

Theme study

Biodiversity integration in the Dutch financial sector: Why it's critical to be proactive and invest in nature

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Introduction

The Dutch financial sector is waking up to the subject of biodiversity. Initiatives to measure the risks related to biodiversity loss are mushrooming. VBDO and the International Union for Conservation (IUCN) NL recently surveyed five banks and 13 asset owners/asset managers.¹ The results show that 90% of the largest Dutch financial institutions (FIs) have integrated the risk of biodiversity loss in their ESG-screening process for investments and loans. This is often done in a reactive way and concentrates on severe violations of internationally-established norms. 72% engaged with companies on biodiversity and 46% of the asset owners/asset managers supported shareholder proposals relating to biodiversity issues. Around 60% of the financial institutions invested in or financed projects to promote biodiversity.

However, work still needs to be done when it comes to setting biodiversity targets to both mitigate harmful biodiversity impacts and achieve positive impacts on nature through finance and investments.¹ Despite the Dutch Central Bank (DNB)'s warning that financial institutions can be impacted financially when they fail to take sufficient action on biodiversity loss, only 28% of the surveyed Dutch financial institutions have started to assess the financial risks of biodiversity loss. None of them make use of scenario analysis for biodiversity loss to inform strategic risk management.

90%

Of the largest Dutch financial institutions (FIs) have integrated the risk of biodiversity loss in their ESG-screening process for investments and loans.

72%

Of the FI's engaged with companies on biodiversity.

46%

Of the asset owners/ asset managers supported shareholder proposals relating to biodiversity issues.

61%

Of the FI's invested in or financed projects to promote biodiversity.

Biodiversity – the diversity of life on earth – is integral to a healthy and stable environment. Diversity of life ensures environmental resilience, provides humans with the life systems on which they rely and enriches life on earth. Due to human activities, the planet is currently experiencing a biodiversity crisis which is resulting in the loss of species and populations of species and the habitats that support them. Threats to biodiversity include changes in the way land and sea are used, pollution, overexploitation, invasive alien species and climate change – amongst many more.”

IUCN website (www.iucn.org/regions/europe/our-work/biodiversity-conservation

1. The importance of biodiversity

Our world relies on a diversity of organisms to keep it in balance, healthy and thriving. However, worldwide biodiversity is decreasing at a rapid pace.ⁱⁱ The IUCN Red List shows that more than 37,000 species (28% of assessed species) are threatened with extinction and the WWF Living Planet Report 2020 identified that vertebrate species populations decreased by 68% between 1970 and 2016.

2021 could be the turning point for biodiversity decline. The 15th Conference on Biodiversity will set out to formulate specific goals to stop biodiversity loss. Companies and financial institutions have a key role to play in achieving these biodiversity goals. The Convention on Biological Diversity (CBD) calls for the involvement of non-state actors in the realisation of global biodiversity goals. Thankfully, the private sector is beginning to realise its dependency on a healthy and resilient planet as well as its responsibility to take better care of that planet. Private sector innovation, power, resources, skill sets and drive are all essential in the creation and implementation of solutions that will help to ensure that by 2050 a global population of 9 billion people will be able to live well within the limits of our planet.ⁱⁱⁱ

2. Biodiversity loss - a misunderstood financial risk

Financial institutions can be exposed to severe financial risks when they fail to take proper, timely action on biodiversity loss. DNB spells out the transition risks that can arise when multilateral efforts to protect nature become more stringent. The regulator calculates that the Dutch financial sector has €15 billion of exposure to companies in areas that are already protected.^{iv} If protected areas increase to 30% of land cover, this exposure could rise to €28 billion. It is important that financial institutions take note of DNB's risk orientation, given the magnitude of financial risks they face. 78% of the surveyed FIs give financial risks as a reason for including biodiversity in investment policies. 83% highlight environmental risks as a reason to integrate biodiversity in investment or lending policies. The environmental risks of biodiversity loss can be quantified by the loss of ecosystem services. DNB calculates that €510 billion of investments made by financial institutions in the Netherlands are (very) highly dependent on ecosystem services. €28 billion of these investments are reliant on bee pollination. Moreover, reputational risks can arise when Dutch FIs invest in or loan money to companies or projects that have known environmental controversies. According to DNB, Dutch financial institutions are exposed to over €21 billion of investments in companies with (highly) severe controversies.

