

**Protecting shareholder and natural value:
“The role of the financial sector in the protection of biodiversity”**

COP8, CBD, Curitiba, Tuesday, 21 March 2006, 18:15

Notes of the proceedings

Opening by session chair

Isaura Frondizi, Brazilian Foundation for sustainable development

Mrs. Frondizi welcomed the participants to the UNEP-FI, Insight Investment and Fauna & Flora International side event, which was sponsored by Deutsche Bank. The event launches a benchmark of biodiversity performance within 36 companies in the extractive industry. It was sponsored by Insight Investment and Dutch ethical investment NGO VBDO. Mrs. Frondizi noted that the financial sector have adopted a more progressive approach to sustainable development over the last 10 years and interest in biodiversity and finance issues is now significant. This is new not only to the financial sector, but also to the industry, with different sectors trying to incorporate biodiversity into their day-to-day activities. Barriers such as uncertainties and lack of knowledge on biodiversity hamper these efforts.

Mrs. Frondizi stressed the need for partnership among companies, NGOs and investors as the only way to take effective actions in terms of biodiversity. She indicated that the benchmark report titled *Protecting Shareholder and Natural Value* touches on issues fundamental to our well-being and economic activities and that the maintenance of biodiversity is essential to protect business value, ourselves and natural resources as a whole.

Finance and biodiversity

Christopher Wells, ABN-Amro

Chris Wells outlined the view of a financial institution on biodiversity. He identified biodiversity as part of the overall environmental risk universe and discussed how biodiversity links to risk and opportunities.

Environmental risk

Mr. Wells posed the question: *What is an externality?*

Whether clean or dirty, people don't pay more for walking on the banks of a clean river, nor do they pay more to breathe clean air. In fact, in Sao Paulo one pays more for filthy air! The current financial system does not factor in payment for such externalities as climate change or access to clean beaches. The same applies to the loss of biodiversity when we cut a forest.

Mr. Wells highlighted that this is beginning to change. Companies located along rivers have to install sufficient equipment to treat effluents. There is a cost to using such equipment and that is priced into products and we pay. Cars have increasingly efficient equipment to treat waste, such as catalytic converters which are also factored into product price. It is no longer free to emit GHG in some countries. The same is true for

biodiversity: in some countries there is legislation to set aside forest reserves as part of agri-business or mining.

These costs will rise. ABNAmro wishes to know which of their clients control those costs best. There are a number of risk drivers linked to biodiversity and environmental issues generally within the financial markets:

- Credit risk: companies in Brazil have gone out of business because of environmental fines.
- Collateral: the bank may value land at say 100 when it may only be worth 20 or minus 300 due to environmental problems.
- Reputational risk.
- Shareholder risk – shares may go down because of environmental problems.

ABN-Amro's investment policies

ABN-Amro has global policies out of our Amsterdam HQ. Their forestry policy tells them not to finance the cutting of native forest or projects on land where forest was cut in the last 5 years. In the case of Brazil, because of this policy, they have had to withdraw investment from 16 companies so far. 16 SME logging companies mostly in Amazon. In order to finance a company that works with native lumber, it must have an eco seal – mostly FSC so far – or must show credible evidence that certification is on the way. ABN-Amro is the only bank in Brazil that does this. Some clients that were refused simply went to other banks. Biodiversity is also an element of their mining and oil & gas policies.

Equator Principles

ABN-Amro are coauthors of the Equator Principles which is a commitment by 41 banks - including ABN-Amro and Deutsche Bank - that any new project that cost over US\$50m must follow the World Bank guidelines on environmental and social issues. Biodiversity is one of the elements of this commitment.

Opportunity side

Specifically in the case of Brazil - moving from the risk to the opportunity side – ABN-Amro gives loans using their Brazil-based funding in the local currency (Reales) and loans from an IFC US\$ 98m facility, specifically geared at general environmental improvements. This can include environmental equipment or it could be FSC certification. Several clients have benefited from financing to expand more, export more, etc. They also have in Brazil a US\$ 5m line with GEF which offers financial terms that are more advantageous than with regular loans, however, the company must prove the project for which it wants financing promotes biodiversity or works towards mitigation of climate change.

