TRADE, DEVELOPMENT & THE ENVIRONMENT HUB

The adoption of corporate commitments in biodiversity conservation: Barriers and Enablers

A summary focusing on soft commodity supply chains.

Julie Sigles Robert, Cath Tayleur

University of Cambridge Institute for Sustainability Leadership, Business & Nature

Partners

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The UK Research and Innovation Global Challenges Research Fund (UKRI GCRF) Trade, Development and the Environment Hub is working with over 50 partner organisations from 15 different countries. The project aims to make sustainable trade a positive force in the world by focusing on the impact of the trade of specific goods and seeking solutions to these impacts.

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List of Abbreviations

BCBS Basel Committee on Banking Supervision.
CDSB Climate Disclosure Standards Board.
ECAs Export Credit Agencies.
ESG Environmental, Social and Governance.
FIP The Forest Investment Program.
GHG Greenhouse Gas.
L/Cs Letters of Credit.
MDBs Multilateral Development Banks.
MEA Multilateral Environmental Agreements.
OECD The Organization for Economic Co-operation and Development.
REDD Reduce deforestation and forest degradation.
SSCF Sustainable Supply Chain Finance.
TCFD Climate-related Financial Disclosures.

Executive Summary

The UK Research and Innovation's Global Challenges Research Fund is funding Trade, Development and the Environment Hub (TRADE Hub), led by the UN Environment Programme World Conservation Monitoring Centre (UNEP-WCMC). This five-year project, funded until 2024, is the first research hub of its kind – bringing together over 50 organisations from 15 different countries to help make trade sustainable for people and the planet. Together, partners from industry, trade agencies, research, governments and civil society will study all stages of various supply chains, revealing damaging links and potential ways to make lasting change[1].

This report focuses on the role of the private sector in facilitating greater sustainability performance across soft commodity supply chains, focusing specifically on the way they contribute to biodiversity conservation.

A preliminary review of relevant academic and practitioner papers has been undertaken in order to identify and categorise some barriers and enablers for the adoption of biodiversity related commitments by private companies.

This report provides a brief overview of different aspects that influence the effectiveness of corporate biodiversity-related initiatives, including aspects such as: the management of impact-driven partnerships management, the delivery of multi-level incentives (e.g. finance, technology, capacity building and regulation) and the use of mechanisms adapted to companies' organisational structures and contexts.

1. Barriers

In the context of this document, we refer to *barriers* as organisational or broader contextual facts (e.g. socio-economic-politic facts along the supply chain) that prevent or impede the adoption of biodiversity-related commitments by the private sector.

1.1. Corporate governance

Globally, just a small proportion of food and agriculture companies use sustainability specifications when procuring commodities. Furthermore, their supplier codes of conduct tend to prioritise social sustainability issues above environmental sustainability issues[2].

While most companies acknowledge environmental, social and governance (ESG) issues in their reports, only a few companies distinguish biodiversity issues from other ESG issues, and more are aware of climate change than of biodiversity loss[3]. When they do consider environmental issues, companies often focus on greenhouse gas emissions (GHG), resource use efficiency, and waste[2].

Integration of biodiversity into corporate risk management, reporting and investment decision-making faces a number of challenges[4]:

- **Lack of awareness and understanding** by businesses and financial institutions on how biodiversity is material to their activities (impacts and dependencies).
- **Lack of a business case** in the absence of pricing externalities associated with biodiversity loss or degradation.
- **Lack of a common framework** with harmonised metrics to measure biodiversity impacts and dependencies (integrated reporting for financial and non-financial information compatible with existing reporting and disclosure frameworks).
- **Difficulties integrating the measurement of biodiversity impacts and dependencies** across corporate governance, strategy, risk management, impact assessment, due diligence, disclosure and communication.
- While biodiversity requires a long-term approach, **business and investment decisions are mainly made with a short-term perspective.**

1.2. Costs associated with sustainable practices

The most important considerations for a commodity importer are price, quality and consistency of supply. Given that the cost of sustainably produced commodities tends to be higher than those produced unsustainably, importers and processors of sustainable products are less competitive and are particularly vulnerable to further drops in price. Consequently, while larger companies can certainly influence the market by demanding sustainably produced commodities, smaller companies do not have the luxury of scale and compete primarily on price[5].

