

Briefing for Finance: Biodiversity

The business case for action

Research shows that the generation of US\$44 trillion of economic value is moderately or highly dependent on nature and its services. This equates to over half the world's total GDP. Yet the World Economic Forum's Global Risks Report lists biodiversity loss as one of the top five economic risks over the next 10 years. As we lose nature's assets, activities carried out by the natural world are being affected. These include oxygen production, crop pollination, water purification, flood protection and climate regulation.

The cost of inaction is huge. This loss of nature and biodiversity can impact business operations and a functioning economic system.

This damage to our natural world is expected to slow progress towards 80% of the UN Sustainable Development Goal (SDG) targets and will limit our ability to tackle climate change.

Investing in biodiversity also offers opportunities. It can help to improve the long-term viability of business models, reduce costs and increase operational efficiency and resilience. Protecting nature is increasingly being seen not only as an environmental issue, but as a developmental, economic, security and social issue as well. Biodiversity is starting to follow climate change onto the boardroom agenda. Responding appropriately is quickly becoming a necessity to maintain a social license to operate.

US\$44 trillion

of economic value generation is moderately or highly dependent on nature and its services

1 million

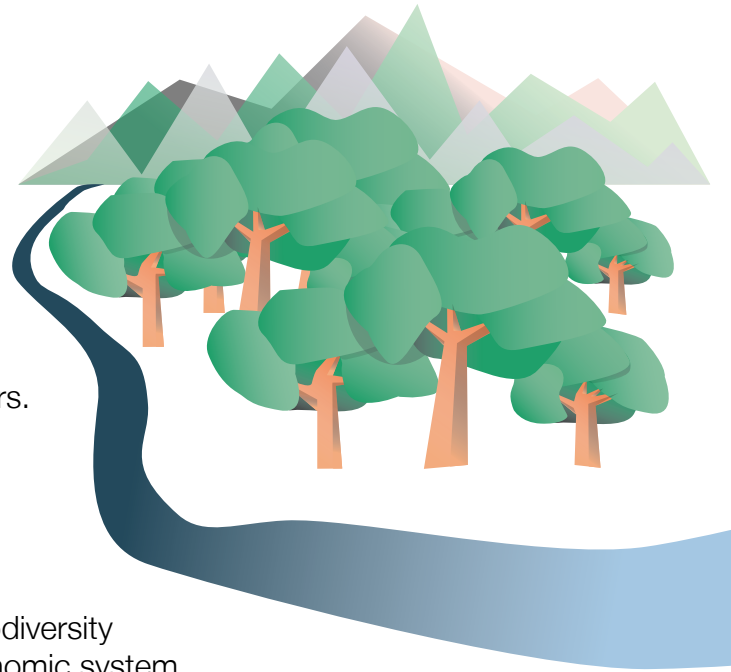
animal and plant species are now threatened with extinction