Internal care

ABN Amro in the Netherland has made commitments to use only FSC-certified wood. In Brazil, the bank is working with suppliers to get them to certify their chain of custody with FSC.

Local action

In the state of Paraná, the bank has had a partnership since 2004 with the local NGO SPVS to promote the adoption of Araucaria trees in the state as less than 1% of the original area of araucaria species remains.

Biodiversity benchmarking of extractive and utility companies

Kerry ten Kate, Insight Investment

Annelisa Grigg, Fauna & Flora International

What is the biodiversity benchmark?

Kerry ten Kate explained that Insight Investment is an asset management company in the City of London, with some GB£ 88bn under management. Insight engages with the companies in which these funds are invested on behalf of the pension fund and other institutional and retail customers. They map governance, social, environmental and ethical issues that might represent business risk and opportunity against the sectors and stocks in their holdings, to determine upon which issues it is important to engage. One of the challenges for asset managers is to determine which issues are priorities and exactly what should be expected of companies in terms of standards of performance. For instance, the CBD is a treaty between governments. It does not spell out exactly what to expect from companies. Insight Investment has found that benchmarks such as this one on biodiversity offer a useful, objective and consistent basis for engagement with companies. They undertook the exercise with Annelisa Grigg and Jack Foxall of Fauna & Flora International, the international conservation organization which has as one of its core aims to work with the private sector, and levers for change of the private sector such as finance institutions, to help them avoid and minimize their impacts on biodiversity.

What is the biodiversity benchmark?

Based on business risks and opportunities, it is a framework describing best practice in the management of biodiversity by companies. It includes 34 standard and 7 leadership aspects of management, with criteria for different scores on each aspect. The companies can therefore be marked on the quality of “cradle-to-grave” management of biodiversity. This allows for the comparison of companies’ risk management and performance.

What does the benchmark do?

- It provides an objective, consistent basis for examining the comparative risk exposure and management of companies on biodiversity.
- Helps answer the question: “how does the CBD translate into specific responsibilities for companies?”
- Reveals specific strengths and weaknesses of companies on biodiversity.
- Allows mainstream investors to consider biodiversity in their investment decisions.
- Offers companies peer comparison, a framework and specific suggestions for continual improvement on management of biodiversity.
- Transparency and public visibility of results offers companies incentive for further improvement.
- Provides detailed information to civil society on companies’ performance.

How does the benchmarking exercise take place?

Information from publicly available corporate literature is matched against benchmark criteria for initial results. Initial results are sent to each company for correction and addition of supplementary information which is not in the public domain. Discussions and meetings with individual companies make for any necessary clarification. The benchmark results are then finalised.

Aside from the publication of a general report, specific results are sent to each company together with “engagement” letter requesting changes in governance, policy/strategy, management and disclosure, as appropriate with regard to their respective results in the different sections of the benchmark.

Elements of the biodiversity benchmark

- Governance structures
- Policy and strategy
- Management and implementation
- Assurance and reporting
- Leadership

Annelisa Grigg described the results of the second benchmarking exercise.

How do companies perform?

Encouraging changes from 2004 to 2005

Average scores in each sector show an overall trend of improvement from 2004 to 2005

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|---------------------|-----|-----|
| ▪ Mining and metals | 48% | 56% |
| ▪ Oil and gas | 46% | 51% |
| ▪ Utilities | 62% | 66% |

She explained that some companies more than doubled their performance (Cairn Energy, Xstrata, Venture, Soco & Tullow). An ongoing dialogue has been established and key engagement points are beginning to be addressed. A number of companies are actively tracking and participating in initiatives to address emerging issues such as offsets or landscape level planning. Yet, areas of significant weakness remain including risk evaluation, policy and strategy, assurance and reporting.