1.3. Access to funding required to enhance sustainability

Companies require access to funding in order to cope with extra-costs associated with sustainable practices, while maintaining competitiveness and economic viability[6]. However, in

some cases context-specific risks need to be mitigated for finance to contribute effectively, for example:

- Land rights
- Poverty of rural populations
- Lack of global demand for sustainable products
- 'Silo-isation' within and between functions, firms and sectors
- Adverse effects of top-down/ centralised strategies
- Lack of supply chain transparency

1.4. Corporate commitments definition, monitoring and reporting

Addison et al.[7] found that although almost half of the Fortune 100 companies mentioned biodiversity in reports, and 31 made clear biodiversity commitments, only 5 of these made specific, measurable, and time bound commitments. Additionally, with a different sample of companies, Silva et al.[8] observed that in the few cases that companies provide indicators on biodiversity, instead of reporting on outcome or impact measures they do so on the activities implemented (e.g. the number of hectares conserved, or capital spent on mitigation activities). Consequently, it is difficult to determine their actual contribution to biodiversity conservation targets.

Corporate commitments and metrics need to be science-based, transparent, systematic, and quantifiable in order to ensure they deliver on-the-ground impact[9]. Otherwise, companies may be hesitant to publicly commit to biodiversity conservation, if they cannot easily demonstrate progress towards such commitments. This is hampered by the high costs and uncertainty associated with direct biodiversity measurement[8].

Biodiversity-specific commitments are challenging to set in a way that resonates with internal and external (shareholders and stakeholders) audiences whilst also being realistic and achievable[8]. In contrast, currently, commitments around zero-deforestation or carbon emissions appear easier to understand, set targets around and measure.

1.5. Traceability and transparency

Although some Sustainable Supply Chain Finance (SSCF) mechanisms exist to reward and fund sustainable behaviours in the supply chain, banks and businesses may need further incentives to commit to the level of transparency required for banks to support sustainable practices[5].

A recent study identified a series of gaps and asymmetries in the information systems currently supporting sustainability in agricultural commodity supply chains[10]:

- low coverage of
    - countries with low levels of deforestation where rates are rising rapidly;
    - major consumption markets such as China and India;
    - internal domestic consumption in major producer countries;
    - producers, consumers, investors, credit providers, agro-chemical and seed companies;
    - links between actors and places; and
    - level/type of sustainability governance in different stages of the supply chains.
- scarce information available regarding impacts other than deforestation.

- lack of information on the methods and data sources used to generate indicators.
- only a few initiatives focus on providing actionable information that can support the decision-making of specific actors.
- scarce data on financial transactions and benefits accrued to different actors.
- limited transparency platforms on supply chain sustainability run by state actors.

1.6. End-consumers decision-making

Consumers willing to contribute to biodiversity conservation through their purchase-decisions have limited mechanisms to do so[6]. Furthermore, the proliferation of 'eco-labels' is confusing and creates opportunities for false claims[11].

2. Enablers

In the context of this document, we refer to enablers as organisational or broader contextual facts (e.g. socio-economic-political facts along the supply chain) that facilitate the adoption of biodiversity-related commitments by the private sector so that desired outcomes are successfully achieved.

2.1. Specific regulation on biodiversity

Increased regulation on corporate biodiversity commitments may be necessary as voluntary commitments are often inadequately applied, only applied by a few companies, and probably not applied by companies which have the highest impacts[12]. Policy makers can encourage corporations, banks, asset owners and asset managers to embed biodiversity-dependencies in their strategies through multiple policy and regulatory tools:

- Requiring them to assess their impacts and dependencies on biodiversity, ecosystem services and natural capital, and their financial materiality[4].
- Requiring companies to publish long-term plans for sustainability impacts, dependencies and risks management, including biodiversity[4].
- Mainstreaming quantitative biodiversity assessments in reporting and disclosure requirements[4].
- Setting policies promoting responsible business conduct (RBC) and improved due diligence that include biodiversity impacts and risks[4].
- Increasing awareness from financial regulators and supervisors on biodiversity and other sustainability risks[4].
- Fostering innovation in biodiversity conservation in origin countries through market and tax incentives[6].

Decision-support tools can help businesses identify and quantify the true risk that biodiversity declines pose to their business (e.g. regulatory hold ups, financial losses, or damage to reputation)[12].

2.2. Awareness of end consumers

The reputational risks associated with sourcing from highly sensitive areas are too high, given that production can come from elsewhere[11]. Therefore, companies that cannot improve the environmental practices in their supply chain but operate in highly sensitive places are better off taking their operation somewhere else. One way to do so is in the form of a Moratorium. For instance, the Amazon Moratorium[13] is a compromise by ABIOVE (Brazilian Vegetable Oil Industry Association) and ANEC (Brazilian Grain Exporters Association), which pledged not to trade soy from areas within the Amazon biome converted after July 2006. As this has proved so successful in limiting deforestation it has been renewed for an indefinite period.

There is an opportunity for companies to leverage their achievements in biodiversity conservation to improve their reputation. While few international brands promote their position on biodiversity, a significant share of the market (millennials) have high awareness of biodiversity issues and can identify brands that respect biodiversity. In that regard, authentic stories and images about sustainable practices convince consumers and enhance brands' reputation.