DNB's report amplifies the need for better understanding of environmental risks and dependencies resulting from biodiversity loss. The majority (90%) of financial institutions in the Netherlands screen companies and projects for known controversies. However, only 28% have

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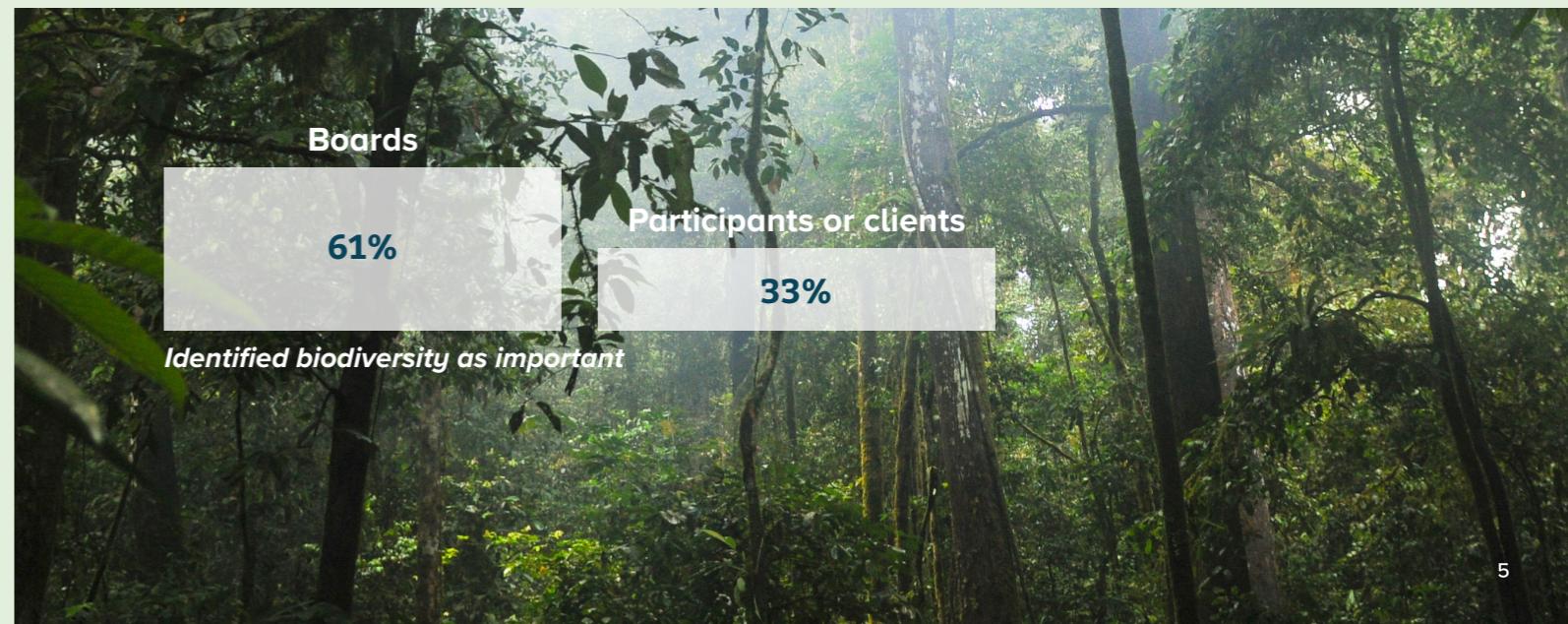
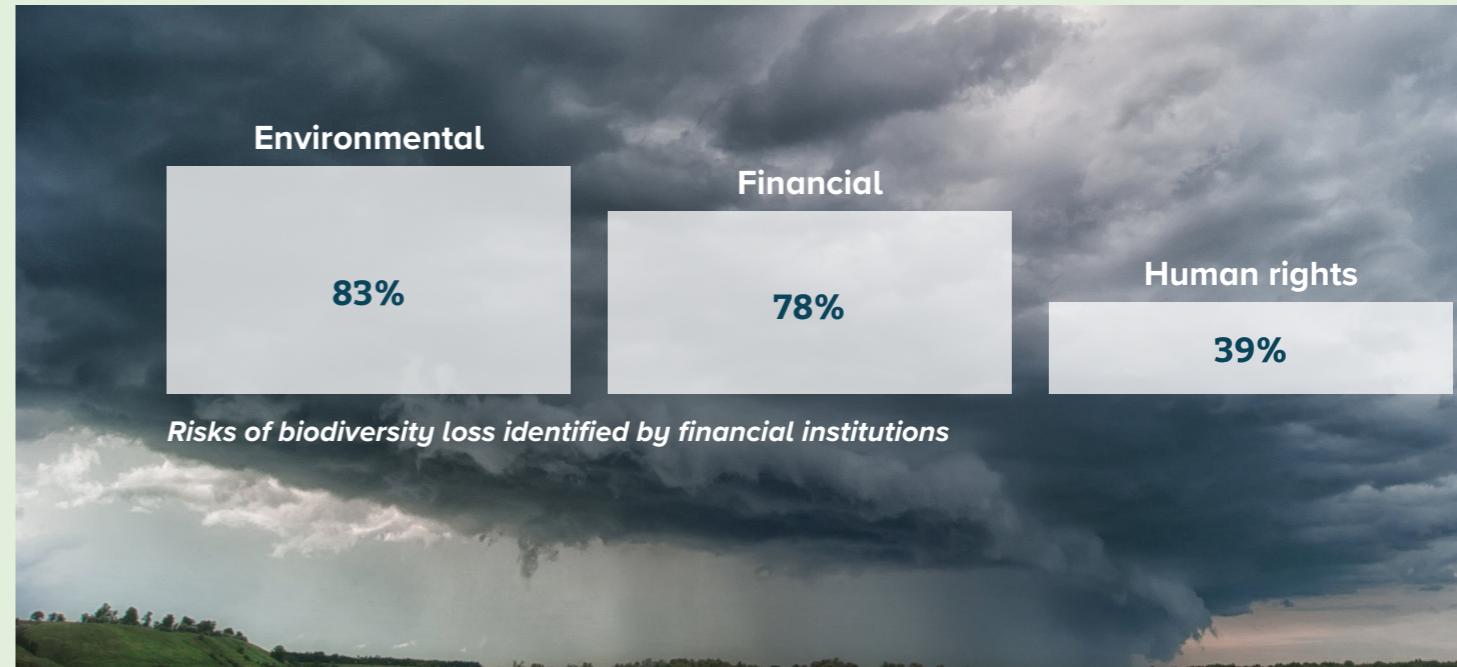
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started to assess environmental risks within their existing portfolio. Given the magnitude of financial risks associated with biodiversity decline (€510 billion) compared to exposure to severe controversies (€21 billion), it is financially imperative that institutions develop an understanding of their biodiversity footprint and take action to prevent harmful biodiversity impacts.

