiences, wetlands or endangered species projects and land conservation initiatives were often start-up companies or community-based organizations. In some cases, larger investors saw opportunities to add value to timber investments by selling conservation easements or developing carbon credit projects, but eco product development was not their core business.

Environmental markets are now growing up, and investors are taking notice. The global carbon market nearly tripled between 2005 and 2006 to trade over USD 30bn globally, and mitigation banking in the United Stated of America trades over USD 1bn per annum. With these volumes, EIMOs are starting to emerge to help large-scale investors capitalize on environmental market opportunities and expectations for growth. The three biggest environmental challenges of the century have been identified as climate change, the declining availability of fresh water and the loss of biodiversity. As these services become increasingly scarce, it can be expected that the underlying ecological assets will become increasingly valuable. Investors will want to be on the right side of this trend.

Ecosystems are our natural infrastructure. Why shouldn't nature be priced like the other services that we require?

Developing the model

The rise of the EIMO will be driven by the proliferation of market-based or monetary approaches to valuing both environmental impacts and environmental benefits. In the past a landowner with endangered species, critical wetlands or native forest was saddled with a liability in financial terms; commercial development would be hampered or prevented in the name of conservation. Now these eco products are being priced through regulatory and voluntary market-based trading mechanisms, and they are moving from liabilities to assets.

New Forests Pty Limited in a company designed to foster and capitalize on these opportunities. The Australia- and US-based firm manages institutional and private equity investment and focuses on maximizing returns through sustainable timber production and exposure to ecosystem-based revenue streams. New Forests recently developed a project in Australia based on reforesting an 8,500 hectare cattle grazing property to native Eucalyptus species and expects to generate over half of the total returns from environmental revenue streams. These include a AUD 1m grant from the regional natural resource management body for the project's biodiversity and water quality benefits and an ability to trade in approximately 105 million litres of water property rights, which could be leased to downstream irrigators. There is also exposure to the state-based regulatory carbon market (the New South Wales Greenhouse Gas Abatement Scheme), and New Forests expects to generate reforestation-based carbon credits to sell into this scheme.

As investment capital moves into this space, it brings a host of new approaches such as aggregation of carbon pools or endangered species banks to reduce risk and volatility. Financial experts can also design financial products, such as securitization of eco-credits, which create liquidity and a capacity to expand financial options for project developers. These more sophisticated instruments will catalyze further investment and growth in the sector.

Rainforest conservation

While many of the emerging eco markets are largely in Australia, Europe and the U.S.A., there is increasing interest in how these concepts may be applied to emerging markets, particularly related to rainforest conservation. As carbon markets have grown, interest has turned to rainforest conservation as a future component of the global carbon market. Approximately 20% of the world's annual greenhouse gas emissions are a result of deforestation, so climate change solutions will need to encompass conservation in addition to reforestation.

Avoided deforestation is expected to be a front-and-centre issue at the next COP of the UN Framework Convention on Climate Change. The agribusiness sector is also coming under increased scrutiny for its ecological side effects, such as a land clearing for palm oil. Deforestation has a significant impact on endangered species, so while the climate change benefits are often a first-order issue, biodiversity is quickly becoming a central driver for efforts to conserve forests. This results in

FINANCIAL SERVICES

EIMO investors considering projects that create conservation banks as the basis for selling offsets based on biodiversity impacts, for example to the bio-diesel supply chain. New Forests has been working with clients in Africa and South East Asia on projects that seek to develop these concepts and demonstrate that intact tropical rainforests could become assets in their own right for both carbon and biodiversity benefits. This model can also provide sustainable revenue streams to communities through annuity payments for forest preservation and maintenance.

Valuing nature's infrastructure

Ecosystems are our natural infrastructure. Much like airports and roads that provide services to transport, hospitals that provide services to human health and universities that provide the service of education, ecosystems provide regulation of our atmosphere, water quality and a healthy and resilient planetary life support system. Why shouldn't nature be priced like the other services that we require?

As the global economy grows from its current USD 50 trillion per annum to USD 100 trillion — and on to hundreds of trillions of dollars per annum — the weight of economic impact on ecosystems will grow, and the services provided by those ecosystems will come under pressure. This should translate into new valuable asset classes with new eco products that will steadily rise in value. Effectively, companies such as New Forests offer the opportunity for investors to go "long on ecosystems" and benefit from the rise of carbon, water and biodiversity related markets.

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Uncontrolled risks, untapped opportunities

FINANCIAL SERVICES

ANNELISA GRIGG *and* **RICHARD BURRETT** *provide an update on work undertaken by the UNEP FI workstream on biodiversity and ecosystem services, one year after its launch.*

One of the key barriers for companies to minimise their environmental impacts has been the lack of adequate value conferred on the environment by the financial markets. Despite the dramatic findings from the Millennium Ecosystem Assessment, for instance, the valuation of biodiversity and ecosystem services is in its infancy.

It has been encouraging to see movement on this issue on a number of fronts. There has been a shift in political thinking that is beginning to assign tangible and material economic value to some of the ecosystem services which are derived from biodiversity. An example of this is the link recently drawn between annual global green house gas emissions and the destruction of the world's tropical forests by the Stern report [1] which showed that some 20% of annual greenhouse gas emissions come from tropical forest destruction. The commitment made in March 2008 by the G8 environment ministers, together with environment ministers from five newly industrializing countries (Brazil, China, India, Mexico and South Africa), to estimate the economic costs of global biodiversity loss, once realized, is likely to provide further stimulus to the marketplace to internalize some of those costs which have traditionally been externalized.

Understanding the impacts on investment value

The increasing engagement of the finance sector on these issues, recently formalised through the UNEP Finance Initiative Biodiversity and ecosystem services workstream [2] is another exciting development. The first key deliverable from this workstream aims to tackle another fundamental barrier to encouraging greater private sector awareness, avoidance and minimisation of impacts on biodiversity, namely, a lack of understanding of how impacts on biodiversity can in turn impact on investment value. We are producing a briefing document aimed at the CEOs of financial institutions to address this issue. It is drafted in a language aimed at the financial world and sets out why declining biodiversity and the associated loss of vital ecosystem services (such as the ability to regulate carbon) pose both a business risk and an opportunity to financial organisations. It goes on to set out the current response of the sector and outline suggested future actions. In drafting the briefing, it has been a challenge to tease out examples where ecosystem services have been a true risk or opportunity for the finance sector, yet examples do exist and are creating a very real drive amongst companies within the sector to develop tools and approaches to evaluating the impacts of investments on biodiversity and their potential reliance on ecosystem services.

It has been a challenge to tease out examples where ecosystem services have been a true risk or opportunity for the finance sector, yet examples do exist and are creating a very real drive amongst companies within the sector to develop tools and approaches to evaluating the impacts of investments on biodiversity and their potential reliance on ecosystem services

Risks and opportunities, of course, will vary depending on the financial service being offered, the industry sector in which the transaction is proposed and the location of proposed activities. What is interesting is that discussion has gone beyond consideration of these issues as a reputational risk, prompted by controversial lending or investments. Instead, the business case now being put forward hinges on concerns about lower and less secure investment returns as a result of declining collateral value of land for example, or disruption in the supply of goods and services dependent on some of the ecosystem services that flow from biodiversity and also on business opportunities. Wetlands, for example, are known to have a key role in the purification of water – the Ecosystem Marketplace [3] estimates the total market value of wetland credits at nearly USD 290m as of 30 April 2005.

Even more interesting is the potential for new markets to develop. Examples of this are the generation of carbon credits from avoided deforestation or payments for watershed services – both of which are reliant on having healthy, intact biodiversity in place – amongst other things. Public and private payments for watershed services alone are predicted to increase from a current estimate of USD 1.5bn a year to USD 3bn in 2010 and USD 30bn by 2050. Furthermore, in a crowded market place, making a clear stance on the need to conserve biodiversity purely from a moral stand point offers undeniable opportunities for market differentiation.

Responding to the challenge

Recent years have seen a rapid evolution of policies and practices within the industry and individual banks to understand and address biodiversity risk and opportunities. Some have pledged to avoid World Heritage Sites or other protected areas; others have developed specific policies that preclude investing in companies which undertake illegal logging activities. Those companies signed up to the Equator Principles are required to "protect and conserve biodiversity and promote the sustainable management and use of natural resources through the adoption of practices that integrate conservation needs and development priorities".

The CEO briefing highlights such practices and policies and makes a series of recommendations for future action for the sector. Key amongst these are:

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• On a sectoral level: collaboration on industry and geographic risk identification and input into global initiatives to properly value ecosystem services such as the one proposed by the G8 outlined above.

• On an institutional level: to gain a better understanding of portfolio risk exposure and emerging opportunities and develop appropriate policies, procedures and tools to assist this.

The workstream already has a head start on the second of these recommendations through another of its key deliverables — the development of a toolkit for financial organizations to better understand and evaluate biodiversity risks and opportunities.

A benchmark for biodiversity

The Natural Value Initiative — a multi-stakeholder initiative funded by VROM, the Dutch ministry of housing, spatial planning and environment and led by environmental NGO Fauna & Flora International, Brazilian business school FGV and UNEP Finance Initiative — is developing a tool for evaluating biodiversity related risks and opportunities within companies with an agricultural supply chain [4]. This would feed into financial organisations' investment decision making processes, thereby reducing investment risk and increasing returns. For the companies evaluated, this will provide a strategic framework against which issues based or commodities based initiatives can be placed to facilitate prioritisation and enable more effective communication with an increasingly engaged finance sector, thereby rewarding good practice in a way that is not currently achieved.