2.3. Corporate governance

The Organisation for Economic Co-operation and Development (OECD)[4] recognises the relevance of embedding biodiversity in businesses' and banks' corporate governance, at different levels:

- **Strategy:** embedding biodiversity considerations in the overall corporate strategy to integrate it in key decision-making processes (e.g. by developing a biodiversity-specific policy, strategy, plan or management plan).
- **Governance:** strong leadership and changes in governance at the board and management levels is critical to ensure consistent business action for biodiversity across organisational levels.
- **Impact and dependency assessment, risk management:** undertaking biodiversity-related impact and dependency assessments across organisational levels (site, product, project and supply chains) and aggregating them at the portfolio level.
- **Due diligence:** a due-diligence approach can help businesses identify and prioritise action in order to avoid or mitigate adverse impacts on biodiversity.
- **Disclosure and external reporting**: integrated reporting for financial and non-financial information is required and should be compatible with existing reporting and disclosure frameworks to measure biodiversity in a common way. Atkins et al.[14] suggests integrated reporting as a vehicle for reporting on Sustainable Development Goals, the Natural Capital Protocol, the Global Reporting Initiative, the Aichi Targets and Extinction Accounting.
- **Communication:** communicating internally and externally on biodiversity impacts and dependencies is critical for businesses to raise awareness and engage key stakeholders.

2.4. Measurement and evaluation

It is important to measure biodiversity outcomes of corporate commitments in order to justify and increase investment. While specific and measurable targets can enhance clarity on the actions needed, associated indicators should then be defined synergistically and iteratively by

piloting actions and metrics for a variety of business contexts (e.g. operations sites, business units, and supply chains)[15]. Non-monetary benefits of biodiversity conservation should also be measured, valued and incentivised.

The Accountability Framework[16] offers a roadmap to the sustainability supply chain journey. By using the Framework, companies can help ensure that their commitments, activities, monitoring systems, and reporting practices reflect common and agreed-upon norms and specifications. This is an effective way for companies to achieve and be recognised for strong ESG performance by buyers, financiers/investors, civil society groups, consumers and other stakeholders.

2.5. Corporate voluntary actions (businesses and banks)

Because companies are able to exercise control over their supply, their standards can be more enforceable than other mechanisms[17]. The Sustainability Consortium[18] found that companies could take the following actions to advance sustainability in their commodity supply chains:

- Incorporate sustainability into commodity purchasing specifications when appropriate (e.g. certifications).
- Ensure that supplier codes of conduct and guidance documents include relevant sustainability issues (transparency, risk management and metrics on biodiversity, climate change, economic viability, land use and nutrients) and have audit or verification requirements.
- Ensure that supplier requirements align with corporate sustainability goals to communicate a more coherent message to suppliers and stakeholders.
- Offer some type of incentive to growers to encourage more sustainable practices and data sharing (e.g. monetary, market access guarantees or enhanced marketing).

2.6. Third-party certification standards

Companies with control over their supply chains and with a brand to protect, can capitalise on their environmental efforts by introducing strict standards, such as third-party certifications[11].

Some research shows that while corporate-led codes of conduct or ethical guidelines currently rarely exclude non-compliant providers[19], third-party certification schemes and moratoria have embedded mechanisms to exclude non-compliant providers from the supply chain. Studies have also shown that instruments that lack external auditing can be subject to evasion and shirking[20].

2.7. Partnerships that empower local actors

In a scenario of growing awareness of risks associated with biodiversity loss, partnerships will play an important role in further strengthening the required frameworks, mechanisms and networks[6]. Partnerships between governments, the private sector and civil society are essential for enhancing the current frameworks in international trade and the implementation of multilateral environmental agreements (MEA)[21]. Inclusiveness, transparency and empowerment are essential to building trust and recognition among partners (understanding individual views, gains and challenges they may face).

When appropriate resource management and training plans are followed, the involvement of local people enhances ecosystem conservation. Key factors for partnerships to create local impact are[6]:

- to create a local network with a variety of actors;
- to focus on concrete actions in the field, including benefits sharing schemes;
- to support and encourage partners to act autonomously from the beginning;
- to integrate incremental environmental practices into local business;
- to rely on a multidisciplinary internal committee (legal, purchasing, research, marketing, communication, and sustainability departments); and
- to rely on MEAs' local focal points for global co-ordination and to interact with national authorities.

The Verified Sourcing Areas (VSAs)[22] mechanism helps companies source large volumes of commodities in line with their sustainability commitments at a competitive scale and price by connecting entire production areas to global markets. In these areas, local actors drive sustainable development and receive direct support and incentives from global markets for doing so.

2.8. Sustainability at the production level

Producers seeking to enhance, maintain and consolidate sustainability performance need to[6]:

- access differentiated financing;
- innovate to increase productivity while preserving biodiversity;
- train personnel in technical and production issues;
- guarantee continuous access to market by attending to market needs; and
- facilitate traceability.