Financial risks (78%) are but one of the risks of biodiversity loss identified by financial institutions in our survey. Environmental risks (83%) (specifically climate change, food security

and water use) were mentioned most often. Interestingly, only 39% of the respondents regarded human rights risks as the primary reason for establishing a biodiversity policy.

The survey shows that even though only 33% of the FIs indicate that their participants or clients have identified biodiversity as an important theme for responsible investment, 61% of the FIs' boards have identified biodiversity as such.



ⁱ 18 financial institutions responded to this survey (of which 15 allowed their name to be displayed): Rabobank· ABN AMRO· ABP· Achmea· Allianz· ACTIAM· ASN Bank· a.s.r· Bpf Bouw· ING· MN Services· NN IP· PME· PMT and SPW

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3. Most policies miss proactive elements to prevent biodiversity loss

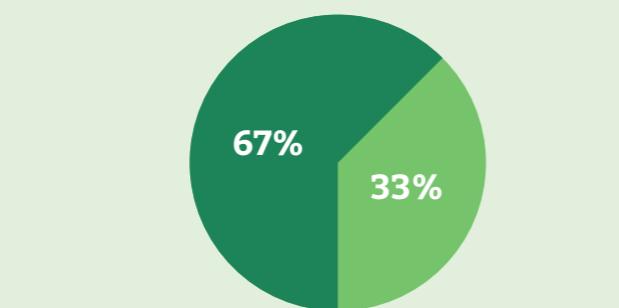
Only five financial institutions in the Netherlands have biodiversity policies with specific proactive elements to prevent harmful practices by their investee companies or clients. The banks are leading in this regard, while only two investors follow a dedicated list of standards and conventions for the prevention of biodiversity decline. For these two investors, active ownership practices, such as engagement with companies, are structured and can result in exclusions and deep engagement. The other financial institutions that say they exclude, vote and engage on biodiversity, only do so when companies violate externally-provided norms, such as carrying out illegal practices and operating in a way that violates the UN Global Compact. 89% of the respondents state that engaging on biodiversity is the most effective way for a financial institution to act on the issue. However, as many do not take a thematic-based engagement approach, they cannot be said to be taking focused, proactive action to either prevent the further loss of biodiversity or to restore it.

Of the instruments available to financial institutions, impact finance was only mentioned by five FIs. They listed specific examples where biodiversity impact is being managed and evaluated, such as **The Pymwymic Healthy Ecosystems Impact Fund, Land Life Company and Finance in Motion's eco.business fund**. Other examples given include impact funds in climate and sustainability related areas, such as afforestation and circularity.

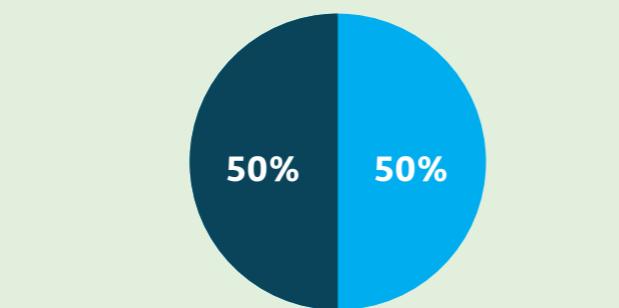
Deforestation and climate change are the biodiversity risks of most concern to financial institutions

Biodiversity deserves dedicated local- and context-specific action, but many financial institutions see the mitigation of global greenhouse gases as their primary contribution to reducing nature-related risks. Therefore, it is not surprising that deforestation and protection of High Conservation Value (HCV) areas are the biodiversity-related drivers that financial institutions act upon the most.

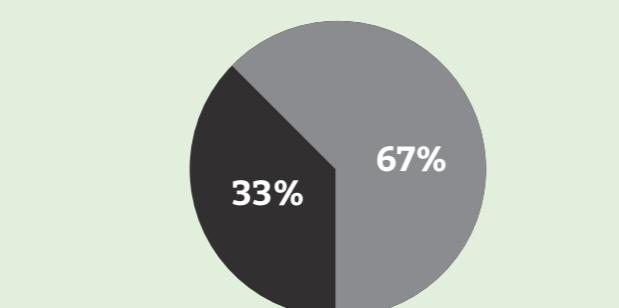
Two thirds of FIs expect companies to prevent negative impacts on HCV areas. Half of the FIs engage with investees on land conversion and HCV areas. One third of the institutional investor respondents indicated that HCV areas have impacted their voting.



FIs expect companies to prevent negative impacts on HCV areas



FIs engage with investees on land conversion and HCV areas



FIs indicated that HCV areas have impacted their voting

4. Recommendations

IUCN NL and VBDO have the following recommendations for financial institutions:

Be proactive instead of reactive

Risk monitoring and screening of clients and investees often focus solely on severe violations of biodiversity norms. DNB calculated that the main financial risks to the financial sector relate to its dependency on ecosystem services. To prevent negative impacts on biodiversity (and the resulting financial risks), it is necessary to determine the environmental dependencies and risks of an investment/lending portfolio. It is crucial to upscale new data sources (such as satellite data), communicate with actors on the ground (civil society and local communities) and converse/engage with companies to understand their (potential) impacts.

Don't wait for legislative action or 'the right data'; act upon the best practices that are already available in the market. Create policies and engage on the actual impact on biodiversity beyond investee risks. Engage proactively, not just after severe violations. Engagement can have a material effect when

material themes are addressed and time-bound targets are set and upheld. Therefore, financial institutions should identify sectors and key drivers of biodiversity loss to engage on.