The tool will be based on an adapted version of a tried and tested methodology already employed within the asset management community and designed by Insight Investment to evaluate the extractive sector — 'the biodiversity benchmark' which was used to evaluate approaches to biodiversity management within the extractive sector. The team is currently undergoing a consultation period to determine the exact scope and nature of the tool, bringing together members of the finance sector and agricultural sector in two workshops — one in the UK and one in Brazil. The material from both meetings will be used to inform and revise the project strategy which will be set out at the Roundtable for Sustainable Finance at Melbourne in October [5].

Ultimately, of course, we hope that such tools will become redundant as consideration of environmental and social issues becomes integrated into mainstream economic valuation studies and into the financial markets as a whole. Until such time as that is achieved, they remain (as those who have undergone or used the benchmark state) an invaluable starting point to gain a better understanding of an unquantified risk and untapped opportunity for the finance sector — and indeed the conservation sector.

[1] www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sternreview_index.cfm

[2] See Business.2010, 2 (2).

[3] www. ecosystemmarketplace.com, as quoted in Jessica Fox, 2006 , "The value of your eco-assets". Electric Perspectives, Mar/Apr (http://findarticles.com/p/articles/mi_qa3650/is_200603/ai_n17183912)

[4] www.fauna-flora.org/newsnvi2.php

[5] See http://unepfi.net/Melbourne. Members of the finance sector and food and beverage/ tobacco sectors interested in learning more about this initiative or in contributing to/ piloting the methodology should contact Annelisa Grigg.

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www.unepfi.org/work_streams/biodiversity

Banques françaises et biodiversité, un état des lieux

Photo © ecodurable®

MARLÈNE MORIN *evaluates the uptake of biodiversity in the French banking sector. With mixed results.*

Les enjeux environnementaux et sociaux du secteur bancaire sont souvent minimisés, réduits à leurs impacts directs, voire ignorés alors que l'effet de levier de ce secteur est très important au travers de ses différents métiers (financement de projet, gestion d'actifs, crédit…). Si les banques françaises présentent dans ce domaine un certain retard vis à vis des pionnières étrangères, il est néanmoins intéressant de constater des évolutions récentes, notamment en termes de produits proposés à leurs clients. Alors qu'aujourd'hui, les banques sont « rattrapées » par les problématiques du développement durable, elles sont emblématiques de la façon dont ces enjeux, y compris la biodiversité, gagnent tous les secteurs de l'économie.

Evolutions récentes

On constate depuis 5 ans environ une prise de conscience croissante par les banques françaises de leurs impacts environnementaux. Si leur approche reste encore largement centrée sur la communication institutionnelle, voire la communication « produits », elle s'est traduite d'ores et déjà par des actions concrètes permettant des progrès certains, comme le soulignait les Amis de la Terre dans leur rapport de mars 2007 *Banques françaises, banques fossiles?* [1]. De bonnes pratiques se développent avec, par exemple, la prise en compte de leurs impacts directs tels que les efforts de réduction des consommations de papier, d'eau et d'énergie ainsi que le développement du recyclage mais également l'approfondissement de leurs politiques de transparence et de reporting.

Les banques développent également peu à peu une approche intégrant leurs impacts environnementaux indirects au travers des « produits » proposés. Ainsi, au-delà des offres de produits « responsables » tels les fonds ISR (Investissement socialement responsable), l'épargne et la fidélisation solidaire, les banques françaises ont également développé des offres de prêts dits « verts », c'est-à-dire pouvant favoriser des comportements responsables en matière d'environnement. L'exemple de la Banque populaire d'Alsace qui a longtemps été la seule à proposer des produits intégrant les questions environnementales avec son Prevair et Codevair, est aujourd'hui suivi par plusieurs banques (les autres banques populaires, le Crédit Foncier, la Société Générale…). Il s'agit notamment des prêts bancaires aux particuliers pour l'habitat, second secteur émetteur de CO_2 en France. Le site Eco-Prêts [2] qui a été lancé notamment par l'ADEME (Agence de l'environnement et de la maîtrise de l'énergie) en mars dernier, est une initiative intéressante proposant au consommateur un comparateur des prêts bancaires dédiés aux économies d'énergie. Il permet de mettre en avant la disparité des offres et le caractère « insuffisant » de certaines propositions.

La signature et l'application des principes Equateur portant sur le financement de projet représentent également un bel exemple et espoir d'évolution du comportement des banques en faveur de l'environnement. En permettant un meilleur management, notamment des risques, cette démarche pourra montrer que l'intégration de critères de développement durable peut être créatrice de valeur à long terme. Il faut cependant espérer que la dernière version des principes [3] donne un nouveau souffle pour une plus stricte application de ceux-ci et une plus grande transparence.

Les efforts accomplis doivent donc être soulignés et encouragés mais aussi relativisés. Les banques n'ont pas encore pleinement intégré les enjeux environnementaux au cœur de leurs activités et produits. Il faut veiller à ce que certains produits « verts » ne soient pas de simples vitrines publicitaires déployées sans réelle conviction ou concrétisation. De plus, si les banques cotées, soumises aux obligations de reporting, et les banques traditionnellement engagées, ont entrepris certaines avancées, d'autres banques françaises restent encore totalement étrangères à toute démarche de prise en compte de l'environnement dans leurs activités, y compris concernant leurs impacts directs.

> *Les efforts faits doivent donc être soulignés et encouragés mais également relativisés. Les banques n'ont pas encore pleinement intégré les enjeux environnementaux au cœur de leurs activités et produits*

Une prise en compte de la biodiversité limitée

Dans le cadre de leurs actions de protection de l'environnement ou de lutte contre la pollution, les banques peuvent contribuer à la préservation de la biodiversité. Le prêt eco-habitat du Crédit Coopératif favorise depuis 2004 les projets ayant recours aux matériaux écologiques et aux énergies renouvelables en proposant un taux plus attractif. En matière de financement de projet, la biodiversité est, par ailleurs, un élément intégré dans les principes Equateur.

Au-delà de ces initiatives plus générales, certaines banques françaises marquent un intérêt particulier à la problématique de la biodiversité. Ce phénomène est relativement récent. Ainsi, Dexia est une des premières banques privées présentes en France à afficher un intérêt pour cette thématique, allant jusqu'à présenter la préservation de la biodiversité comme un des deux principaux enjeux environnementaux de ces prochaines années avec le changement climatique 2006 [4].

La biodiversité n'est néanmoins encore que très rarement intégrée en tant que telle dans les activités des banques. Cet enjeu ne fait en général que l'objet de démarches de mécénat. Quelques banques participent ainsi à l'évolution des recherches dans le domaine, voire parfois à la sensibilisation du public et de leurs clients. Par exemple, le Crédit Agricole a participé à une opération « Graines de paysages », en partenariat avec diverses associations pour sensibiliser à la protection de l'environnement et faire connaître les avancées environnementales de l'agriculture et ses contributions à la protection de la biodiversité.

Photo courtesy of Vladimir Dimitroff, www.flickr.com/photos/maistora

Plusieurs banques contribuent aussi aux programmes de recherche dans le domaine. HSBC finance au niveau mondial et à travers un partenariat de 8 millions USD sur cinq ans avec le Smithsonian Tropical Research Institute (STRI), une vaste étude sur le terrain portant sur les effets à long terme du changement climatique et son impact sur les forêts. Cette étude devrait permettre de fournir des données clés aux décisionnaires responsables de la politique du carbone au niveau mondial. Le Crédit Agricole a, quant à lui, financé des laboratoires de recherche sur la biodiversité à l'Institut National de la Recherche Agronomique (INRA). Il a également soutenu, en 2006, un programme, en partenariat avec la Ligue pour la protection des oiseaux (LPO), visant à estimer l'état de la biodiversité dans des exploitations agricoles et à encourager des pratiques favorables à son enrichissement. Plus de 150 exploitations se sont impliquées dans ce projet, des plans de gestion pour améliorer la biodiversité vont être élaborés et le Crédit Agricole favorisera la diffusion de ces résultats. Cette sensibilisation des clients est assez spécifique, étant donné le statut de cette banque, historiquement liée au secteur agricole dont les impacts sur la biodiversité sont avérés.

La Caisse des dépôts et consignations (CDC) reste la seule à tenter d'élaborer une solution financière intégrant pleinement l'enjeu de biodiversité. S'assurant d'une gestion durable des actifs forestiers d'une de ses filiales, la Société Forestière, la CDC a également créé en juillet 2006 une Mission Biodiversité dont l'objectif est d'initier des actions innovantes de financement durable de la biodiversité par un système de compensation au travers d'un mécanisme de marché [5].

Travail de pression

Les enjeux environnementaux s'imposent peu à peu aux banques par le biais de différents facteurs tels que les obligations de reporting [6] qui concernent les plus grandes banques françaises (mais pas formellement leurs filiales non cotées), les ONG qui effectuent un travail de pression depuis 2005 et les tensions concurrentielles. La volonté de maintenir une image positive vis-à-vis des consommateurs désormais plus attentifs à ces préoccupations contribue aussi à cette prise en compte. La biodiversité pourrait ainsi peut-être bénéficier de ces évolutions et profiter d'une meilleure prise en compte par les banques notamment à travers leurs produits. Le risque actuel réside probablement dans une focalisation des attentions politiques, associatives, économiques, et donc par corrélation des banques, sur les seules problématiques énergétiques et climatiques. En effet, si des effets bénéfiques indirects peuvent découler de cette prise de conscience de la nécessité de changer nos comportements vis à vis de l'environnement, il s'agit de s'assurer qu'épargner le climat, épargnera aussi la biodiversité mais également les hommes.

Par leur capacité de financement, en tant qu'investisseurs ou pourvoyeurs de crédit sur des projets industriels, d'infrastructures, immobiliers ou de développement, les banques ont un pouvoir relativement unique pour influencer les choix qui sont faits dans presque tous les secteurs, promouvoir des critères environnementaux, et encourager l'émergence d'activités plus «propres» et plus protectrices de la biodiversité. Il est aujourd'hui indispensable qu'elles poursuivent et approfondissent l'élan actuel qui les pousse à changer peu à peu leurs pratiques dans ce domaine.