60%

decline in mammals, birds, fish, reptiles and amphibians since 1970

3/4

of the land-based environment has been significantly altered by human actions

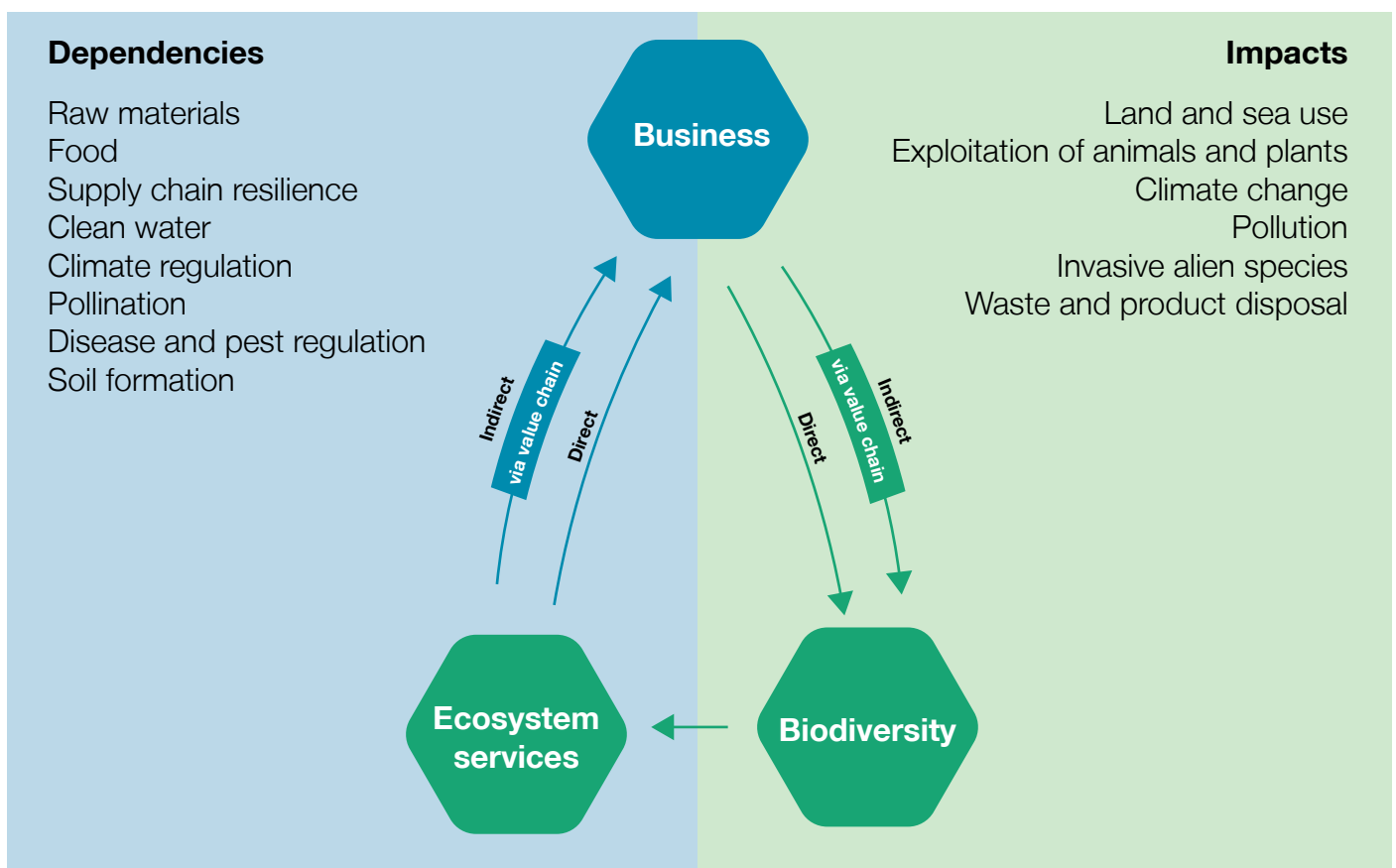


How do businesses impact biodiversity?

Businesses and financial organizations impact nature both directly through operations, or indirectly through the value chain and investment decisions. The scale of impact will depend upon the level of biodiversity in the local environment and the nature of business operations.

Extractives, food, construction, energy, fashion and textiles are among the industries with the most potential impacts and are also the most vulnerable to ecological destruction.

In simple terms, nature's services or 'ecosystem services' depend on biodiversity. Businesses, in turn, rely on these ecosystem services in their business model. Yet all too often, they don't make this connection and continue to damage underlying biodiversity.



Key concepts

Nature

makes up the world we inhabit, from geology to climate and from living things to the ecosystems that support them.

Natural capital

is the world's stock of natural resources that provide benefits to people. The value of natural capital can be estimated using a tool known as natural capital accounting which measures the assets and services which nature holds and provides.

Biodiversity

is the measure of the variety of living life on Earth. A high level of biodiversity boosts the productivity of ecosystems and therefore increases natural capital. Importantly it also increases the resilience of an ecosystem to climate change.



What are the risks to business?

Biodiversity loss has tangible costs and impacts to business. However, it is often hidden or incorrectly priced in supply chains, obscuring the link between nature loss and the bottom line. Risks your organization may face include:

1

Physical risk

Biodiversity loss can disrupt ecosystems and increase natural hazards and may lead to supply chain disruption, increased input costs, reduced quality goods, asset impairments or gaps in trading.

2

Regulatory and legal risk

Damage to local ecosystems may lead to litigation or restrictions on land use, reduced access to raw materials, supply chain disruption and loss of license to operate.

3

Market risk

Consumer preference is changing as awareness increases. Customers and investors are demanding action. Failure to respond may lead to reduced revenues, the breakdown of long-term commercial relationships or increased cost of materials. Companies at the forefront of this shift stand to benefit.

4

Reputational risk

Negative press coverage or divestment may lead to reduced revenue, reduced access to capital or loss of social license to operate.



What action can finance take?

There are steps you can take now to understand the relationship your business has with biodiversity. In doing so, you can reduce potential negative impacts and increase your resilience:

- Engage with your sustainability team to understand how your organization may negatively impact biodiversity.
- Work with them to identify the risks that biodiversity loss poses to your organization and consider how these can be managed.
- Analyse the potential impact of biodiversity loss on your organization and your value chain.
- Assess whether the business is collecting relevant information on these impacts and risks across the value chain.
- Define appropriate metrics to measure your impacts on biodiversity and to estimate the value at risk.
- Determine how these metrics and supporting information can be used to inform business decisions.
- Communicate your findings to key decision makers across the organization – operations, procurement, research and development, commercial finance etc.
- Incorporate these steps into your governance, risk management, strategic planning and investor relations processes.

Further resources

- **Explore:** [A4S Essential Guide to Natural and Social Capital](#).
- **Read:** [The Natural Capital Protocol](#) is a decision making framework that enables organizations to identify, measure and value their direct and indirect impacts and dependencies on natural capital.
- **Watch:** [Our Planet, Our Business](#)
- **Take part:** [Business for Nature](#), a global umbrella coalition, is seeking to reverse nature loss. It hopes to showcase business solutions to inspire others to follow and to amplify a powerful business voice calling for governments to act now.
- **Stay up to date:** [The Dasgupta review](#), an independent global review on the economics of nature. The review is commissioned by HM Treasury in the UK to identify actions that will simultaneously enhance nature and deliver economic prosperity.

