

## EU Business@Biodiversity Platform / Finance@Biodiversity Community and the Finance for Biodiversity Pledge

### 'Biodiversity measurement approaches for the financial sector: A Guide & comparison on practical applications'

#### Webinar 1 April: Q&A

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#### Part 1: Overview of 6 different measurement approaches - Anita de Horde (Finance for Biodiversity Pledge) & Johan Lammerant (Business@Biodiversity Platform / WS Methods)

- a. What is important, is that **geospatial data** can be **coupled to ownership** (i.e. the company an institution is invested in). For example, to know not only WHERE deforestation takes place, but also WHO is responsible. Can all these methods do that?

**Answer:** We are not aware of tools that can link geospatial data with ownership or responsibility (Johan Lammerant)

- b. Where can I find the reports that you spoke about during the webinar?

**Answer:** Please find the weblinks below:

- Report series "Assessment of Biodiversity Measurement Approaches for Businesses and Financial Institutions" by the EU Business@Biodiversity Platform: [Update Report 3](#) (2021), [Update Report 2](#) (2019), [Update Report 1](#) (2018)
- [Guide on biodiversity measurement approaches](#) (2021) by the Finance for Biodiversity Pledge and EU Finance@Biodiversity Community

- c. What data will be generated/provided directly by the financial institutions and what information is required from 3rd parties? And who would be responsible for the **validity** of the information? Is there going to be an external/independent entity auditing 3rd party data that is going to be used for evaluation?

**Answer:** At this moment, FIs heavily rely on data provided by ESG data providers, who on their turn try to collect data on company biodiversity performance as well as they can. It is generally acknowledged that the quality of these data is fairly low, due to several reasons. The main reason is that solid data on biodiversity performance for individual companies are largely lacking due to the fact that companies are not interested to measure their biodiversity footprint, the complexity of measurement methods, etc. Fortunately, this is changing now, albeit still too slowly. But still, neither FIs nor third parties are able to provide all the necessary data on biodiversity. However, the information which is available can already provide interesting insights allowing FIs to take decisions, e.g. in terms of engagement with companies in their portfolio. Your questions on auditing and external verification are very valid but due to a complete lack of any standard in the field of biodiversity measurement and data quality, this is hard to operationalize. The EU-funded ALIGN project aims to deliver a standardized approach on biodiversity measurement by end of 2023. The Science Based Targets Network for Nature is also establishing a set of 'rules' for being compliant with a 'science-based targets for nature' approach. These initiatives and others will help building such globally accepted standards. (Johan Lammerant)

- d. The combined use of **EO-Space** based data and telemetry can help work out metrics, the open-data strategy of Copernicus and data monitored by state agencies helps get access to the data. Who would be responsible for providing that information to the financial sector and what level of scrutiny is required to be considered valid?

**Answer:** The support can come from integrators knowing how to fuse data and environmental consultants knowing the strength and weakness of data. (through the chat)



- e. Is there already a tool available for **'construction companies'**?

**Answer:** The majority of available biodiversity measurement tools for businesses is not sector specific; these are generic tools that in principle can be applied to any sector; there are however a number of tools specifically addressing the agrifood sector and the financial sector; construction companies – as any other type of company – can apply the Biodiversity Measurement Navigation Wheel for Businesses v 1.0 (see [Update Report 3](#)) to select a tool or a smart combination of tools that fits the specific needs of the company. Contact [johan.lammerant@arcadis.com](mailto:johan.lammerant@arcadis.com) for further information. (Johan Lammerant)

- f. (How) are these frameworks **linked to the existing approaches** rating agencies (ESG-focused and classic) take with regard to assessing biodiversity risk? Are these frameworks actively used as input to the aforementioned?