Results of the 2005 benchmark and key progress

In the mining and minerals sector, scores are highest in stakeholder engagement, Environmental and Social Impact Assessments (ESIAs) and training, but weak in corporate risk management, strategy, site level Biodiversity Action Plans (BAPs), reporting, and assurance. The largest score increases from 2004 to 2005 within this sector are in stakeholder engagement, policy and internal auditing. Best practice examples include Rio Tinto’s strategy, Anglo American’s auditing processes, and Lafarge’s toolkit.

The main strengths within the oil & gas sector are in the assignment of responsibility for biodiversity risk management, ESIA and training, while the lowest scores were observed in the commitments regarding sensitive sites, strategy, site level BAPs, reporting and assurance. Here, the largest score increases from 2004 to 2005 are in risk management, policy & strategy and training. Best practice examples are the site selection training at Shell, BG's strategic risk review, and ENI's participation in the European Biodiversity Initiative.

In the utilities sector, the integration of biodiversity into business processes, KPIs, partnerships, ESIA and policy are the highest scoring areas, whereas commitments regarding sensitive sites, strategy, site level BAPs and assurance were the lowest. The largest score increase from 2004 to 2005 is in BAP development. Best practice cases are Kelda's policy and United Utilities' risk management procedure.

Recommendations

The report sets out series of minimum and best practice recommendations for biodiversity management. As a minimum, companies should report outcome of biodiversity risk evaluation, policy commitments and site level management activities. Companies are encouraged to pay particular attention to the following:

- Making clear policy and strategy commitments
- Undergoing robust risk assessment processes and creating linked biodiversity management activities
- Development of biodiversity performance indicators
- Addressing gaps in assurance processes
- Participating in effective integrated land use planning

Limitations of the benchmark

- So far, only designed for direct footprint impacts, not supply chain impacts.
- Relies largely on corporate information (e.g. existence of policies and management tools on biodiversity) and companies' statement on how these management tools are applied, although it does require some evidence to back up assertions.
- Doesn't provide detailed, technical "how-to" information, but points companies to examples of best practice.
- Human and financial resources required to do the analysis and communicate with companies.

Vision for the future

It is hoped that the benchmarking approach will undergo wider uptake by the financial services sector, through platforms such as the UNEP Finance Initiative, a global partnership between UNEP and over 160 financial institutions whose mission is to promote the linkages between financial performance and sustainable development. Collaboration with NGOs and business schools should aim at promoting consistency of approach and enhancing data quality. The same approach could be applied to other sectors where biodiversity is deemed material to business. Also, the benchmarking framework could expand to include supply-chains.

Early feedback on the benchmark

For small and large companies, the benchmark serves as a logical framework in both the development and audit of their biodiversity management processes. It is also a means of securing senior attention on biodiversity as it builds the internal business case to dealing with this issue. However, it is a resource intensive process.

Panel comments

Arthur Eijs, Ministry of the Environment, Netherlands

Roy Hathaway, Department for Environment, Food, and Rural Affairs, United Kingdom

Andrew Parsons, International Council for Mining and Metals

Deric Quaile, Shell / IUCN

Marcio Macedo Costa, BNDES, Brazil

José Pedro de Oliveira Costa, Atlantic Forest Biosphere Reserve, Brazil

Rachel Biderman, Getulio Vargas Foundation, Sustainability Studies Centre, Brazil

Arthur Eijs, Ministry of the Environment, Netherlands

Dr Eijs expressed the Dutch Government's support for the benchmark initiative, stating that it is an excellent example of both a tool and incentive for private sector to develop a strategy on biodiversity conservation and sustainable use. It provides a format or framework for companies to develop a strategy and acts as an incentive for private companies to develop policies on biodiversity. Expansion to supply-chain sectors would be useful.

Roy Hathaway, Department for Environment, Food, and Rural Affairs, United Kingdom

The UK Government welcomes the benchmark report. It carries a foreword by UK Minister Jim Knight. There is growing evidence that it can help influence behaviour as it deals with real commercial risk, which companies need to take account of. The process is symptomatic of engagement of finance and business sector with biodiversity and the CBD process. Dialogue need to deepen on both sides, moving to a position where business is seen as part of the solution, a way to get to the 2010 target. An example of the ways to try and improve this dialogue and partnership is the business and biodiversity 2010 challenge meetings, run by UK government, Brazilian government, IUCN, Insight Investment and CEBDS and involving business and government leaders.