[1] www.amisdelaterre.org/Banques-francaises-banques,3138.html

[2] http://www.ademe.fr/internet/ecoprets/liste.asp?prod=1,4,5

[3] www.equator-principles.com/documents/Equator_Principles.pdf

[4] www.dexia.com/docs/2007/20070509_AG/sustainable_development/fr/rdd2006fr.pdf

[5] voir Business.2010, 2 (2) (www.cbd.int/doc/newsletters/news-biz-2007-05-low-en.pdf).

[6] Article 116 de la loi no 2001-420 du 15 mai 2001 relative aux nouvelles régulations économiques (www.legifrance.gouv.fr/WAspad/UnTexteDeJorf?numjo=ECOX0000021L)

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The view from Dubai

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Photo © Dubai Ethics Resource Centre

ABBE LE PELLEY *looks at the emerging importance of biodiversity for the Dubai financial community.*

Following the establishment of the United Arab Emirates (UAE) in 1971, Dubai has enjoyed tremendous growth and prosperity assisted by visionary leadership, stable government, an openness to the world and foreign workers, as well as significant oil revenues. Situated at the end of the Arabian Gulf, the UAE though relatively small in geographical terms has a very unique natural history as the country is made up predominantly of desert.

Momentous drive

The high oil prices and expansion of sectors such as trading, tourism and finance have contributed significantly to the rapid pace of development. The population of Dubai, which expanded by over 25% from 1995 to 2000 alone, is now over a million and estimated by the Dubai Chamber of Commerce and Industry to increase by over 400,000 from 2006 to 2010.

In parallel with this momentous drive for development however comes the responsibility of ensuring the protection of the local environment. The Dubai Government takes its duty to protect biodiversity seriously, as is demonstrated by it publicly adopting the need to preserve 'the environment in line with international standards' as one of the guiding principles to help realise the new Dubai Strategic Plan 2015 [1]. The Plan recognises the importance of ensuring Dubai maintains a safe, clean and sustainable environment. It promotes the need to "update and align environmental regulation with best practices and develop required enforcement mechanisms, to adopt a sustainable development approach by integrating environmental outcomes within development policies, and to raise environmental awareness".

Philanthropic projects

As the largest and most widely represented international bank in the Middle East, HSBC supports, through philanthropy, a number of UAE conservation projects. HSBC Bank Middle East has, for instance, joined

forces with the Emirates Wildlife Society in association with WWF, the Fujairah Municipality and Government of Fujairah, to conserve the natural habitat of Wadi Wurayah in the Emirate of Fujairah. The project, which aims to create and manage the first legally designated mountain protected area in the country, consists of three phases, each to be accomplished within a year.

The first phase involved a baseline survey to evaluate the potential feasibility of the creation of a protected area from ecological, cultural and political perspectives. Phase two involves the development of a conservation management plan for the wadi while continuing to monitor biodiversity. During the third phase, rangers from local tribes will be resourced and trained to ensure the sustainability of the conservation programme. Chairman of HSBC in the Community Middle East Foundation, Mohammed Al Mulla, said: “We are pleased to support the conservation of the Wadi Wurayah project which also involves our staff…Through their continuous engagement and voluntary work in Wadi Wurayah, I am sure they will learn a lot about conserving the natural heritage of the UAE”. Also speaking about this local initiative, H. E. Eng. Rashed Hamdan Abdullah, General Manager of Fujairah Municipality, explained that the Municipality aims to enable local heritage to survive in harmony with the local life style and to bring the mechanism of economic development to the area while protecting the wildlife and preservation of Wadi Wurayah’s rich biodiversity and natural resources.

With HSBC’s support, researchers so far have been able to conduct analysis of water samples, characterise aquatic habitats, record all the flora and fauna sightings and interview over 150 local villagers in a social survey. Commenting on this project Razan Khalifa Al Mubarak, Director, EWS-WWF said: “We are pleased to say that seven new and previously unknown species have been discovered, indicating the importance and uniqueness of the area’s biodiversity” [2].

Minimizing impacts

A number of banks are also committed to minimizing their direct environmental impacts. Standard Chartered’s new building in the Dubai International Financial Centre, for example, incorporates many environmentally friendly features. For instance plant and associated systems have been designed to reduce energy consumption and minimise pollution, while maintaining comfort and flexibility. The raised flooring used is 100% recyclable and the Bank has incorporated motion detector lighting.

Of course, the biggest opportunities for driving change is through lending operations. With this in mind, Standard Chartered took part in the revision of the Equator Principles and has adopted the revised principles. An environmental risk policy, which was initially developed 10 years ago, allows the bank to factor into its research climate change, impacts on biodiversity, deforestation, air and water pollution.

It is not just the multinationals operating in Dubai that are working to drive forth awareness in this area however. The Dubai International Financial Centre (DIFC) is also taking its role in promoting this challenge. Aside from recently publishing its first CSR report, and undertaking initiatives to help reduce its own environmental impact, the DIFC will be hosting a boutique event on carbon trading this November.

The business case for the biodiversity challenge facing financial institutions is sound. With the increasing pressures of living in a crowded and interconnected world, preserving biodiversity whilst developing economically is of paramount importance. Although in the early stages, the financial services industry in the UAE is considering its relationship and responsibility towards issues of biodiversity, and efforts such as the Dubai Strategic Plan are helping to highlight the challenge and encouraging businesses to follow this lead.

[1] www.dubai.ae/en.portal?topic,hm_dxbstgplan,0,&_nfpb=true&_pageLabel=misc

[2] www.hsbc.ae/1/PA_1_1_S5/content/uae/pdf/hsbc_announcement_12JUNE07.pdf

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Coping with the next challenge

Many commentators see biodiversity as the 'next climate change' for the financial services industry. In a recent report, **IVO MULDER** *validates this view.*

Financial institutions that fail to identify which companies are most at risk from biodiversity issues can become exposed to biodiversity-related business risks themselves. This is what transpires from research I undertook for the World Conservation Union (IUCN) earlier this year [1]. The report identified the types of biodiversity-related business risks the financial sector faces when failing to incorporate biodiversity into its decision making.

Understanding the risks…

To understand the biodiversity-related business risks financial institutions currently face, I interviewed 13 commercial and investment banks. In addition, I also spoke with 13 non-governmental organizations, companies in other sectors and international organizations in order to gain a diverse perspective of the issues at play. More than two-thirds of the survey respondents said they believed financial institutions are exposed to significant reputational risk if loans, investments or other products are provided to companies which have a detrimental impact on ecosystems (*e.g.* oil & gas, mining, construction, forestry) or which are dependent on ecosystems for its services (*e.g.* tourism, agriculture, forestry). Respondents also recognized liability risk, social licence to operate, credit risk, and reduced shareholder value, although these were valued to be less important at present than risks to a company's reputation.

Whilst it is difficult to systematically link biodiversity-related business risks to tangible financial metrics, such as market capitalization or credit risk, the report provides a number of case studies that demonstrate the growing importance of biodiversity conservation to the financial sector. In April 2004, for instance, the share price of Associated British Ports plummeted 10 per cent after the UK government rejected plans for a new container terminal in Dibden Bay near Southampton. One of the major factors behind the government's refusal was the potential impact of the terminal on local wildlife.

Studies by F&C Asset Management [2] and Oxera [3] conclude that biodiversity is not considered on a broad scale within the financial services sector. Despite this, a number of internationally operating commercial banks do consider biodiversity risks during the loan approval process or when selecting companies for investment. In February 2007, Rabobank established ten categories for environmental risk analysis, including environmental pollution and depletion of natural resources. Client relations managers, risk analysts and other bank employees have to assess company performance in all credit transactions, irrespective of the amount [4]. And Goldman Sachs recently adopted a biodiversity benchmark, which was developed by Fauna and Flora International and Insight Investment. It allows financial institutions to determine which extractive companies are doing a good job from a biodiversity perspective and which ones are not.

Although it is difficult to systematically link biodiversity-related business risks to tangible financial metrics, such as market capitalization or credit risk, the report provides a number of case studies that demonstrate the growing importance of biodiversity conservation to the financial sector

Considerations like this may become increasingly important to companies as more stringent biodiversity laws are passed. The recent EU Environmental Liability Directive came into force on April 30 this year and holds companies financially liable for damage, in particular, to flora and fauna, water resources and natural habitats. The potential financial implications are significant not only for companies using these resources, but also the banks and insurance companies that service them.

… and the opportunities

Fortunately, there is good news when it comes to recognizing the importance of biodiversity for the financial sector. In addition to the mounting risks associated with biodiversity destruction, there are growing biodiversity business opportunities for financial institutions:

• Banks and investors could tap into growing markets for sustainable biofuels, along with markets for ethically-certified commodities like fish, timber and organic food. Estimates suggest a potential market size of about US$ 60bn annually by 2010 [5].

• Financial institutions that have built capacity in-house can also provide due diligence and advisory services for their clients for biodiversity sensitive transactions and projects.

• Governments can also trigger investments in biodiversity-friendly projects. The Dutch government, for example, triggered demand by private investors to invest in green funds by providing fiscal advantages. Total capital invested in 2005 amounted to € 1.5bn, of which € 282m has been allocated to the project category "nature, forests and landscapes".

Moving ahead

There needs to be a big effort to make the financial sector more aware of biodiversity issues. One way to trigger interest and increased awareness of the economic relevance of biodiversity conservation is to conduct, as suggested by the G8 in March 2007, a Stern-like review on the costs of biodiversity loss and benefits of biodiversity protection, similar to the climate change study that was issued by Sir Nicolas Stern last year for the UK government.

