



IBAT briefing note

# Screening for biodiversity risk in the finance sector



CONSERVATION INTERNATIONAL



UN environment programme

WCMC

Victoria Falls  
UNESCO World Heritage Site  
World Database on Protected Areas  
World Database of Key Biodiversity Areas



Plitvice Lakes National Park  
UNESCO World Heritage Site  
World Database on Protected Areas

## Introduction

Biodiversity<sup>1</sup> is the fundamental infrastructure supporting life on earth, but is rapidly diminishing. Declines are occurring at rates unprecedented in human history, with an estimated 1 million species at risk of extinction due to human activity<sup>2</sup>.

The World Economic Forum continues to list biodiversity loss as one of the top 5 global risks in terms of impact and likelihood<sup>3</sup>. The private sector – including the finance sector – is increasingly expected to incorporate biodiversity protection into decision-making and to evolve

business models, which protect and restore ecosystems and the services they provide. This expectation will continue to grow as the connection between systemic biodiversity loss and climate change becomes more apparent to society, with ecosystem deterioration reducing both the ability to store carbon and lowering the planet’s resilience to climate change impacts like flooding. In addition to managing biodiversity-related risk, opportunities linked to nature-based conservation finance also means the finance sector has a prominent role to play in protecting nature and ecosystem services.

## Biodiversity risk for the financial services sector will continue to grow

Biodiversity conservation has risen rapidly up the environmental and political agenda. Whilst not conclusive, some evidence suggests that the loss of habitat and illegal wildlife trade could lead to an increase in animal-borne diseases, raising important questions of biodiversity loss and the future resilience of interconnected supply chains in the global economy. There is growing emphasis on the role of the private sector in reducing nature loss, with some organisations calling for a “Paris Climate Agreement equivalent” with a new globally binding biodiversity agreement to halt the decline of biodiversity. Transformational change will be required across business to address ongoing declines alongside reporting and tracking mechanisms to assess change.



Torres del Paine  
World Database on Protected Areas  
World Database of Key Biodiversity Areas

<sup>1</sup> In this context, biodiversity is considered as is the diversity of life on earth formally defined by the Convention on Biological Diversity as “the variability among living organisms from all sources including terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems”

<sup>2</sup> UN Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, 2019

<sup>3</sup> World Economic Forum, Global Risks Report 2020, 2020

## The expectations on the private sector - including financial services - to protect biodiversity are likely to increase

- As we enter a new decade, the **Conference of the Parties for the Convention on Biological Diversity** will set new ambitious global biodiversity targets. Private sector involvement will be crucial in developing solutions to help meet these new targets and there will likely be a push to mainstream biodiversity considerations across the business and finance sectors.
- The **EU Sustainable Finance Taxonomy**<sup>4</sup> includes “the protection and restoration of biodiversity and ecosystems” and will be critical for integrating sustainability considerations into the capital markets and reorienting capital flows towards sustainable growth. Under the proposed taxonomy regulation, for an activity to be classified as “sustainable” it must “do no significant harm” to several environmental objectives including “protection of healthy ecosystems”.
- Investor signatories to the 2019 **UN Principles for Responsible Banking** (comprising 130 banks representing more than USD 147 trillion in assets) will continue to implement their commitments to set targets and report publicly on their progress to meet the Sustainable Development Goals (several of which are directly and indirectly related to biodiversity) and the Paris Climate goals.
- The **OECD Due Diligence for Responsible Corporate Lending and Securities Underwriting**<sup>5</sup> guides banks on their due diligence processes beyond asset-specific finance to better understand and manage their social and environmental - including climate and biodiversity - impacts of their corporate lending and underwriting portfolios. This guidance introduces the importance of using the appropriate tools to gather information and perform a meaningful due diligence.
- The 2019 **Equator Principles 4** (adopted by 101 financial institutions in 38 countries) is underpinned by the recently updated IFC Performance Standard 6 Guidance Note on Biodiversity Conservation and reflects specific conservation requirements for financial institutions for certain areas with high biodiversity value. Equator Principles 4 also encourages banks’ clients to share their data and contribute to global data sets for biodiversity using the Global Biodiversity Information Facility.
- The UK government’s independent global review on the **Economics of Biodiversity (“The Dasgupta Review”)**<sup>6</sup> is expected to shape the economic and finance policy response to biodiversity loss.
- A new **Task Force on Nature related Financial Disclosures** will be launched in 2021 to explore how best to integrate nature-related financial considerations into risk analysis and decision-making by financial institutions.

