1. About this E&S briefing note

This environmental and social (E&S) Briefing Note is designed to help financial institutions (FIs) quickly familiarise themselves with issues relating to biodiversity conservation and ecosystem services. It is not intended to be a detailed technical guidance document.

Formal specific technical guidance is provided in Resources, including International Finance Corporation (IFC) 2012 Performance Standard 6: Biodiversity Conservation and Sustainable Management of Natural Living Resources.

This E&S Briefing Note provides an overview and general guidance. FIs should consider each company carefully based on its specific characteristics and circumstances including scale, location, technology, management capacity and commitment, and track record). Risks, impacts and opportunities relating to a particular company or sector can change over time due to a number of factors (e.g. changes in the applicable laws and regulations or in the type of the company's activities or assets).

Where biodiversity or ecosystem service issues are evident, FIs should consider engaging specialists, as there are often highly technical aspects that require specialist professional input. It is often the case that impacts to biodiversity or ecosystem services also impact local communities therefore, specialists in addressing this type of impact may also be required.

The term 'company' used in this E&S Briefing Note refers to FIs' corporate clients.

2. Introduction

Biodiversity includes ecosystems and habitats (e.g. forests and wetlands), as well as species of plants and animals and their genetic variability, all of which have social, economic, cultural and scientific importance. Protecting and conserving biodiversity in all its forms, is fundamental to sustainable development and is important for activities that rely on the goods and services provided by biodiversity or could have a significant impact on biodiversity.

Ecosystem services are the benefits that people and businesses, obtain from ecosystems (e.g. food and fibre, clean water and cultural aspects such as religious and spiritual values). Significant and large-scale impacts on biodiversity can therefore adversely affect the delivery of ecosystem services.

- Threats to biodiversity that are created by private sector activities include
  - Habitat destruction, fragmentation and degradation caused by the conversion of natural habitats such as forests, wetlands and grasslands (e.g. by road, rail or other linear features).
  - Pollution and climate change, which create conditions under which species can no longer survive (e.g. because of poor water or air quality).
  - Overharvesting or collection (especially for fisheries, forestry and other natural resource-based sectors).
  - Introduction of alien or invasive species. The intentional or accidental introduction of alien or non-native species of flora and fauna can be a significant threat to biodiversity, as they may spread rapidly and out-compete native species.

3. Why financial institutions and their clients should address this topic

- Risks for the business
  Companies and their investors should ensure that the threats to biodiversity which arise from their operations are either avoided or where avoidance is not possible impacts are mitigated and that renewable natural resources are sustainably managed. Potential business impacts include:
  - Fines and other penalties for any violations of legislation protecting biodiversity including the possibility of licences being revoked.
  - Delays and operational costs or lost revenue if impacts on biodiversity draw opposition from local communities and non-governmental organisations (NGOs).
  - Increased costs to secure additional permits and implement potentially costly and complex management and compensation or offsetting measures.
  - Reputational damage.

    - Loss of access to international markets where companies are associated with poor practices.

- Opportunities for the business
  In some cases, companies can generate positive revenue streams and other business benefits from active management or conservation of biodiversity and ecosystem services. For example:
    - Carbon credits from protecting forests and preventing deforestation.
    - Revenues from the sale of water from carefully protected watersheds to other users.
    - Improved access to markets or higher product prices and margins related to sustainable production and management certification of crops or forests (particularly in the agriculture and forestry sectors).

4. Advice for financial institutions

See BII Environmental and Social Checklist as it contains questions and tips to help FIs to assess the E&S aspects of a proposed credit line.

For all credit proposals, FIs should consider whether biodiversity and ecosystem services are an issue that needs to be addressed, either for direct operations of the company or in the supply chain.

FIs and their clients need to have an understanding of the risks and impacts on biodiversity and ecosystem services. The process companies use to identify risks and impacts can be via a formal environmental and social impact assessment (ESIA) or through a less extensive and formal biodiversity assessment, depending on the nature and scale of the risk and impacts. FIs should review whether an appropriate form of assessment has been undertaken and if it has not ensured that the scale and significance of risks and impacts are understood prior to investment. Where significant risks and impacts are encountered, it is likely that the FI will

require specialised advice.

- Sectors that significantly rely on biodiversity and ecosystem services

  Sectors include:

  - Agriculture, aquaculture, fisheries and food production.
  - Forestry.
  - Fast moving consumer goods (FMCG) companies, primarily in the sourcing of raw materials for products.
  - Pharmaceutical.
  - Tourism and hospitality.

- Industry sectors and activities that most frequently negatively impact biodiversity

  Industries include:

  - Extractives, infrastructure and activities or projects involving large-scale construction activities.
  - Utilities, including those involved in hydropower or open-cycle power plants generating significant thermal discharges.
  - Agriculture, aquaculture and fisheries.
  - Forestry.

  Other industries and sectors may also have significant impacts that need to be addressed. FIs should assess to what extent companies with potential impacts on biodiversity have considered the above.