Andrew Parsons, International Council for Mining and Metals

ICMM sees benchmarking and this exercise as a useful tool for managers and for society as it helps to differentiate the leaders from the laggards. It is gratifying that in the mining and metals sector, all 4 companies in the leading group are ICMM members and newest member Lonmin is in the next group. This helps ICMM substantiate that their companies are leadership companies. However, it is a general relative score of how companies are doing rather than an absolute measure of who is first, second, third, fourth. The benchmark is on what companies SAY they do, rather than what they actually DO do, the emphasis is on the talk rather than the walk. The way to improve would be to measure actual performance on the ground.

Deric Quaile, Shell / IUCN

Shell has been involved in both years of the benchmark and found it a useful exercise as it has raised awareness within Shell. The fact that it comes from a major institutional

shareholder of Shell gives it weight and credibility, and now FFI too adds even greater credibility to the process. From a Shell perspective, it helped focus on publicly available information and the issue of lack of communication of all initiatives Shell is actually doing. Shell has improved from 2004 to 2005 as a result of focusing on their areas of weakness. They noticed from 2004 results that their management tools were not so strong and that they needed to do more work on Biodiversity Action Plans. As a result, they are putting more emphasis on that and expect results by the end of 2006 and many more BAPs by the end of 2007. Reporting and assurance is another area of focus. The leadership section is helpful in the 2005 edition of the benchmark. There are some real examples of how this tool has been able to help Shell improve. However it is a process-oriented exercise, and attention to the outcomes is needed. Otherwise it may mislead in that the real management in the field is not being properly recognized. Weighting the different categories of the benchmark would also be useful and combining it with auditing/certification to verify the implementation on the ground, perhaps using NGOs as auditors. Expanding the benchmark to other sectors, such as the forestry sector, would be useful.

Marcio Macedo Costa, BNDES, Brazil

This tool can be useful for biodiversity and also for energy efficiency, pollution, fisheries sector, etc. It can also be adapted to other sectors. The tool is interesting because the banks depend on reporting by the companies if they are to consider factors beyond the simple legal compliance of their client businesses. In Brazil BNDES can only contract or approve an operation if it has an environmental license/permit. However, BNDES now seeks to go beyond this. The benchmark helps industries and banks conduct analysis of policies, management and monitoring aspects. Mr. Costa noted some very positive aspects in the benchmark, such as governance, policy/strategy, management, and monitoring. He contrasted the rigour of this benchmark with that produced by WWF and Banktrack. He also flagged the need to consider on the ground outcomes, praising the benchmark for considering not only public information, but additional information and clarifying the results with the companies. He raised objectivity as an issue. The benchmark could be expanded to include supply chain issues within the current sectors in the benchmark.

José Pedro de Oliveira Costa, Atlantic Forest Biosphere Reserve, Brazil

Mr. de Oliveira Costa highlighted the need to integrate objectives and to make biodiversity a visible, every day issue and term. This addresses the need to share the responsibility for managing biodiversity issues – it is not just a company issue but one for consumers as well. There is a need for the benchmark to tackle key conservation issues and assess how companies are doing on them. Examples from Brazil would be corridors, the ecosystem approach, and land use planning

Rachel Biderman, Getulio Vargas Foundation, Sustainability Studies Centre, Brazil

With the Getulio Vargas business school, FGV has struggled to build a benchmark to analyse companies listed in the Brazilian stock exchange, inspired from the FTSE4Good, DJSI, etc. Ms Biderman contrasted her experience in FGV with the work completed by Insight Investment and FFI. Most of the conclusions from FGV's work have been included within the FFI/Insight research. There is a consensus among many people on the

crucial issues, indicators, and best practice. There is a need to improve and adapt the methodology to mega-diverse countries and different economies. One size doesn't fit all, there are different local realities.

Remarks from the floor

Helmut Röscheisen, German Federation of Nature Conservation NGOs.