IPBES is a good resource for guidance on setting targets to embed biodiversity risks in an FI's policy.^v The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES)'s five key drivers of biodiversity loss are included below, starting with those that have the most impact.

- Changing use of sea and land
- Direct exploitations of organisms (in particular the overexploitation of animals, plants and other organisms, mainly via harvesting, logging, hunting and fishing)
- Climate change
- Pollution
- Invasive non-native species

IPBES: "Those five direct drivers result from an array of underlying causes – the indirect drivers of change – which are in turn underpinned by societal values and behaviours that include production and consumption patterns, human

When asked to determine why climate change was mentioned most often by financial institutions, Colette Grosscurt from ACTIAM pointed to the fact that the regulatory requirements coming from the EU are clearly defined when it comes to climate change. However, it is questionable whether actions taken to address climate change (such as reforestation), result in actual positive biodiversity impacts.

Grosscurt's advice for other investors:

1. Don't wait for the right data and standard targets, start investing in nature now.
2. Align investments with the Finance for Biodiversity Pledge, which has been signed by a coalition of investors committed to working on advancing biodiversity in finance.
3. Engage with multiple stakeholders, including governments, to prevent biodiversity loss.
4. Collaborate with other investors in ACTIAM's 'Satellite-based engagement towards no-deforestation' working group.

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population dynamics and trends, trade, technological innovations and local through global governance. The rate of change in the direct and indirect drivers differs among regions and countries.”

Don't wait until you have calculated exactly what the biodiversity impact is of harmful activities. We all know deforestation, pollution and excessive water use are harmful for biodiversity and our planet; immediate action is required and should not be postponed by overly detailed calculations.



Use lessons learned from actions on deforestation for other drivers of biodiversity loss

For commodities, such as palm oil and soy, several collaborative initiatives have been set up by financial institutions in co-operation with companies, NGOs and governments. Financial institutions participate in certification schemes, roundtables and engagement groups (such as the PRI). In addition, the use of novel data sources such as satellites can make efforts more effective. FIs should develop policies (including time-bound targets^{vii}) and implement

ASN Bank has a long-term goal to have a net-positive effect on biodiversity by 2030

In 2021, ASN Bank published the biodiversity impact assessment of its lending and investment portfolio using the Biodiversity Footprint Financial Institutions (BFFI) methodology. It concluded that every company it has assessed has a “net-negative impact on biodiversity.” The biodiversity footprint assessment provides important insight into the areas that need most attention. One of the policy elements ASN Bank will focus on is nature-based compensation.

these for the categories where there are biodiversity action gaps, such as the use of chemicals and monocultures, and for the other drivers of biodiversity loss.

Institutions that lend to or invest in companies can make use of different strategies when developing policies. Biodiversity as an issue is context specific and policies should be implemented locally to realise the most impact. For example, investors can co-operate to engage with chemical companies to gain a better understanding of the nature-related impacts of chemicals. Banks, on the other hand, are in an ideal position to support smallholders to restore degraded farmlands.

Huge potential for nature-based solutions; reforestation does not always equal tangible positive biodiversity impacts

Financial institutions often look for ways to integrate nature-positive impact in their climate change policies. But FIs should not limit themselves to only mitigating climate change. Nature-based solutions can have simultaneous mitigation, adaptation and biodiversity impacts.^{viii}

Financial institutions find it difficult to claim positive impact on biodiversity. Therefore, they choose to act on the underlying drivers of biodiversity loss instead. Deforestation and climate change are the drivers most often mentioned, so action against deforestation and towards the conservation of natural ecosystems is key. However, reforestation on its own does not always result in a tangible, positive impact on biodiversity. It is important to ensure that the nature-positive impact of the investments is evaluated and monitored.

There is a very large sum of money required for nature-positive investments. According to the World Economic Forum (WEF), “Addressing the nature crisis requires a critical shift towards nature-positive models in three key socio-economic systems: food, land and ocean use; infrastructure and the built environment; and extractives and energy.” The WEF calculated that, “Capital investment required to capture opportunities in the three systems is around \$2.7 trillion annually.” This can in turn “create USD 10 trillions of global GDP growth and 395 million jobs by 2030.”