However, in order to attract systematic attention by financial institutions it is necessary to link biodiversity business

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risks as much as possible to tangible financial metrics, such as default risk, shareholder value or a company's market capitalization.

It is also important to keep in mind that although the financial implications of the risk side are likely to be more financially significant, it remains nonetheless important to focus on the opportunity side as well. To this extent, non-governmental organizations and governments should take the lead together with financial institutions that understand the material value of biodiversity protection in undertaking pilot projects for newly developing markets, such as biofuels, biodiversity offsets, and markets for sustainably produced commodities.

[1] www.biodiversityeconomics.org/applications/library_documents/lib_document.rm?document_id=1092

[2] F&C, 2004. Is biodiversity a material risk for companies? An assessment of the exposure of FTSE sectors to biodiversity Risk. F&C Investments: London, UK

[3] Oxera, 2000. Accounting for the environment: an analysis of the quality of environmental reporting across the food and retail, oil and gas, utilities, and banking sectors. Oxera: Brussels, Belgium and Oxford, UK

[4] For SMEs, the minimum loan request needs to be € 1 million.

[5] Further highlighted in: Bishop, J., Kapila, S., Hicks, F. and Mitchell, P., 2006. Building Biodiversity Business: Report of a Scoping Study. Shell International Limited: London, UK and IUCN: Gland, Switzerland

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An investment holding for biodiversity

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KRISTINA JAHN *suggests a mechanism for helping institutional investors link up to environmental organizations and thus bring additional capital to conservation.*

Financing conservation projects with capital from institutional investors will gain importance in the coming years. The market for so called ethical – especially ecologically sustainable – investments has grown consistently over the last years. Through financial engagement of sustainability-orientated investors it would be possible to raise additional money for the financing of conservation. This is the key message of *Sustainable Investments for Conservation – The Business Case for Biodiversity*, a study conducted by the professional services firm PricewaterhouseCoopers (PwC) on behalf of WWF Germany and internationally launched in Brussels earlier this year under the patronage of the EU Commissioner for the Environment, Stavros Dimas [1].

Throughout, the study aimed at answering the following questions:

- What is the market situation and competitive environment for sustainable investments?
- How can projects that promote nature conservation be designed to be profitable and what are the main factors that must be fulfilled in order to achieve this?
- What are the political, legal and macro-economic opportunities and risks that need to be observed in connection with such foreign investments and what measures are needed to take account of them?
- How can a company which is supposed to preserve biological diversity be structured under company and tax law considerations?

These topics have gained even more momentum since the G8 environment ministers declared, with the March 2007 Potsdam Initiative on Biodiversity, that they would approach the financial sector in order to explore the need and the options of additional innovative mechanisms to finance the protection and sustainable use of biological diversity. More recently, the concept gained a lot of attention on the occasion of an international conference on “Financial instruments for conservation” organized by the German Federal Agency for Nature Conservation in cooperation with GTZ, DED and the KfW at the international academy for Nature Conservation at the Isle of Vilm from 29 July to 3 August, 2007 [2].

The dilemma of investment funds

The market volume of sustainable investment funds with an ecological, social or other ethical focus has risen more than seven-fold in the German speaking area since 2002 and currently amounts to around EUR 18bn [3]. A survey in 2005 showed that 90 percent of the interviewed fund managers planned to intensify their efforts in sustainable investments.

In order to ensure liquidity, investment funds have to acquire sufficient volume. Many of the existing biodiversity projects are simply too small to be considered by investment funds

However, despite this obvious demand for ‘ethical’ investments, many new environmental business opportunities (e.g. ecotourism or sustainable forest management) that contribute to biodiversity conservation still lack financing. Only very few investment funds make biodiversity or conservation issues a critical part of their operational mission. As a mass product, investment funds have to acquire sufficient volume. Many of the existing biodiversity projects are simply too small to be considered by investment funds. And as long as there are no clear and generally accepted minimum standards for sustainability funds, it remains difficult to assess the quality of such an investment.

The Sustainability Investment Holding as a solution

The study offers a solution to this dilemma: the concept of a Sustainability Investment Holding whereby environmental organisations would act as initiators of a holding that bundles economically profitable conservation projects and collects the necessary capital for their implementation. The holding itself does not execute the projects but leaves this to operational affiliates. The environmental organisation controls the holding’s and its affiliates’ compliance with ecological principles. Investors profit from the fact that an environmental organisation guarantees for the ecological sustainability of the company’s operations.

Conservation, ecological sustainability and a positive return on investment need not be mutually exclusive, as demonstrated by the three conservation projects in Brazil, Namibia and Costa Rica which were examined in depth in the report. It was found that, in the long run, the three eco-tourism and sustainable forest management projects were financially self-sufficient and could offer a positive return on investment.

Ultimately, the aim of the study is to inform potential investors and opinion makers about the opportunity of investing in nature conservation. We look forward to discussing potential next steps with the environmental community and the interested investors.

[1] The conference documentation as well as the study can be downloaded from www.pwc.com/sustainability (in English) or www.pwc.de/de/sustainable-investments (in German).

[2] www.bfn.de

[3] Sustainable Business Institute, 2007

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Building biodiversity business

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In a forthcoming report, **JOSHUA BISHOP**, **SACHIN KAPILA**, **FRANK HICKS**, **PAUL MITCHELL** *and* **FRANCIS VORHIES** *explore how to mobilize private investment in sustainable biodiversity businesses.*

Biodiversity conservation desperately needs additional resources, as well as more efficient allocation of existing budgets. Funding biodiversity conservation can be achieved in three ways, namely: (i) establishing legislation, norms and standards to discourage environmentally harmful activities; (ii) taxing private wealth or soliciting private charity for governments, NGOs and other non-profit groups to invest in conservation; and (iii) making biodiversity conservation a viable business proposition. In a report to be published later this year, we suggest ways of operationalizing the latter approach [1].

Working together

We believe that a new biodiversity business model is needed to deliver large and sustained financing even in the poorest countries. Securing the resources needed for global biodiversity conservation will take time and significant effort. The report — published by IUCN and Shell — argues that we will not succeed through business as usual. The challenge, in many ways, is to convince governments and international policy makers, conservation and civil society organisations, multilateral agencies, private and investment banks, private companies and individual consumers to work together.

We interviewed many of these actors and undertook an extensive literature review so as to better understand the landscape of 'biodiversity businesses' — that is, companies whose business models generate biodiversity benefits. We discovered that examples of biodiversity business can be found in a range of sectors, based on various different mechanisms and business models. We assessed what has worked (or not), described the main constraints and identified opportunities to expand market-based biodiversity conservation within a range of different sectors.

Achieving scale

Based on this, we believe that there are numerous pro-biodiversity business opportunities that can generate positive financial returns as well as real biodiversity benefits. The report highlights that:

• The most promising way to mobilise significant private investment in biodiversity is by making conservation a viable business proposition;

• The main reason to focus on biodiversity business is the enormous capacity of markets to drive change, as well as their potential to leverage new investment; and

• Experience suggests that market-based incentives, business tools and financing can be used effectively to align private and public interests in biodiversity conservation.

Many initiatives have been established over the years with impressive results — however none have achieved significant scale or leveraged substantial private investment. In order to address this, we propose an integrated approach to developing biodiversity business combining three distinct capacities or functions: policy advice, technical assistance and finance.

These three functions can be and, in some countries, are provided separately by different public agencies, not-for-profit institutions and commercial service providers. However, it is clear that the current level of support is not sufficient to stimulate significant private investment in biodiversity business. Hence, the report contends that it is both desirable and feasible to bring the different capacities together into an integrated Biodiversity Business Facility (BBF), which would aim to reinforce and accelerate existing efforts at a regional or even global scale. The main components of a BBF would include the following:

• *Think-Tank* — One of the main obstacles to biodiversity business is weak or missing enabling policy. A key task of a BBF would be to identify and promote opportunities to develop appropriate policy, legal and fiscal regimes for biodiversity business, as well as addressing issues such as trade barriers, biodiversity metrics and indicators, and the evaluation of technical assistance delivery mechanisms. Its efforts might also include advising policy makers at a strategic level (with appropriate safeguards to avoid conflicts of interest with any affiliated trading arm).

• *Business Advisory Service* — Many new businesses, especially in novel and emerging sectors, require assistance to develop to the point where they can sustain themselves or attract mainstream finance. As well as providing a range of tailored biodiversity business development services, the BBF could also conduct applied research on how to improve the effectiveness of such assistance. In addition, it could pilot promising business concepts to test their viability.

• *Funding Mechanism* — Access to capital is a critical factor for any business, including biodiversity enterprise. This component of a BBF would invest in or lend to businesses that demonstrate the potential to deliver both financial returns and biodiversity benefits. It would seek to attract co-investors from the public, philanthropic and commercial sectors, targeting especially those who are keen to see this market develop.

Developing the facility

So how can we develop the BBF? Two main options have been identified. The first is to develop the three components of a facility simultaneously — establish the BBF as a stand-alone institution, recruit expertise, identify potential investors, collaborators and potential projects accordingly. This would require a proper Feasibility Study on the concept of the BBF before any specific investments could be undertaken. Alternatively, it may be possible to accelerate the process by implementing a small number of biodiversity business pilots and nurture the BBF through these investments. This might include work on policy reform, finding co-investors to support specific investment ideas, and business, management or technical assistance.

With the report in the final stages of preparation for publication, IUCN, in cooperation with Shell and others, is now undertaking pre-feasibility work exploring both options by identifying scalable biodiversity business investment opportunities and potential investment partners. If we are serious about conserving biodiversity, a major market transformation is needed to make biodiversity conservation attractive to entrepreneurs and investors.