## How can financial institutions be affected by biodiversity risk?

Biodiversity can be impacted by client operations, which need access to, or convert, areas of biodiversity value in a range of industrial sectors, such as agriculture, extractives, forestry, consumer goods and infrastructure.

The provision of financial services to clients whose operations degrade - or may be viewed to degrade - areas of high biodiversity value can lead to both reputational and credit risk for banks and investors. This includes both direct impacts (which arise as a direct result of a project’s

footprint) and indirect impacts (which are often beyond the project’s boundaries and can be harder to predict). Significant delays, imposed on projects that breach laws, or need to implement complex mitigation measures, can be avoided through effective early project screening. The reputational risk is particularly acute where client activity corresponds with a high profile UNESCO World Heritage Site or Protected Area, or involves “iconic species” or critical habitats for endangered species or species used by indigenous peoples for subsistence. Such cases can result in high profile “follow the money” activist campaigns targeting investors, which can be time consuming to manage, and result in long-term reputational damage.

<sup>4</sup> The taxonomy will provide investors, pension funds and private equity firms with “a common definition of what is green and what is not in order to channel more capital into sustainable businesses and prevent green-washing.

<sup>5</sup> <https://www.oecd.org/corporate/due-diligence-for-responsible-corporate-lending-and-securities-underwriting.htm>

<sup>6</sup> <https://www.gov.uk/government/collections/the-economics-of-biodiversity-the-dasgupta-review>

## Screening for biodiversity risk

Financial institutions need to better understand whether their clients operate in, or plan to operate in, areas of high biodiversity value. Whilst numerous biodiversity designations exist, during the diligence screening process, some of the key (although not exhaustive) indicators of high biodiversity value may include:

- **Nationally or regionally designated Protected Areas.**
- **Internationally Recognized Sensitive Areas:**
  - UNESCO Natural World Heritage Sites.
  - UNESCO Man and the Biosphere Reserves.
  - Key Biodiversity Areas.
  - Wetlands designated under the Convention on Wetlands of International Importance (the Ramsar Convention).
- **The habitat of:**
  - Threatened species (in the Critically Endangered, Endangered and Vulnerable categories in the IUCN Red List of Threatened Species)
  - Endemic or range-restricted species.
  - Migratory and/or congregatory species.
  - Highly-threatened and/or unique ecosystems.
  - Climate threatened species and ecosystems.
  - Key evolutionary processes.
  - Species of stakeholder concern.

During the diligence and investment decision process, the [Integrated Biodiversity Assessment Tool \(IBAT\)](#) provides a rapid, easy and desk-based solution to help identify whether client operations may impact areas of high biodiversity value. This global database is comprised of the most up-to-date and authoritative scientific datasets, enabling risk managers to better understand how transactions and their clients' activity may affect critical biodiversity and provide a trigger for enhanced diligence. IBAT is not designed to assess company impact or dependence on ecosystem services, though it will flag critical biodiversity, which is likely to underpin ecosystem services, and should be factored into diligence processes.

Whilst the IBAT tool is not designed to prescribe mitigation measures (or define an acceptable level of risk), it will support the identification of potential conflicts with biodiversity at a given site, and through interpretation of these results, financiers can make more informed decisions about how to avoid biodiversity loss.

Given the interrelationship between people and nature (particularly indigenous peoples), development in areas of high biodiversity value can potentially result in communities being adversely affected and lead to social conflict, hence raising not only the ecological impacts of a development but also the materiality of the reputational risk of a transaction. IBAT does not pre-empt community dependency on biodiversity or ecosystem services but rather identifies important species and ecosystem features to consider during a transaction.

## Integrated Biodiversity Assessment Tool (IBAT)



IBAT report output screening against Protected Areas within 50km of a project.

[IBAT](#) is a web-based map and reporting tool that provides fast, easy and integrated access to three of the world's most authoritative global biodiversity datasets: The IUCN Red List of Threatened Species, the Database on Protected Areas, and the World Database of Key Biodiversity Areas.



IBAT can also help users understand the "range rarity" (rarity-weighted species richness) of certain locations, which considers the number of species present at a given location and the relative importance of that location for the species, in terms of the proportion of its global range that it represents.