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Co-operate to advance on standard setting

When it comes to addressing biodiversity loss and achieving nature-positive investments, it is difficult to set robust standards. The overwhelming number of standards and initiatives needs an overarching approach. It can ensure all drivers of biodiversity loss are accounted for and actions are co-ordinated. Very promisingly, on the 5th of March 2021, it was announced that another 15 financial institutions have joined the Partnership for Biodiversity Accounting Financials (PBAF). They will work together with the six founders to create a common metric for biodiversity footprint measurement. Several respondents to the survey see the Taskforce on Nature-related Financial Disclosures (TNFD) as a gamechanger because it has a broad membership coalition that includes governments, financial regulators, financial institutions and companies.

The new ENCORE tool (developed by the Natural Capital Finance Alliance in partnership with UNEP-WCMC) utilises the Species Threat Abatement and Recovery Metric (STAR), developed by IUCN, for measuring the biodiversity footprint of a financial institution's portfolio.^{viii} ENCORE measures the contribution that investments can make to reducing species extinction risk. It can help national and subnational governments, cities, civil society, the finance industry, investors and companies to target their investments and activities to achieve conservation outcomes and contribute to global policy aims. "The STAR shows ex-ante (potential) and ex-post (achieved) impacts of investments at a range of scales and over a range of timeframes. It has a range of potential uses, including:

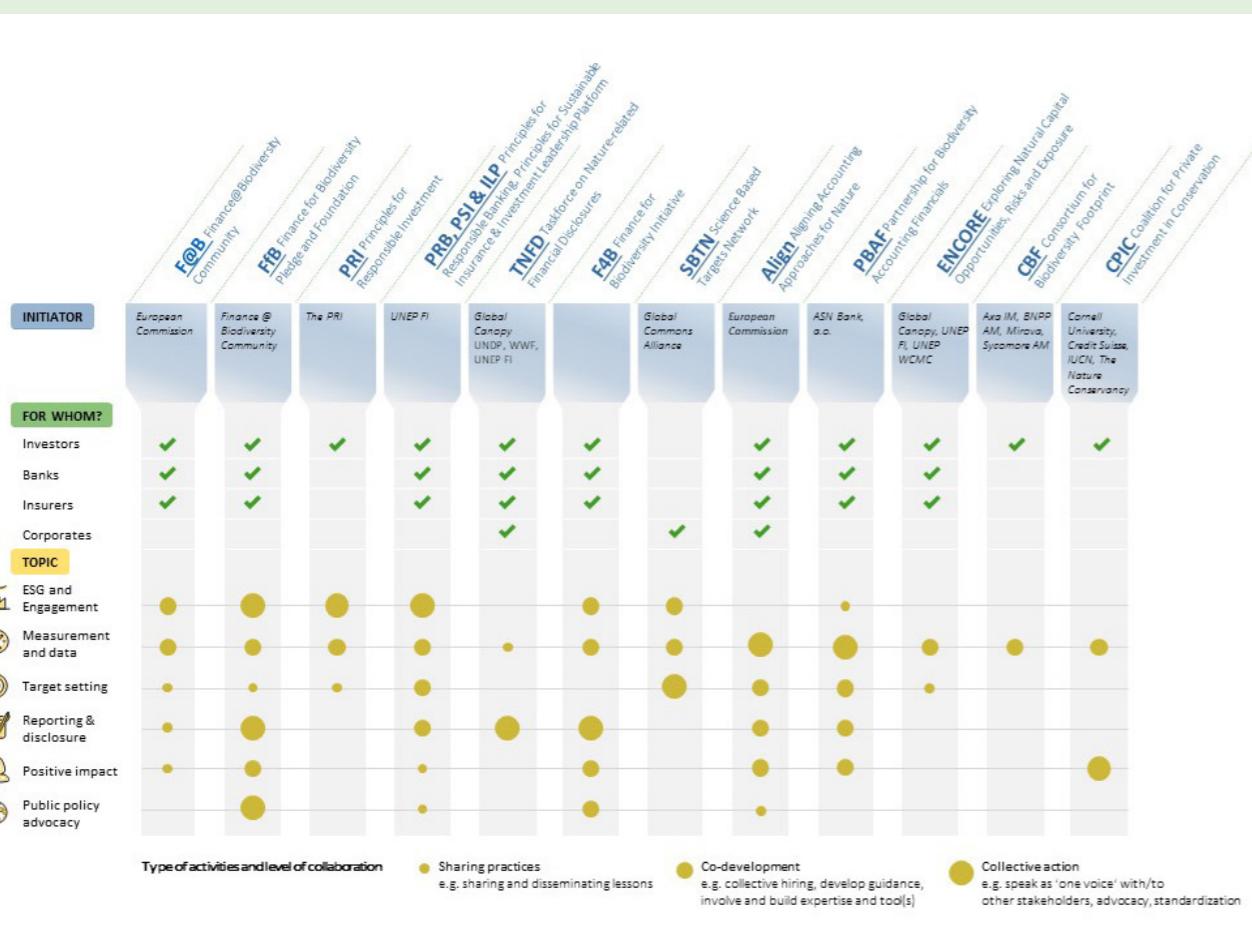
- Analysis and comparison of potential and achieved return on investment across a portfolio.
- Targeting interventions at particular sites and/or particular pressures.
- Tracking sectoral impacts on extinction risk, e.g. through commodity companies' footprint.
- Developing and tracking global targets on slowing extinction risk, for instance for the post-2020 Aichi targets."