[1] The report will be made available at www.biodiversityeconomics.org

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Making green

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ANDREW BOVARNICK *reflects on some of the challenges to the development and financing of biodiversity businesses, particularly micro, small and medium size enterprises, in emerging markets.*

With growing consumer awareness about the origin of products and the concern over impending global environmental crisis there are increasing opportunities to make money – making lots of green as they say on the street – by being green. Yet, finding the financial backing for the development of biodiversity businesses in emerging economies is still a major challenge.

Biodiversity and a dual financial sector

The banking sector has been consolidated in many markets, resulting in fewer, but more solid banks. Competition is hard, leading to decreasing loan margins and increasing selectivity in lending operations. So for financing to flow to SMEs and rural micro-enterprises in emerging economies, biodiversity businesses need to be highly competitive.

The financial sector in many emerging economies may be characterized as a dual system consisting of: (i) commercial banking and other financial institutions catering to the large and medium-sized enterprise and consumer sectors, and; (ii) an emerging non-banking sector catering to the needs of micro-enterprises and community-based activities. A great majority of the small and medium businesses fall within a gap in loan sizes between the micro-financiers and commercial financiers. Furthermore, where there are microfinancial institutions they tend to focus on urban areas with highest concentrations of clients so that rural enterprises fall into a gap in geographic coverage.

Banks tend to rely heavily on collateral as part of their risk management and mitigation measures to the extent that the financial status of the client is considered as the primary concern for the lenders, rather than the intended use of the loans and the merits and cash flow of the proposed investments. The banks' credit officers are oriented toward analysing client risk and not project risk and often have not been trained in project-oriented and revenue-based lending, nor in project appraisal techniques. This is a problem for the majority of biodiversity based businesses that operate in agriculture, silviculture, aquaculture, small scale processing and artisan businesses, trading and services. These entrepreneurs typically possess neither sufficient fixed assets, nor financial assets, to provide the collateral presently required by the formal banking institutions, particularly for medium and long-term lending. Furthermore, many groups looking for financing for biodiversity businesses will be first time borrowers and hence face another disadvantage of not having personal connection to the bankers.

Non-banking institutions provide alternative sources of financing and often have vast sets of clients, particularly institutions catering to the grassroots level financing needs of individuals and micro-enterprises up to small enterprises. However, as the bulk of the lending takes place without fully bankable collateral (*e.g.* with group guarantees) and, because the average loan size is small, the interest rates charged by the institutions tend to be high in order to cover the larger transaction costs and risk exposure. Entrepreneurs involved in agriculture, cottage industry and related fields have difficulties in creating cash flow sufficient for loan servicing, and are thus excluded from this system.

Based on extensive work on biodiversity business development by UNDP's portfolio of GEF supported projects, I think we have identified a good understanding of the main challenges faced by the sector and lessons learned for future activities to better connect local biodiversity friendly producer groups and entrepreneurs with the financial sector.

Lessons and challenges

Financing as part of a package of technical assistance – The provision of financial services to biodiversity businesses should be structured as part of a package of technical assistance and development of green markets. Provision of finance by itself will still have limited impact across the micro and SME sector as there are several outstanding and significant barriers in terms of consumer demand and business capacity within micro-enterprises and SMEs. Prior to the provision of credit and also after loan approval many enterprises will need assistance to build their managerial capacity and their understanding and ability to adopt best practices within their business for biodiversity conservation. There is also work to be done at the national level to promote marketing campaigns to increase consumer demand and government introduced fiscal incentives for biodiversity friendly SMEs so they are more profitable and hence attractive clients to financial institutions.

New lending programmes and incentives – Financial institutions, whilst often reticent to lend to biodiversity businesses can be motivated through a variety of incentives (credit lines and partial risk guarantees) and support to look more closely at this sector. Additionally, real sustainability and scale up of credit provision will only occur once national banking sectors and rural financial institutions are on board and building their client base of biodiversity businesses. Therefore donor lending programmes should look more to work through the financial sector, not in parallel, *i.e.* with credit being delivered through banks and not through independent investment funds, so that local lending capacity is developed. Access to additional credit, particularly if supported by a partial risk guarantee, is proving, for some financial institutions, sufficient to get them interested and bring them to the table. This is particularly being seen with rural credit and saving cooperatives and national development banks, whom could be considered first generation FIs to provide credit to biodiversity businesses.

Defining what a biodiversity business is – When considering a lending programme for biodiversity businesses the first challenge is to define what is the intended biodiversity impact of such a programme and what defines a business as having a sufficient positive impact on biodiversity to qualify and be eligible for such a programme. So an important question to ask is what indicators will best define biodiversity impact – species types conserved, population numbers, ecosystem conditions, threat reductions, hectares of land not deforested, hectares of land under improved production systems? However, in thinking about impact three major complications arise. Firstly, it has to be accepted that an individual business, particularly an SME, will likely have limited biodiversity impact by itself but will contribute to a better environment and ecological state of the broader landscape. Secondly biodiversity indicators should only really be measured at a landscape level and not at the level of a small business operation because of the scale at which ecosystems function. So the third critical and complex question becomes how landscape level impacts can be attributed back to an individual enterprise, particularly in landscapes fraught with a variety of influencing factors. This leads to the need for indicators to focus more at practices of businesses at the site level than on impacts and to develop guidance on what practices should contribute to biodiversity conservation.

Sectoral best practice guidelines — As business practices vary enormously between sectors (*e.g.* tourism, fisheries, agroforestry commodities), developing guidelines on best practices at a sectoral level to define eligible businesses for a biodiversity lending programme, is then the next step. However, these best practice sectoral guidelines too are typically complicated to put into practice. If a guideline for coffee calls for on farm tree diversification, how much diversification and which species is sufficient to warrant the farm as biodiversity friendly? Whilst such questions are critical for biodiversity, if the guidelines are eventually to be used directly by FIs they will put credit officers off using them — they need fast and simple tools. So these need to be well balanced between straightforward and streamlined for the bankers, but also sufficiently detailed so that the practices are scientifically robust so real biodiversity impact actually happens. The applicability of the guidelines to businesses also raises an important question as to whom, in reality, will and should use the guidelines.

Investment clustering — Because biodiversity impact can only occur if land use is managed across a landscape and not just one business unit, it can also be useful for an investment strategy to identify areas and ecosystems in countries of operation where it will be most important to target for investment proposals. Whilst FIs will not target specific areas as they are demand driven, the complementary technical assistance can be focused on businesses in key geographic areas to build the number of viable biodiversity businesses across a landscape.

Outreach and investment identification — How to find potential BD SMEs for training, support and possible financing will be challenging and important. A well defined outreach programme with suitable partners who can help identify possible beneficiaries will be an important early step.

Cost effective biodiversity monitoring of loans — Monitoring biodiversity impact for individual loans would be costly and time intensive and would not be part of banking business practices. Just developing monitoring criteria is sufficiently challenging without then also having to go the field to measure change and impact at enterprise and landscape level. Biodiversity monitoring of a loan programme might be undertaken at the portfolio level, outside of the credit department by a bank's Corporate Social Responsibility team for reporting purposes to external stakeholders. It would be most likely carried out by a third party conservation specialist. And if the cost was borne by the CSR department and not the bank's business unit, then such monitoring would not be seen to be a burden on the cost of the loans.

Sharing roles and responsibilities on biodiversity lending between FIs, donors, NGOs and government — It is clear that there are many elements that are needed to bring a business opportunity to the stage of being bankable and an FI positively appraising and approving a loan. FIs cannot be expected to get involved in many of these elements and hence donors, NGOs and governments need to plan their involvement upstream of lending to support and subsidize the overall current costs of developing a biodiversity business and investment opportunity. The extent to which non commercial support is required will depend on the maturation of the sector, the country, the FI and the businesses with regard to profitability, case studies and environmental awareness. Particularly during this phase of piloting and development there may be a significant need for NGOs to play a role in service provision to FIs to assist them in assessing biodiversity eligibility (using the sectoral guidelines) as well as working with the businesses to get them ready for financing.

Landscape planning to complement market based investments — In addition to sharing responsibilities on development and monitoring of bankable projects, governments still will need to play a role to guide land use within any given landscape. Whilst the market and private investment capital are powerful forces to stimulate growth, where biodiversity and fragile ecosystems are concerned, growth needs to be managed to ensure even well intentioned businesses do not lead to the over exploitation of natural resources (for example the proliferation of ecolodges around a specific protected area cumulatively may have adverse impacts on the site). But it should not be the role of banks to determine cumulative environmental impacts and turn down investment opportunities: this should lie with the permitting departments of government based on sound land use planning.

Recommendations for COP-9

- Donors and national development banks interested in promoting increasing biodiversity in production landscapes through market transformation should develop biodiversity lending programmes channeled through national financial institutions.
- The CBD should develop guidance to assist biodiversity business lending, including guidance on impacts and best business practices at a sectoral level as well as case studies on viable biodiversity businesses.
- NGOs and financial institutions should work more closely together to build understanding of what is a biodiversity business and how its impacts can be assessed.
- Financial institutions can assist with the development of biodiversity businesses by building their in-house capacity. This requires an improved perception by credit officers on the investment opportunities within green markets and risks associated with more mainstream investments that can have negative environmental impacts.
- Financial institutions should be encouraged, within the context of corporate social responsibility, to monitor and report on their portofolio's positive impact on biodiversity and ecosystem services.
- Networking between FIs to share initial experiences would be valuable and could be supported by UNEP FI. This should also include reviewing the value of partial risk guarantees in cost-effectively bringing down risk for FIs for biodiversity business lending.

