IBAT briefing note

Screening for biodiversity risk in the finance sector
Introduction

Biodiversity 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.

The World Economic Forum continues to list biodiversity loss as one of the top 5 global risks in terms of impact and likelihood. 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.

¹ 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”

² UN Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, 2019

³ World Economic Forum, Global Risks Report 2020, 2020
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.

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* 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.
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 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.
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 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?

*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 (IFC, 2012)