Other biodiversity footprinting tools are mapped in the 2020 IUCN NL publication *A Compass for Navigating the World of Biodiversity Footprinting Tools*.

Advocate for conservation in general

In February 2021, the [Dasgupta Review](#) (an independent, global review on the Economics of Biodiversity led by Professor Sir Partha Dasgupta and commissioned by the UK government) issued its final report. It states, "The Review calls for changes in how we think, act and measure economic success to protect and enhance our prosperity and the natural world. Grounded in a deep understanding of ecosystem processes and how they are affected by economic activity, the new framework presented by the Review sets out how we should account for Nature in economics and decision-making."

Biodiversity action does not begin or stop at the company level. For financial institutions looking to implement their biodiversity policy, it is crucial to address the systemic nature of biodiversity impact. Often, engaging with companies alone is insufficient to prevent a negative impact. To be more effective, FIs can also turn to local communities, CSOs and governments and advocate for conservation with these entities.



Finance for Biodiversity Pledge (2021, April), Finance and Biodiversity – Overview of initiatives for financial institutions.

References

ⁱ Please see the IUCN Global Standard for Nature-based Solutions: www.iucn.org/theme/nature-based-solutions/resources/iucn-global-standard-nbs.

ⁱⁱ IPBES (2019), Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services. E. S. Brondizio, J. Settele, S. Díaz, and H. T. Ngo (editors). IPBES secretariat, Bonn, Germany.

ⁱⁱⁱ This paragraph is partially copied from another IUCN NL guide on business and biodiversity: Goedicke, R. et al, (2020), A Compass for navigating the world of biodiversity footprinting tools: an introduction for companies and policy makers, IUCN NL, p. 10. <https://www.iucn.nl/en/publication/iucn-nl-publishes-report-on-biodiversity-measurement/>

^{iv} De Nederlandsche Bank & Planbureau voor de Leefomgeving (2020), Indebted to Nature: Exploring biodiversity risks for the Dutch Financial Sector. J. van Toor, D. Piljic, G. Schellekes (DNB), M. van Oorschot & M. Kok (PBL). Retrieved from: <https://www.dnb.nl/media/4c3fqawd/indebted-to-nature.pdf>

^v IPBES (2019), Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services. E. S. Brondizio, J. Settele, S. Díaz, and H. T. Ngo (editors). IPBES secretariat, Bonn, Germany.

^{vi} <https://www.responsible-investor.com/articles/dutch-financials-join-in-biodiversity-impact-measurement-push>

^{vii} World Economic Forum (2020), New Nature Economy Report II – The Future Of Nature And Business, online: http://www3.weforum.org/docs/WEF_The_Future_Of_Nature_And_Business_2020.pdf

^{viii} IUCN (n.d.), “Species Threat Abatement and Recovery (STAR) Metric”, online: www.iucn.org/regions/washington-dc-office/our-work/species-threat-abatement-and-recovery-star-metric, viewed in April 2021.