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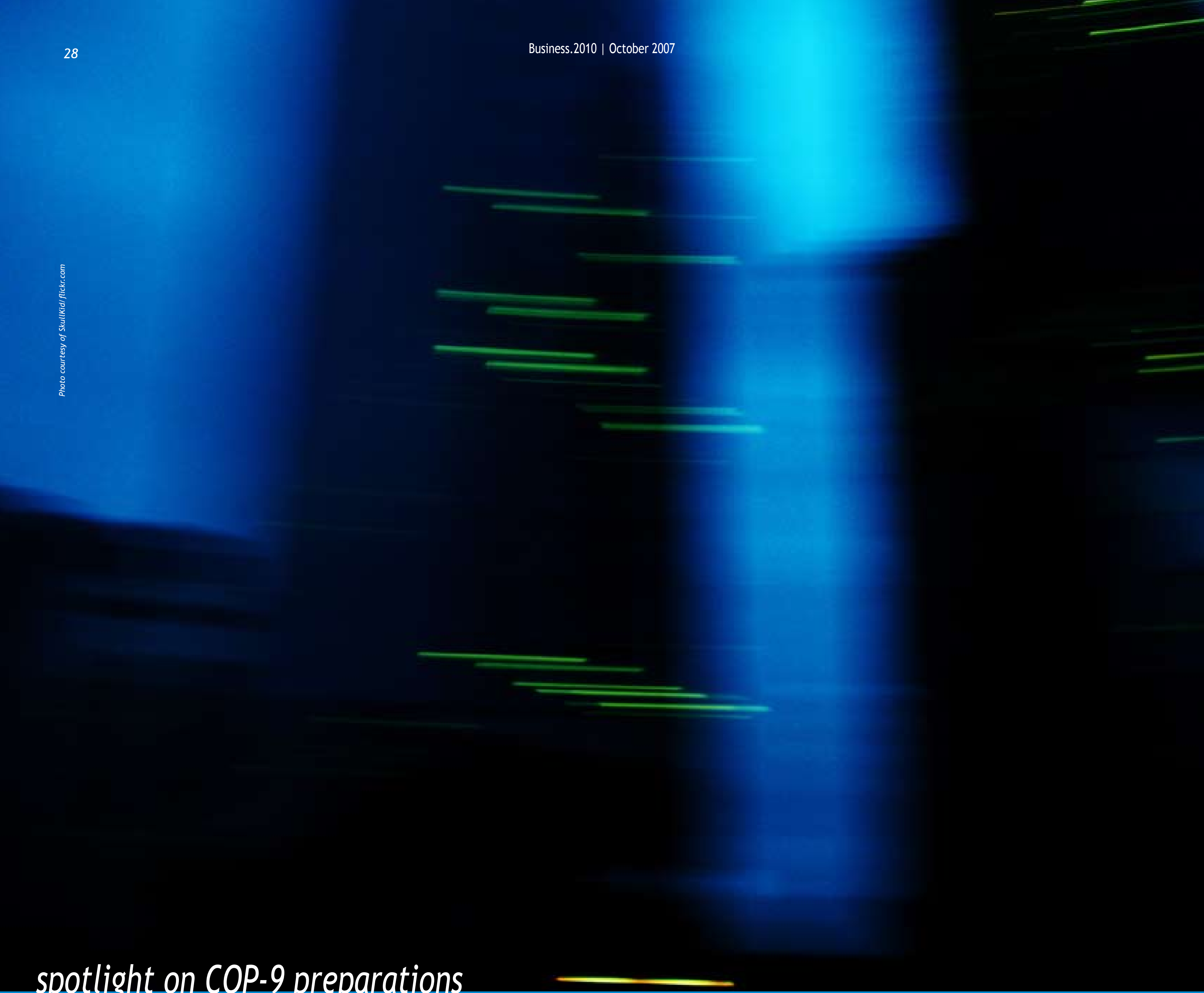

Photo courtesy of SkullKid/flickr.com

spotlight on COP-9 preparations

Questions on biodiversity and business at COP-9

In about six months' time, it will be the COP-9. Preparations from all countries are underway, but more on the host country, Germany. To shade light on the ongoing preparation, this column will provide a regular update from Germany on the plans with respect to business engagement. **JOCHEN FLASBARTH**, *Director General for Nature Conservation of Germany's Ministry for the Environment, Nature Conservation and Nuclear Safety, explains some of the thinking behind the biodiversity and business project for COP-9.*

1. Why is there a focus on biodiversity and business?

Biodiversity and business forms an important part of the preparations in the run-up to COP-9. This is partly in response to the CBD's decision on business engagement which was adopted at COP-8 in Curitiba (Brazil), the idea being reflected in a number of key documents such as the Potsdam Initiative (agreed in March 2007, under the German presidency of the G8) and the biodiversity agenda of the acting EU president, Portugal.

But our emphasis on this initiative is also based on our acknowledgement of the important role of the private sector in the conservation of biodiversity. We are rapidly loosing our biodiversity. And neither the environmentalists alone nor the governments alone can work at solving the problem. It needs a joint effort from all spectra, to work together to conserve and sustainably use our biodiversity.

2. How do you intend to engage the

business sector?

With the above in mind, and in order to coordinate efforts going into the COP-9, the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) launched a Biodiversity and Business (B+B) project and commissioned the German Agency for Technical Cooperation (GTZ), with its implementation.
This is a project set to initiate — with the view of a continued process — the active participation and commitment of the business sector in discussions and decisions with respect to the conservation of our biodiversity.

3. What are the objectives of this initiative?

The main objective of this project is to provide a platform for companies to progress on the alignment of corporate practice based on the three objectives of the Convention and through discussing, sharing of information and making them an integral part of the drive to the conservation and sustainable use of biodiversity.
For this goal to be reached, a step by step plan is required. It is important to include companies right from the beginning of the project. It is therefore essential at this stage for us to focus on raising awareness on biodiversity amongst companies through outreach and communication; engaging in dialogue with various business enterprisers to explain more about biodiversity and how to include biodiversity issues into management systems.

4. Is this initiative focusing on particular topics or sectors?

Yes. As a first step we are concentrating our energies on the forestry and tourism sector, as well as sectors with a particular interest in Access and Benefit-sharing issues and the Global Network of Protected areas. Our choice on these sectors was based on the fact that, as much as all sectors in one way or another will be affected by the loss of biodiversity, in these sectors, there seems to be a direct impact and great effects on the status of biological diversity.
However, our focus on certain sectors does not exclude the participation of others. In fact, companies in other sectors are strongly encouraged to participate as well!

5. Are there other activities planned to aid in the establishment of this project?

In spring 2008, we will be organizing a workshop on Biodiversity and Business in Germany which will convene companies, NGOs, experts and Government officials. You will note that we are planning to engage people from all sectors in this meeting; this is in order to be able to gain their counsel on various issues concerning this project, for a positive outcome. The outcomes of this meeting will be transmitted to the COP.
Secondly, we are compiling examples of best practices by companies, in line with biodiversity. On one hand, this would be as compliment to the company but on the other hand it is a way of sharing ideas, ways and methods to which companies can engage in biodiversity. These will also be presented at the COP.
Thirdly, and in order to help companies profile their commitment to biodiversity, we are currently envisaging the development of a biodiversity and business 'Leadership Declaration'. We are anticipating that this would be signed at the COP itself, possibly at the margins of the High Level Segment.

Content of the leadership declaration

The signing companies acknowledge and support the three objectives of the Convention. They also commit themselves to:

1. Analyze relevant activities of the company regarding their impacts on biological diversity.

2. Include the protection of biological diversity in their environmental management system and develop biodiversity indicators.

3. Appoint a responsible person within the company steering all activities in the biodiversity sector and reporting to the management board.

4. Define realistic and measurable objectives, which will be monitored and adjusted every 2 - 3 years.

5. Publish all activities and achievements in the biodiversity sector in the annual report or the CSR/environment report.

6. Inform suppliers about the objectives of conserving biodiversity and integrate them on a step to step basis.

7. Consider the cooperation with Scientific Institutions and Non Governmental Organizations (NGOs) in order to deepen the know how in the dialogue and to continuously improve the management system in the biodiversity sector.

6. What is planned in terms of business activities at the COP-9 itself and how can companies get involved?

In addition to the substantive discussions on business engagement at COP-8, a number of biodiversity and business activities are currently under development. Companies working on business and biodiversity are invited to hold booths. This will aid in showing an example to other companies as well as enabling companies to engage in the campaign on conservation and sustainable use of biological diversity [1].
As has been the practice in former COP meetings, participating governments as well as the private sector and any other institutions are encouraged to hold side events [2]. This also gives the companies a chance to actively participate in the whole COP-9 event.
All these and what has been achieved by the time the COP-9 takes place, will be discussed during the meeting on the issue of business and biodiversity, especially during the High Level Segment.
Most important is for companies to note that all these preparations is not just for the COP-9, but the beginning of what we view will continue and grow into a global business and biodiversity project.

7. How is this initiative related to the European Commission's business and biodiversity initiative?

Germany's project should be considered as an integral component of the European Business and Biodiversity Initiative.

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[1] Organizations interested in holding booths should contact the Deutsche Bundesstiftung Umwelt (DBU) which is responsible for coordinating overall exhibition space at the COP (Contact person: Carla Tusche, c.tusche@dbu.de).

[2] Please note that the side events will be coordinated by the Secretariat and delegates will be invited to register through the CBD website in due course (www.cbd.int).

Assessing biodiversity partnerships

Many partnerships between companies and environmental groups have developed over the years in an attempt to tackle forest and marine biodiversity. **INGRID VISSEREN-HAMAKERS** *studies their effectiveness.*

In earlier editions of this newsletter, several partnerships working on conserving biodiversity were introduced. As a researcher on partnerships for biodiversity, I would like to place these individual cases in a broader context. The cases are good examples of the fact that private initiatives, like partnerships, are becoming more common and are playing an increasingly prominent role in international biodiversity policy, a phenomenon often referred to as the transition from 'government to governance'. Partnership has become a buzzword in international sustainable development policy; working in partnership is trendy.