Being an economist with 30 years of experience as environmentalist, I think that your presentation sounds like a nice wonderful tale but far from the reality in Europe. Let me give a couple of examples. In Europe, we have EMAS which aims to be better than standard in law and that must improve every year. We also have ISO 14.001, which does not require reporting to the public. We have in Europe a regulation on liability. It is a very effective instrument if strict design. Another example is the European Business School part of UNEP that organized a meeting in Europe on sustainable finance in environmental issues. I suggested to integrate biodiversity as a new dimension. They said this was not possible as they had barely started with greenhouse gases.

I think CSR is more or less a marketing aspect for the industry. I can't believe this will be a very successful step forward for biodiversity.

Annelisa Grigg: The benchmark will not replace EMAS or ISO 14.001. It is rather driven by a lack of appropriately framed information for the investor community. Also, EMAS and ISO do not adequately address biodiversity issues.

Deric Quaille: The benchmark encourages companies to strive for better performance. From a company perspective, we would benefit from far better contribution from NGOs and civil society to help improve criteria on this.

Frank Vorhies, Earthmind

Is it possible for HBOS to respond to the benchmark, will they report on how they shift their investments as a result of this?

Jon Ekstrom, Birdlife International

How does Insight Investment use this information? I would be interested to know how.

On the basis of this experience, is Insight Investment in a position to argue the business case to other investors to develop benchmarks on other sectors?

Kerry ten Kate: Analysts and financial managers at Insight Investment take these results into consideration alongside many other factors that influence their views on these stocks. The decisions that are taken are commercial information and involve a range of factors.

Jon Ekstrom: The focus seems to be on protection/conservation of biodiversity. To what extent did you try to include or have included sustainable use and benefit sharing?

Annelisa Grigg: The benchmark includes specific reference to the Convention on Biological Diversity and rewards those companies which place their management of biodiversity and associated policy/ strategy within the context of the CBD objectives. These include sustainable use.

Richard Keynes, International Finance Corporation

Looking at the scores, it seems that 3 went up. Any particular areas or trends?

Kerry ten Kate: Actually, 86% of companies' scores improved. The three you are looking at are the exception. Some of the key trends that underpin these improvements are that many companies are now regarding biodiversity as a business-relevant issue, rather than one of corporate philanthropy. Their work on biodiversity is increasingly driven by risk and opportunity assessment. There is also a gradual move for companies' activities to be more grounded in policy and more strategic approach, rather than being reactive and ad hoc.

Annelisa Grigg: There were a number of improvements. Some of them related to companies producing specific policy commitments on biodiversity, or reporting more fully on their potential impact on protected areas or sensitive sites. Other companies showed small improvements through out all aspects of the benchmark. There were no particular trends as such, apart from to note a narrowing of the gap in what the companies were saying they were doing and what they were actually doing.

Richard Keynes: How would you imagine emerging market or developing world companies to perform?

Kerry ten Kate: Our work to date focused initially on UK-headquartered companies, and more recently on some European and North American companies. I think it would be a good step forward for future analysis to look at companies based in emerging markets and developing countries. Our results show that the calibre of companies' performance on biodiversity does not correlate directly with their market capitalization/size. I would expect the performance of companies based in developing countries to depend on the strength of the business case for best practice biodiversity management and their awareness of these issues.

Next steps

Annelisa Grigg, Fauna & Flora International

Kerry ten Kate, Insight Investment

Julien Haarman, UNEP FI

Over the coming weeks FFI, Insight Investment and UNEP FI will be working on a proposal that will capitalize on the strengths of the benchmark and develop it further. It is our hope that the benchmark will be used as a tool within a number of key markets worldwide by investors to evaluate their investments, companies to understand the strengths and weaknesses of their approach to managing biodiversity and NGOs to enable them to work with the private sector to help them minimize their impacts on biodiversity. We will be seeking collaborators from finance institutions, NGOs and business schools in South Africa, Brazil, the USA, China and the UK. Parties interested in becoming involved in this work should contact Annelisa Grigg on annelisa.grigg@fauna-flora.org.