Arches National Park  
World Database on Protected Areas

## Considerations for transactions involving higher risk biodiversity locations

The appropriate corporate management of biodiversity impact is a complex topic and - depending on the transaction and/or life cycle of the asset in question - can be even more challenging for investors to manage. Where a client's current or planned operations correspond with an area of high biodiversity value, you may wish to consider the following diligence topics<sup>7</sup> to better understand your client's commitment and capacity to manage biodiversity effectively:

- Has an Environmental Impact Assessment (EIA) been conducted, which included [appropriate biodiversity baseline surveys](#) undertaken across seasons and with appropriate scope?
- Has the client applied the [mitigation hierarchy](#) (i.e. avoid, minimise, restore and potentially offset biodiversity impacts)?
- Could the project or asset (directly or indirectly) adversely impact Endangered or Critically Endangered species, indigenous communities and/or legally protected and/or internationally recognised areas for the persistence of biodiversity?
- Is there a Biodiversity Action Plan or Biodiversity Management Plan in place, which details a set of actions that will lead to biodiversity enhancement?
- Has the EIA included a Critical Habitat assessment?
- Within the client's organisational structure, is there appropriate knowledge and capacity (both at corporate and site level) to effectively implement biodiversity management arrangements?
- Did relevant subject matter experts or organizations participate in the identification and mitigation of biodiversity impacts?
- Will unavoidable impacts to biodiversity affect local communities or indigenous peoples, and if so, is there a management plan in place to address these?
- Has the project/ asset or client been the subject of civil society/ NGO opposition and if so, how have these concerns been addressed?



Keoladeo National Park  
World Database on Protected Areas  
World Database of Key Biodiversity Areas

<sup>7</sup> Note this is not intended to be a comprehensive check list of diligence questions, nor is it intended to be a check list for transactions which fall under the Equator Principles and trigger the application of IFC Performance Standard 6 on Biodiversity and Sustainable Management of Living Natural Resources. Application of PS6 is highly site-specific, depending on the species, ecosystems, quality of baseline data and existing biodiversity management. Fulfilling the requirements of PS6 is a significant undertaking, hence alignment is best initiated at the very start of project planning, and integrated with the development of an environmental impact assessment.

## Further references

[A Cross Sector Guide for Implementing the Mitigation Hierarchy \(Cross Sector Biodiversity Initiative, 2015\)](#)

[Biodiversity A-Z \(UNEP WCMC\)](#)

[Biodiversity Screening, Industry Briefing Note of The Biodiversity Consultancy \(TBC, 2017\)](#)

[How to make biodiversity surveys relevant to your project, Industry Briefing Note of The Biodiversity Consultancy \(TBC, 2018\)](#)

[Performance Standard 6 Biodiversity Conservation and Sustainable Management of Living Natural Resources – Guidance Note \(IFC, 2019\)](#)

[Performance Standard 6 Biodiversity Conservation and Sustainable Management of Living Natural Resources \(IFC, 2012\)](#)

[IBAT](#) provides a variety of reports that help understand biodiversity risk at a selected site.

The screenshot displays the IBAT 'Create Report' interface. On the left, there are sections for 'Select Report Type' (with options: Proximity, World Bank Group, IFC, Custom), 'Select Project' (with a text input field), and 'Select Buffers' (with a dropdown menu showing '40km, 50km, 80km'). A 'Create' button is visible at the bottom of the form. On the right, a preview of the 'WORLD BANK GROUP BIODIVERSITY RISK SCREEN' report is shown. The report title is 'Integrated Biodiversity Assessment Tool' and 'WORLD BANK GROUP BIODIVERSITY RISK SCREEN'. It includes a date 'Report generated on 07/02/2019 by Eugenia Regan under the license number 959-602 held by TBC at www.tbc-alliance.org'. The report content shows a table of overlaps with various biodiversity features:

Overlap with:	Count
World Bank Group	3
Key Biodiversity Areas	3
World Bank List	23
Critical Habitat	Liberty

Below the table is a map of Sierra Leone with a circular buffer around a point. The report footer includes logos for BirdLife International, Conservation International, IUCN, UN Environment Programme, and WCMC, along with the text 'Report Page 1 of 28'.

IBAT PS6 and ESS6 Report suitable for screening against IFC and World Bank standards



The world's most authoritative biodiversity data for your world-shaping decisions

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