**Answer:** The existing approaches applied by ESG rating agencies until now are suffering from a lack of solid information on the biodiversity performance of a company – which is due to a complete absence of useful information in this field; this information gap is now gradually filled up by innovative approaches by e.g. Iceberg Data Lab and CDC Biodiversité who are creating data bases with more accurate biodiversity performance data on individual companies (based on biodiversity measurement tools making use of GLOBIO, and with biodiversity performance expressed in MSA (Mean Species Abundance). By end of 2023, the [ALIGN project](#) will develop a standardised approach for biodiversity measurement which will also inform the way biodiversity performance should be measured (Johan Lammerant)

- g. How will the **EU Taxonomy and Sustainable investments regulation** interact with the assessment tools just presented? thank you

**Answer:** Biodiversity criteria (still to be developed) will be part of the Taxonomy. This process needs to start up. Again, with the ALIGN project (see previous Q), we hope to provide direction. (Johan Lammerant)

- h. Seems that ALL tools require **external expertise**. Does this mean we need to hire people with science biology background to make sense of these tools?

Not only to make sense of the tools but also of the data, and to validate them, especially in a science-based approach.

**Answer:** Application and correct interpretation of the tools and their outcomes, and of the underpinning data sources, will indeed require additional expertise (Johan Lammerant)

- i. As portfolio manager I would like to know e.g. **how much of my portfolio faces biodiversity-risks** and what amount is at risk. Is there one tool going in this direction? Thanks. David

You should look at the methodology of [Indebted to nature / DNB](#)

**Answer:** As mentioned in the response above, the report 'Indebted to nature / DNB' gives you a pretty good insight in the level of risks related to specific sectors, while the [ENCORE tool](#) makes the link with geospatial data. (Johan Lammerant)

#### Remarks through the chat

CISL has recently published a [risk framework](#) that helps FIs understand and assess portfolio dependencies on nature loss, co-created with our Investment Leaders Group and Banking Environment Initiative. Happy to discuss with anyone who is interested in this topic. [lucy.auden@cisl.cam.ac.uk](mailto:lucy.auden@cisl.cam.ac.uk)

With regards to physical and systemic biodiversity risk you need to have a tool that measures the **double materiality**, i.e. impacts and dependencies. TNFD and the guidelines issued by the [EBA](#) speak of double materiality



## Part 2. Practitioner perspective on biodiversity measurement - Rado Georgiev (ING Bank) & Jean-Guillaume Peladan (Sycomore AM)

- j. When excluding sectors (e.g. coal mining), do you **also exclude metallurgical coal**? Or even Scope 2 and 3 related coal mining investments (e.g. regions that have no 100% non-thermal coal energy available)?

**Answer:** We have a near-zero thermal coal exposure target. We aim to have no material exposure by 2025. See [this news item](#) (Radoslav Georgiev)

Wow, does that mean you will move out of steel, automotive, construction? Or what technical alternative do you have in mind to support having alternative steel sourcing by 2025? Or should your exclusion statement differentiate between thermal and metallurgical coal?

**Answer:** Metallurgical coal is out of scope of our thermal coal exit strategy (Radoslav Georgiev)

- k. Are there any **equity funds** being built using any of these approaches?

**Answer:** In a pilot, we're looking into a biodiversity footprint benchmark based on the MSCI World, with the help of a consultant (Radoslav Georgiev)

- l. Thank you Rado. In the case of a diversified group (different sectors), what tool would you recommend? (if a general tool to measure biodiversity exists).

**Answer:** You should try to identify the most significant product area or business unit for the diversified company. The easiest way to do that is to look up the company's GICS industry code. You may also use a comparable industry classification system (NACE, NAICS, ISIN, etc). For example, Bayer AG is quite diversified - it produces medicines, seeds, agro-chemicals, etc. However, the company is listed in the Healthcare sector.

Another way to identify the most significant product area is to use a financial materiality approach – which business unit contributes the most to consolidated revenues? Or you can use environmental and social materiality – which business unit has the most significant potential E&S impacts? Once you've identified the priority business unit, you can select a tool appropriate for that sector. (Radoslav Georgiev)

- m. Do you **exclude projects located in protected areas** (in addition to Unesco and Ramsar)?

**Answer:** We exclude project and asset-based finance impacting HCV and HCS forests, UNESCO World Heritage sites, Ramsar wetlands, IUCN I and II areas and apply enhanced DD in other areas (e.g. IUCN III, IV) (Radoslav Georgiev)

- n. What should be the **interaction between financial institutions and companies** measuring the same impact?