FIs should ensure that, at a minimum, companies' management systems are designed to be compliant with local laws and regulations. In many cases, local regulations may not be fully aligned with good international industry practice (GIIP). FIs should assess companies' alignment with international standards and where appropriate, develop Action Plans to ensure that any gaps are addressed within a reasonable time frame. Where biodiversity risks and impacts are evident, companies should be able to demonstrate that they have implemented management plans in accordance with GIIP.

FIs should take into account the following when considering an investment:

- Determining factors in whether adverse impacts to biodiversity may be apparent
    - Location and scale of activities, including those of associated facilities and businesses that are likely to have significant impacts on ecosystem services.
    - Supply chains, particularly when these are reliant on food, forestry and other products derived from primary production, or in proximity to areas of known biodiversity value (such as protected areas or Critical Habitat).
    - Technology/type of operations that will be used (e.g. underground mining versus open pit) and the efficiency of the proposed equipment.

- Activities that involve conversion of natural habitats and/or large-scale changes to modified habitats (including forestry plantations)
  FIs need to ensure that companies have identified and understand the scale and types of impact to biodiversity and ecosystem services. The presumption should be to avoid conversion of natural habitat in all cases, unless there are no other alternatives. The overall benefits of operations in those locations should outweigh impacts to the environment and biodiversity. In cases of any conversion or degradation, companies need to implement appropriate mitigation measures and identify opportunities to enhance habitat and protect biodiversity as part of its operations.

  Where investments involve primary production (agribusiness, aquaculture, forestry, etc.) independent certification of good production practices under a credible certification scheme should be sought. See also BII Sector Profile: Agriculture and Aquaculture and BII Sector Profile: Forestry.

- Activities that involve capture of fisheries, seafood and aquaculture
  Companies need to demonstrate that the production and harvesting of fish or other aquatic species is conducted in a sustainable manner. This should include certification under an appropriate sustainability standard. FIs should review whether companies have sustainable management systems and/or certification in place and determine what steps need to be taken prior to investment to achieve this.

- Critical Habitats
  Companies should not operate in Critical Habitat areas unless all of the following conditions have been met: (i) no other viable alternatives exist; (ii) the company's activities do not lead to a measurable adverse impact on the biodiversity values that underpin the critical habitat status; (iii) the activities do not lead to a net reduction in the populations of any critically endangered or endangered species; and (iv) a robust and effective long-term monitoring plan is in place. If all conditions are met, a formal biodiversity management plan (BMP) that aims to deliver net biodiversity gain should be implemented. A biodiversity offset plan may also be required. Given the significance of impacts, the requirements on companies are high and aim to direct development away from Critical Habitat. Specialist technical assistance is essential where Critical Habitat issues are evident.

- Legally protected and internationally recognised areas
  Companies should not operate in Critical Habitat areas unless no other viable alternatives within the region exist for their operations or projects, and that all the other conditions included in the Critical Habitats section above are met. Additionally, companies must demonstrate that its operations are legally permitted (activities impacting protected areas frequently require companies to obtain specific construction and operating licenses) and that they comply with the requirements established in the protected area management plan(s). In addition, companies must demonstrate that they have consulted with protected area managers, local communities and other key stakeholders. FIs should confirm whether the company's operations affect a protected area and if so, all necessary steps to comply with local legal and regulatory requirements and good internal practice have been taken. Specialist technical assistance is essential where potential impacts on legally protected and internationally recognised areas are evident.

- Alien species
  Companies should not introduce any alien species (i.e. species that are not native to an area) unless they are appropriately managed within an existing regulatory framework

or an assessment has been undertaken to determine the potential for invasive behaviour (i.e. the risk that alien species will spread in an uncontrolled fashion and cause ecological change or damage). FIs should ensure that companies have procedures to prevent accidental or unintended introductions of any alien species with a high or known risk of invasive behaviour. Expert consultants may need to be consulted.

- Biodiversity Action Plan (BAP)
  Companies should operate in accordance with GIIP. Where significant risks and/or impacts on biodiversity are identified and the company is not operating in accordance with GIIP, FIs should ensure the company will achieve alignment within a reasonable time frame through the implementation of a BAP. This particularly relevant in the case of activities which may adversely affect legally protected and internationally recognised areas, protected/endangered species and/or Critical Habitats.

5. Further resources

- Further information and guidance
  - IFC 2012 Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources.
  - IFC 2012 Guidance Note 8: Biodiversity Conservation and Sustainable Management of Living Natural Resources.
  - The Corporate Ecosystem Services Review: Guidelines for Identifying Business Risks & Opportunities Arising from Ecosystem Change.

- Guidance on certification standards
  A large number of voluntary certification standards exist in the market, reflecting a wide range of performance expectations and focal areas. A credible certification system is one that is independent, cost-effective, based on objective and measurable performance standards and developed through consultation with relevant stakeholders including governments, international regulators, sector associations and civil society organisations that represent consumer, producer and conservation interests. This type

of system has fair, transparent and independent decision-making procedures that avoid conflicts of interest. ISEAL Alliance provides guidance on voluntary sustainability standards, and the International Trade Centre has a database of standards that can be searched by country, industry and commodity.