However, little is known about how successful partnerships really are. In my research, I try to answer this question of success: I look at the functions partnerships fulfill, how effective they are, and how they interact with policy at the national and international level. Specifically, I look at international intersectoral partnerships, strategic alliances between government, market and/or civil society representatives [1].

Forest biodiversity partnerships

Most of the (many) partnerships working on conserving forest biodiversity have developed certification schemes. Examples are the Forest Stewardship Council (FSC), the Canadian Standards Association (CSA), the Sustainable Forestry Initiative (SFI), the Programme for the Endorsement of Forest Certification Schemes (PEFC), and the Malaysian Timber Certification Council (MTCC). Others work on controlling conversion of forest to agricultural land, like the Roundtable on Sustainable Palm Oil (RSPO) and the Roundtable on Responsible Soy (RTST). A third group focuses on combating illegal logging, and finally some do not focus on a specific threat to forest biodiversity, but work on several threats in a specific forest region, like the Congo Basin Forest Partnership (CBFP).

In analyzing these forest partnerships, several trends become visible. Forest partnerships were among the first to develop certification schemes. They have contributed significantly to the development and implementation of forest policy by developing definitions of sustainable forest management and by certifying large areas of forest. This trend has had an enormous impact, not only on the international forest biodiversity debate, but also on international sustainable development policy in general. Sustainability certification has become a widely accepted instrument for many internationally traded products. In my opinion, however, this instrument is often used with too little consideration for the question whether certification is the most effective way to tackle the sustainability problem at hand.

There also seems to be a trend for partnerships to choose for less stringent and less inclusive approaches towards sustainability: partnerships often do not cover all relevant issues in sustainable forest management, and do not use very high demands on the issues that they do address. This means most certification schemes should in fact be seen as instruments for small improvements towards sustainability instead of a guarantee for sustainable forest management.

> *Little is known about how successful partnerships really are. I try to answer this question of success: I look at the functions partnerships fulfill, how effective they are, and how they interact with policy*

Marine biodiversity partnerships

A very different type of partnership are intersectoral North-South partnerships, in which governments, businesses and NGOs in a producing (often Southern) and a consuming (often Northern) country of a specific product try to solve the sustainability problems of this product in a bilateral partnership. I have studied a partnership between Indonesian, Malaysian and Dutch partners focused on shrimp aquaculture and a partnership between Dutch and Peruvian actors focused on Peruvian anchoveta fisheries. Anchoveta is mainly used to produce fish feed for the aquaculture industry. Through this research, I again discovered several trends.

It is often assumed that partnerships are an effective instrument for emancipating and strengthening civil society in the South. In practice, this effect is very difficult to realize. Existing relationships and power inequalities are so strongly institutionalized that they are extremely difficult to change.

Also, in order for organizations to be able to work together in partnership, a basic consensus among them on the strategies for sustainable development is necessary. In practice, this often means that only NGOs with more pragmatic strategies towards sustainability become partners; NGOs with more stringent views on sustainability often do not become involved in partnerships or leave due to perceived lack of progress. The shrimp partnership that I analyzed was a good example of this phenomenon. Most international NGOs believe that industrial shrimp aquaculture is, almost per definition, unsustainable and that large scale expansion of the industry should be avoided. A few large, more pragmatic, NGOs took the large scale development of industrial shrimp aquaculture as a given, and wanted to work together with the industry to become as sustainable a possible. Over time, the more stringent NGOs convinced several more pragmatic NGOs to withdraw from the partnership, and today the partnership continues with very limited NGO involvement.

Roles and effects of partnerships

Looking at the role of partnerships in

Photo courtesy of veloopity/flickr.com

international biodiversity policy in more general terms, several issues become apparent that have large consequences for using partnerships in practice.

One of the most important contributions of partnerships in practice has been filling the gaps when governments are not willing or able to regulate. In this sense partnerships should receive credit for most of the innovation and improvement in international biodiversity conservation policy.

It is also clear that partnerships alone can not conserve biodiversity. Partnerships are more successful when supportive government policy, both at the international and national level, is in place.

A major question on the role of partnerships is really whether partnerships can help solve more fundamental sustainability problems. Because the essence of partnerships is involving all relevant actors and sectors of society, often some partners have a stake in maintaining unsustainable practices. Partnerships seem to be more valuable as an instrument for making existing trends more sustainable than for breaking unsustainable trends.

Also, the fact that often only the more pragmatic NGOs are involved in partnerships could, combined with the current popularity of the partnership instrument, have large consequences for the extent to which more fundamental sustainability problems receive the attention of the international sustainable development community. It seems the power of the more stringent NGOs, which usually focus on more structural sustainability problems, is declining, not only because the traditional NGO methods of 'naming and shaming' is increasingly considered old-fashioned, but also because most of the governments and/or businesses to be 'named and shamed' are involved in partnerships with more pragmatic NGOs. This could also have fundamental consequences for the unity of the NGO community in the long run.

Don't get me wrong, both incremental improvement and fundamental change are needed in sustainable development. However, given the current popularity of the partnership instrument, we may unintentionally be focusing too much of our efforts on incremental change. For all actors, no matter whether they represent government, business or civil society, a strategic choice whether or not to partner given the nature of the sustainability problem at hand is advisable. Maybe some sustainability problems, especially those requiring more fundamental change, could be better solved using less voluntary measures.

Ingrid Visseren-Hamakers is researcher, Utrecht-Nijmegen Programme on Partnerships (UNPOP), Copernicus Institute for Sustainable Development and Innovation, Utrecht University.

[1] For further reading see the publications section, page 35.

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Photo courtesy of Patricia Tellier/flickr.com

The formula for ethical capitalism

After a journey down an agribusiness supply chain, **W. RICHARD "DICK" MONROE** *finally comes to terms with the concept of sustainability .*

It's not without a certain degree of irony that I'm now seeing colleagues dropping the words "sustainable" and "sustainability" like business cards at industry conventions and sprinkling them liberally throughout discussions on national and international public policy dealing with commercial fisheries, aquaculture and other industries reliant upon nature's resources from energy to agribusiness.

Coming from a corporate background steeped in all the jargon of yearly earnings, market share, and consumer loyalty, they were a bit alien better than a decade ago when I was immersed with my colleagues at Darden casting about for stable sources for lobster, crab, shrimp and other ingredients that made our family of restaurant household names and kept their tables filled with satisfied diners.

Darden is a major player in global trade. In Asia, the Americas, the Caribbean, and throughout the Pacific Rim, representatives from Darden are afforded treatment traditionally reserved for visiting government dignitaries. Such is the power of the dollar and Darden had hundreds of millions of dollars for its purchasing endeavors.

Given the growing pressure from environmental groups on capture fisheries — wild-caught shrimp, tuna, Chilean sea bass, swordfish and others — and farmed seafood — shrimp, salmon, *etc.* — during the '90s I became very aware that if Darden was to continue its growth we would have to find product sources that were… well, sustainable

It wasn't until I began a trans-global trek to virtually every point on the compass where Darden purchased seafood that the full concept of "sustainability" sank in

Purchasing from communities

Then the term meant little more than a "stable" source. It wasn't until I began a trans-global trek to virtually every point on the compass where Darden purchased seafood that the full concept of "sustainability" sank in. We were not just purchasing lobster or shrimp from vendors. We were purchasing from communities. We were having a direct affect on the lives of hundreds of thousands of people who, in turn, were either treating the environment well or treating it poorly in procuring the items we sought.

My first concern, predictable in any well-trained business professional, was for the bottom-line effect of controversy associated with Darden suppliers. The first fish, shrimp or lobster traced back to practices that degraded the environment or the people fishing or farming each would translate into headlines of "U.S. Corporate Giant Ravages Paradise in Pursuit of Profit."

My guide on this journey was a consultant affiliated with a unique breed of NGO, the International Foundation for the Conservation of Natural Resources (IFCNR). IFCNR believes deeply in the premise of the intrinsic good "ethical" global traders can do in conserving nature's fauna and flora, and in particular her human resources. The concept of "sustainability" was literally fleshed out far beyond my initial understanding of the term. IFCNR does not believe that conservation and protection of nature and global trade are hostile entities. Quite the contrary, IFCNR sees global trade as essential to sustainability and the preservation of the planet's biodiversity.

Governments, churches and non-profits can't do the job. They don't have the funds necessary to eliminate poverty, protect natural resources, enhance quality of life, and nurture conservation. That's where ethical business steps in.

Setting standards

No matter where we went my guide put a human face on the individuals who caught or raised the seafood and the importance of their being paid well and provided stable jobs. He pointed out whether the local villages continued to languish in poverty or benefited economically from the Darden dollars spent in the area. He also brought home the importance of closely examining the environmental footprint left by each vendor. Did they crush the rain forest or empty the sea, or did they leave the land and sea in better shape than they found it?

Farmed shrimp were no longer a commodity. I came to see aquaculture, whether for shrimp or salmon or any other species, as a process that either destroyed mangrove stands or ocean ecosystems and enriched the owners or one that was compatible with and beneficial to environmental preservation and human resource development. Were workers and their families well paid, well fed, educated and provided health care? I came to understand that the ethical global trader can and must set standards. For example, Darden refused to purchase seafood from vendors who were not kind to the environment or who perpetuated social injustice among their workers.

In an age of instant global communications, word of rogue corporations who condone slash and burn environmental tactics and who exploit workers is fast brought to consumer attention. Fast profits from unethical behavior are alluring but just as quickly they disappear. Economic sustainability demands ethical behavior. Consumers and environmental activists alike shun products and pressure governments to close market doors to those who refuse to adhere to the basics of sound environmental and social justice practices.