**Answer:** Financial institutions and ESG data providers can only measure company biodiversity performance based on publicly available data, often by means of modelling. It might be in the interest of the company to produce more refined data, based on more precise measurements of its real biodiversity performance and to inform investors about it. (Johan Lammerant)

- o. How do you think an institution should **get started**? Is there something a FI should do (to get a head start and action soon) until it has systematically implemented one or more of the methods?

**Answer:** See question i with reference to DNB and ENCORE which are very useful screening tools that will provide a good first insight. Then, select one or more appropriate measurement tools based on the launched [Guide](#) and the underpinning [Update Report 3](#) of the EU B@B Platform. And become a member of the [Finance for Biodiversity Pledge](#) (Foundation) and the [EU B@B Platform](#). (Johan Lammerant)

### Remarks through the chat

There is a cost associated with IBAT and some of the other data providers and the costs are probably too high for SMEs and mid-caps.

Felipe Ramirez: The assessment can also be developed similar to IBAT using a robust GIS



With regards to **monetization of biodiversity risk** for the financial sector as was mentioned earlier in the presentation, the Ecosystem Service Valuation Database (ESVD) is a tool that aims to include spatial/locally-specific data in this monetization.

### Part 3: The way forward and closing remarks - Jessica Smith (UNEP FI)

p. Does that imply that all EU finance and banking, asset managers will also adhere to these ESG frameworks and principles for investments / finance **within EU as well as outside of EU** (example- US, Asia, Latin America)?

**Answer:** So far, the application of biodiversity measurement approaches by FI is purely voluntary. There is no regulatory obligation. Other drivers however (e.g. the need for more transparency on investment decisions and stricter requirements on disclosure of non-financial performance) are expected to speed up the process. (Johan Lammerant)

**Answer:** Some jurisdictions have regulatory requirements for application of safeguarding standards that involve biodiversity measurement, for example Taiwan requires the application of the Equator Principles and IFC PS 6 in project finance and related transactions. We expect that as an 'inevitable policy response' to nature loss, TNFD-type reporting will become mandatory as for example TCFD-type reporting is gaining traction for climate risk. Also to note some of the climate risk responses are relevant to biodiversity such as related to de/afforestation. PRI provides a useful resource: [What is the Inevitable Policy Response?](#) (Jessica Smith)

q. A question about risk assessment: What about taking into account the **difference between public finance institutions** assessing (planetary boundaries defined) risk in the public interest **versus** same by **private sector** actors for its business - current and future - ?

**Answer:** There are different levels of emphasis in risk identification, management, mitigation and disclosure. In theory a development finance institution for example should have safeguarding approach to avoid harm in the public interest e.g. the IFC Performance Standard 6 for biodiversity. Private finance institutions may be concerned only with financial risk created by environmental risks (the Equator principles approach building on IFC PS; quantifying e.g. potential for stranded assets, legal costs, costs of delay to projects) or it might also have a concern with the "double materiality" of the external impact on nature as well as relevant financial risk. This is the approach captured in the draft TNFD scope. I increasingly prefer the term "dynamic materiality" which captures the fact that impacts eventually turn into financial risks, to keep the topic relevant for private financial actors and central banks concerned about stability of economies. WEF popularized this term which suggests that what is financially immaterial to a company or industry today can become material tomorrow. A few links that may be of interest:

[Embracing the New of Materiality](#). WEF, 2020

[Double and Dynamic: Understanding the Changing Perspectives on Materiality](#). SASB, 2020

[Increasing water risks threaten to strand substantial assets of Indian banks](#). WWF India, 2019 (Jessica Smith)

#### Remark through the chat

Most biodiversity in the global south, OK. However, do not forget soil biodiversity, which is located equally in the North and might be much more "actionable" for the average FI.

**Response:** The soil biodiversity index shows highest levels of diversity around the tropics in the global South (PNAS, [Soil biodiversity and soil community composition determine ecosystem multifunctionality](#)) similar to the distribution of overall diversity. However, as I mentioned, there are so many competing ways to measure and value biodiversity and ecosystem services including sites of designated importance and through a sustainable development lens. I really like the pluralistic approach recently put forth by several of the lead authors of the Millennium Ecosystem Assessment. (Jessica Smith)

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