Biodiversity & the Financial Sector
International Conference on Business & Biodiversity, Bonn
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UNEP Finance Initiative

• 15 years of partnership between the United Nations & global financial service companies.

• **Objective:** embed best sustainability practice in financial institutions worldwide and change the way capital markets account for environmental, social & governance (ESG) issues.

• Over 175 banks, insurers, asset managers, and pension funds make up the global UNEP FI family.
## Some of UNEP FI’s Activities

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The Business Case

It is no longer a case of conserving charismatic endangered species—although these in themselves can confer significant economic and reputational value. Rather, it is becoming an issue of global policy that the benefits provided by biodiversity are valued and accounted for within traditional business risk frameworks.

The finance sector can play a significant role in incentivising this based on arguments of investment risk and return and business opportunity.

Recommendations

Actions for the Financial Sector as a Whole
- Clarify and make consistent lending and investment requirements.
- Clearly define and articulate the financial risks and opportunities associated with biodiversity and ecosystem services (BES).

Actions for Individual Institutions
- Review portfolio and business lines for current and future exposure to BES risks.
- Consider needs for policy guidance to inform the institution’s investment and lending practices.
- Consider need for specific guidance and decision-making tools and training needs for relationship managers and transaction.
- Consider benefits of partnerships with civil society.
- Consider how best to maintain leverage in transactions.
- Report on biodiversity initiatives and impacts in sustainability and related reports.

Actions for Governments and Policy Makers
- Recognise urgency of action to address BES issues and make requirements explicit in planning and economic development policies, and financial regulations.
- Work with financial sector to ensure that policies reflect practice.
- Support research on economic and financial impact of BES loss and development of enabling mechanisms that create markets for ecosystem services.
- Integrate BES assessment explicitly in public policy development.
The Business Case...
What’s the Deal for Financial Institutions?

damage to brand & image
new markets
reduced availability of inputs
new products
increase in input costs
environmental brokerage
regulatory constraints
due diligence & advisory services
shareholder activism
1st mover advantage
THE NEW ECO-WARRIORS

Can markets succeed where tree-huggers failed? Geraldine Lambe reports

Materiality 1

The Materiality of Social, Environmental and Corporate Governance Issues to Equity Pricing

Materiality 2

Fiduciary Duty

A legal framework for the integration of environmental, social and governance issues into institutional investment

Show Me The Money: Linking Environmental, Social and Governance Issues to Company Value
Changing Markets

- 322 institutional investors from 30 countries and representing USD 13 trillion in assets have committed to integrate ESG into all investment policy-making and investment decision-making.

- 53 of the world’s largest banks controlling 85% plus of global project finance have committed to the Equator Principles.

- By 2011, the high net-worth community will control USD 51 trillion in assets up from USD 22 trillion in 2002. Significant increase in demand for sustainability, climate change and clean energy investments.
"I applaud the leadership of the institutions that have committed themselves to this undertaking, and urge other investors around the world to join this historic effort."

......Ban Ki-Moon, UN SG, commenting on the Principles for Responsible Investment, July 07
An overview

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With thanks to the Dutch Ministry of Housing, Spatial Planning and the Environment
The Initiative in Brief

- A collaboration between UNEP Finance Initiative, international NGO Fauna & Flora International, Brazilian business school FGV and supported by the UN PRI

- To create a toolkit for evaluating biodiversity and ecosystem services investment risk and opportunity

- Through this to build a leadership group within the finance sector which pilots and support this toolkit (F&C Asset Management, Insight Investment, Pax World, Banco Real, VicSuper)
Objectives

- Build expertise in the finance sector for evaluating risk and opportunities associated with this issue

- Build awareness of the food, beverage and tobacco sector’s dependence on biodiversity and ecosystem services

- Stimulate improved performance in the food, beverage and tobacco sectors

“A further 10-20% of grassland and forest are projected to be converted to agriculture between 2000 and 2050.”

Millennium Ecosystem Assessment
The Process

1. Agree draft methodology with pilot institutions
2. Initiate engagement with companies in the FBT sector (defined by our pilot investment holdings)
3. Seek stakeholder input into methodology and finalise
4. Desk based research into each company against toolkit research framework
5. Direct engagement with companies being evaluated
6. Review and consolidation of results
1. Reporting and refinement of tool
Methodology Overview

Structure

Three levels of supply chain
- Primary producers and commodity processors
- Manufacturers and retailers
- Farm level performance

Series of targeted questions based on established risk management practice
- Governance
- Policy and strategy
- Management and implementation
- Reporting
- Competitive advantage
Key Outputs

- **Company specific analysis of strengths and weaknesses:** A concise summary of results provided to investors and FBT companies showing strengths and weaknesses of their approach to biodiversity and ecosystem services risk and dependencies and identifying three key areas for improvement.

- **Consolidated report:** outlining key findings from the analysis and ranking those companies benchmarked to show leading and lagging practice.

- **Business case document:** document outlining the business case for managing biodiversity and ecosystem services dependencies and impacts.

- **Biodiversity and ecosystem services dependency and impact assessment toolkit:** promoted to investors for uptake and repeat analysis.
Getting Involved - Investors

• Review methodology and feedback, helping shape a relevant and credible tool for biodiversity and ecosystem investment risk analysis (April)

• Lend institutional weight to the initiative by endorsing our letter to the companies that we will evaluate, signalling the investment communities concern about this issue (April)

• Act as pilots, testing the methodology on your own investments and using it to inform your engagement process (May-October)

• Review the results of our analysis and the final methodology, engaging in dialogue with the NVI to determine how best to address this issue in your analysis (Q4 2008 and Q1 2009)
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