Global trade based on ethical capitalism and put into practice by ethical traders can truly contribute to protecting the Earth, helping to eliminate poverty, promoting biodiversity, and helping nations to cooperate and live in mutual harmony by means of their ethical trade relationships. It was Darden's hallmark during my tenure there. It's the basis for Sea Ark LLC — which demonstrates that by applying the principles of ethical capitalism a global corporation can partner with emerging nations to develop world class aquaculture and capture fisheries that preserve national sovereignty, produce exceptionally high quality, marketable products, create economic prosperity, incorporate the principles of environmental conservation throughout the process while generating a reasonable rate of return to investors.

It's a formula, not theory, being spread by IFCNR.

W. Richard Monroe is Founding Director, Darden Environmental Trust and Governor, the International Foundation for the Conservation of Natural Resources (IFCNR).

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News in brief

This section provides an update on various business and biodiversity initiatives. Please send your contributions to the editor.

MEAS

As the number of treaties and COPs increase with every passing year, so do the number of decisions. It becomes increasingly difficult to track who decided what, and when, especially since decision documents are in different formats across multiple treaty secretariat websites. In an effort to respond to this need, the NASA-funded Socioeconomic Data and Applications Center (SEDAC) has produced a COP Decision Search Tool as an add-on to its Environmental Treaties and Resource Indicators (ENTRI) project. The search tool is powered by a Google appliance, and includes controlled metadata so that advanced searches by date, COP number, or title of document can be performed. All decision documents are harvested and converted to PDF for consistency, but for reference purposes, the original URL is listed. The tool currently includes decision documents from the first to the most recent COPs for: Basel Convention, CBD, CITES, CMS, UNFCCC, Kyoto Protocol, Montreal Protocol, Ramsar Convention, UNCCD, and Vienna Convention.

http://sedac.ciesin.columbia.edu/gsametasearch/cop_start.jsp

BIOFUELS

The next issue of the *CDM Investment Newsletter*, will focus on biofuels and the Clean Development Mechanism. The publishers are inviting submission of views and articles. Latest deadline for articles is 26 October.

Contact Peter Pembleton, Managing Editor, for more information (newsletter@climatebusiness.net).

www.climatebusiness.net

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Update on the Roundtable on Sustainable Biofuels: The first round of commenting on the draft principles and criteria of sustainable biofuels production was completed in late September. The Roundtable's Steering Board met on 20 September to discuss recommendations for changes to the principles. A second version is to be published in October, for a final round of stakeholder comments. Draft criteria and indicators are expected for May 2008.

Contact Sébastien Haye (sebastien.Haye@epfl.ch). for more information.

http://cgse.epfl.ch/page65660.html
www.bioenergywiki.net/index.php/Main_Page

MINING

Alcoa Aluminio S.A., Alcoa Foundation and Conservation International (CI-Brasil) launched a conservation programme between the Tapajós and Madeira Rivers, in the West of Pará State and the East of Amazonas State, Brazil. The BRL 2m programme is to collaborate on the implementation of conservation units in the region and is the extension of an Alcoa, CI-Brasil collaboration begun in 2004.

Contact Katrin Olson, Manager, Corporate Communications, Centre for Environmental Leadership in Business, Conservation International (k.olson@conservation.org) for more information .

COMINGS AND GOINGS

MIKKEL F. KALLESOE was appointed Programme Manager, Ecosystems Focus Area, World Business Council for Sustainable Development (WBCSD), effective 6 November. Mikkel has been seconded from the World Conservation Union (IUCN) where he was Coordinator, IUCN Asia Regional Environmental Economics Programme. WBCSD's work on ecosystems was recently elevated as one of four 'focus areas' — see *Business.2010*, 2 (2). Since 2004, WBCSD and IUCN have an MoU to work collectively on business and biodiversity issues and the secondment will help strengthen this collaboration.

www.wbcsd.org

the library

Publications

Please send information on new titles and upcoming events to the editor.

AGRIBUSINESS

Environmental Justice Foundation and Pesticide Action Network UK, August 2007. The Deadly Chemicals in Cotton. *www.ejfoundation.org/pdf/the_deadly_chemicals_in_cotton.pdf*

Organisation for Economic Co-operation and Development (OECD) and the Food and Agriculture Organization of the United Nations (FAO), August 2007. OECD-FAO Agricultural Outlook 2007-2016. *http://www.oecd.org/dataoecd/6/10/38893266.pdf*

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PricewaterhouseCoopers (PwC), February 2007. Sustainable investments for conservation — The business case for biodiversity. *www.pwc.com/extweb/pwcpublications.nsf/docid/4FE9CE9D78BFBE21852572890054ECC0*

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R. Doornbosch and R. Steenblik, September 2007. Biofuels: is the cure worse than the disease? Organisation for Economic Co-operation and Development (OECD), Round Table on Sustainable Development. *www.oecd.org/dataoecd/9/3/39411732.pdf*

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the calendar

Upcoming events

23-26 October, San Francisco, USA. Designing a sustainable future, *www.bsr.org/BSRConferences/2007/index.cfm* ●● 24-25 October, Melbourne, Australia. UNEP FI 2007 Global Roundtable, *www.unepfi.org/events/2007/roundtable/* ●● 26-27 October, Granby, Canada. 32e Congrès annuel, Association des biologistes du Quebec. Tourisme, Nature, Biologie. Le biologiste, collaborateur essentiel au développement durable de l'industrie touristique, *www.abq.qc.ca/congres.htm* ●● 29 October - 2 November, Trondheim, Norway. The fifth Trondheim Conference on Biodiversity, *www.trondheimconference.org* ●● **5-7 November**, Cape Town, South Africa. Biofuels-markets Africa, *www.greenpowerconferences.com/biofuelsmarkets/Biofuelsafrica_capetown07.html* ●● 12-13 November, Lisbon, Portugal, Business and Biodiversity Conference, *www.countdown2010.org/business* ●● 14-17 November, Shanghai, China. Challenge Bibendum 2007, *www.challengebibendum.com* ●● 14-15 November Phoenix, USA. Land Development Breakthroughs — Best Practices Conference, *http://ldbreakthroughs.com/_cms* ●● **25-29 February 2008**, Panama City, Panama. Climate change and biodiversity in the Americas, *www.climatechangeandbiodiversity.ca* ●● **5-14 October**, Barcelona, Spain. 4th IUCN World Conservation Congress, *www.iucn.org/congress*.

CBD MEETINGS

22 - 26 October 2007, Montreal, Canada. Fourth meeting of the Ad Hoc Open-ended Working Group of Legal and Technical Experts on Liability and Redress in the context of the Protocol ●● **21 - 25 January 2008**, Geneva, Switzerland. Sixth meeting of the Open-ended Working Group on Access and Benefit-sharing (ABSWG-6). ●● **11-15 February**, Rome, Italy. Second meeting of the Ad Hoc Open-ended Working Group on Protected Areas (WGPA-2) ●● 18-22 February, Rome, Italy Thirteenth meeting of the Subsidiary Body on Scientific, Technical and Technological Advice (SBSTTA-13) ●● **12-16 May**, Bonn, Germany. Fourth meeting of the Conference of the Parties serving as the Meeting of the Parties to the Cartagena Protocol on Biosafety (COP/MOP-4) ●● 19-30 May, Bonn, Germany. Ninth meeting of the Conference of the Parties to the Convention on Biological Diversity (COP-9).

Details of all CBD meetings are available at: www.cbd.int/meetings.

Last words

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programmes and partners with leading players in environmental management.

What tools do you think are needed to further help the financial services sector integrate biodiversity into day-to-day decision making?

Financial institutions are becoming responsive to environmental issues. These are becoming an integral part to their day to day decision making process. Through the PESTEL business analysis (Political, Economic, Social, Technology, Environment and Legal), Equity Bank's strategic plan involves integrating biodiversity into its daily operation. The environmental component is critical to the success of the bank's operations. As part of its Corporate Social Responsibility (CSR), the Bank in tends to match its targeted customer base of 2 million by planting 2 million trees later in the year during the rainy season. In addition, the bank's insurance arm will roll out a climate insurance policy which will provide cover to farmers from potential loss of their crop and livestock from drought. The product will be the first of its kind in this market.

Could you explain the bank's involvement in the celebrations of the International Biodiversity Day?

Equity Bank's active participation in the International Biodiversity Day, held on 22nd May, and organized in Nairobi by UNEP was informed by its desire to see a future where environmental concern takes a centre stage. The involvement of the youth hems in with the bank's endeavour to provide opportunities to the youth to participate in the decision making process in the community. During the International Bio Diversity Day, Equity participated as a major sponsor of the event by sponsoring branded T-shirts that carried a message on bio diversity, and which were worn by the participants of the celebrations. Participation sensitized community on the need for protecting biodiversity.

The bank is actively involved in supporting the agriculture sector through educating farmers on best farming methods to ensure maximum yields while at the same time taking preventive measures against soil erosion. As a strong local brand, Equity would like to provide leadership in conserving biodiversity. My appointment to serve in the UNEP advisory board on commercialization of Micro finance in Africa will allow me to share my experiences and also be part of the team that will come up with strategies on how microfinance institutions can upscale their role in fighting biodiversity loss in Africa.

www.equitybank.co.ke

Call for contributions

Subsequent issues of the Business.2010 newsletter will focus on: Access and benefit-sharing (deadline for submissions 1 November); Agribusiness (deadline 1 December). A general issue will be published prior to COP-9 (deadline 1 March 2008).The Secretariat also welcomes contribution focusing, more generally, on business and biodiversity and the implementation of Decision VIII/17. For additional information, contact:

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Comments and suggestions for future columns are welcome and should be addressed to the editor.

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