Capacity building is fundamental to strengthening value chains and making highly productive business models eligible for financing. Service providers can offer advice and guidance in the initial stages of business change (e.g. strategic aspects, implementation of certifications, permits, research on new processes).

Examples of new agriculture technologies and practices that could be adopted to prevent, mitigate or compensate biodiversity and climate change impacts are[23]:

- Degraded pasture renovation
- Integrated crop-livestock-forestry systems
- No-tillage systems
- New planted forests
- Biological nitrogen fixation
- Animal waste treatment

2.9. Facilitating transparency and traceability

Facilitating transparency of production practices and traceability of products along the supply chain, could provide a competitive marketing and positioning tool that enhances the reputation of supply chain actors among final consumers, banks and governments. Additionally, it enables the justification of trade finance incentives[24]. For instance, the TRADO project (a co-ordinated effort among banks, producers, start-ups, retailers and governments), converts supply chain data into preferential pricing terms by employing block-chain, smart contracts,

open-source data and mobile communications. Standardised information from farmers is encoded on a blockchain to make second and third tier supplier information available to all parties that can access that blockchain. Financial institutions can then offer preferential terms or access to credit based on the evidence of sustainability supported by the blockchain.

2.10. Sustainable supply chain finance

Sustainable Supply Chain Finance (SSCF) rewards, incentivises, and funds sustainable behaviours in the supply chain. To facilitate greater uptake, banks should integrate sustainability into the general training for credit risk officers.

Finding mechanisms to reduce the price differential between sustainable commodities and their unsustainable alternatives, would encourage importers to favour the sustainable option. Banks could contribute to achieving this by[5]:

- innovating in trade finance solutions to enable sustainability information to be traced and identified in trade finance processes;
- amplifying the demand of sustainable commodities, by committing to only finance sustainably produced commodities progressively over time;
- charging a premium to finance non-sustainably produced commodities; or
- in markets where Letters of Credit (L/Cs) are used (commonly in emerging markets and only applicable to a 15-20% of international trade shipments), banks could reduce the amount of deposit required to open L/Cs for sustainable shipments, extend the L/Cs tenor (e.g. from 3 to 6 months), and/or replace the cash deposit with partial or full guarantees granted by Multilateral Development Banks (MDBs) and Export Credit Agencies (ECAs). These incentives would release cash flow for the trader purchasing the commodity and thus reduce its costs. This mechanism has proven effective with palm oil trade.

To enable sustainable trade finance, Central Banks should adjust the cost of capital for banks funding the production and trade of sustainable commodities. This would boost banks' margins and the benefit could be passed on banks' customers. There are a number of ways to do this[5]:

- Granting short/medium-term revolving facilities at prices below banks' normal cost. A Facility Letter containing the terms of a short-term line (usually 12 months) for specific trade finance purposes is accepted and signed by the borrowing bank. The borrowing bank then on-lends to its trade finance customers on a revolving basis. With revolving credit, a bank allows its customer to continuously access capital up to a certain credit limit. While the amount of capital used is subtracted from the customer's total credit limit, if the customer pays off balance, the credit limit goes back up.
- Reducing trade finance operations' risk (and its Credit Conversion factor) by involving an ECA providing greater guarantees to the international bank lending to a foreign importer.
- 'Intermediated Loans' granted by MDBs (the European Investment Bank or the International Finance Corporation), to local banks who subsequently on-lend to a final beneficiary.

Finally, banks would be incentivised to promote more sustainable trade finance if the Basel Committee on Banking Supervision (BCBS) adjusted the rules of Basel III to add preferential treatment for trade finance of certified, sustainably produced commodities[5].

2.11. Linking biodiversity and climate change to access further funding

Strengthening the link between biodiversity protection and climate change would make biodiversity-protection projects eligible for a wider range of funding currently focused on climate change mitigation and adaptation. While some programmes, such as The Forest Investment Program (FIP), support developing countries' efforts to reduce deforestation and forest degradation (REDD), they present some limitations in terms of scope, resources, scalability and eligible geographies.

The Task Force on Climate-related Financial Disclosures (TCFD) provides a framework for companies to develop more effective climate-related financial disclosures through their existing reporting processes. Recently, heads of sustainable finance around the world have been meeting central banks, regulators, politicians and peers to discuss how to measure environmental risk exposure, price natural capital (minerals, water, oxygen, biodiversity) and price the ecosystem services they provide. This could potentially result in an expansion of the current TCFD (a Taskforce on Nature-related Financial Disclosure)[25]. In the meanwhile, the Climate Disclosure Standards Board (CDSB) Framework sets an approach to reporting environmental information in mainstream reports where that information is material to an understanding of companies' financial risks and opportunities.

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