

Policy Brief on the UN Biodiversity Conference CBD COP 15

Biodiversity loss as an economic risk: Call for more transparency on the role of biodiversity and ecosystem services in businesses and the economy

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- Biodiversity comprises all life on earth including all species and ecosystems and is essential for human existence. The services provided by ecosystems – so called ecosystem services - underpin a large part of the economy². Central banks and finance ministries warn that loss of biodiversity and ecosystem services pose significant risks to the global economic and financial system.^{3, 4}
- The scientists and business representatives of the Bio-Mo-D project⁵ call on the negotiating delegations of the CBD COP 15 to make accounting and reporting of the role of biodiversity mandatory for both national economic reporting (Target 14) and business reporting (Target 15). Increasing transparency through such reporting using scientifically robust data and indicators is critical for informing political and economic decision making for achieving the needed transformation to a more sustainable economy.
- In a [side event](#)⁶ at CBD COP 15, The Helmholtz Centre for Environmental Research (UFZ) and the Value Balancing Alliance (VBA) bring together leading organizations and initiatives for the standardization of corporate sustainability reporting. The aim is to inform negotiators, companies and the public about current developments for integrating biodiversity into corporate reporting and to discuss forthcoming steps for implementation ("mainstreaming").
- Within the European Union (EU), the directive on sustainability reporting (CSRD) is currently being adopted⁷, setting legally binding requirements for reporting on biodiversity for around 50,000 companies in the EU and around 15,000 companies in Germany.⁸

1 Contact: johannes.foerster@ufz.de

2 [Herweijer et al. 2020](#)

3 [NGFS 2021](#)

4 [Power et al. 2022](#)

5 [Project Bio-Mo-D](#): <https://bio-mo-d.ioer.info/en/>

6 [Side Event of UFZ and VBA](#): <https://www.cbd.int/side-events/4993>

7 [EFRAG](#): <https://www.efrag.org/lab6>

8 [Bundesverband Nachhaltige Wirtschaft BNW](#): <https://www.bnw-bundesverband.de/csrd>

1. Relevance of the UN Biodiversity Conference CBD COP 15 for the role of biodiversity in corporate reporting

At the 15th Conference of the Parties to the UN Convention on Biological Diversity (CBD COP 15) in Montréal, Canada, targets for the protection of biodiversity are to be agreed upon in a global framework (Global Biodiversity Framework). One focus of the negotiations is on the requirement for transparent accounting and reporting of the role of biodiversity and ecosystem services for both national economies and businesses. While biodiversity and ecosystem services are essential for more than 50% of the world's economic activities⁹, this is not yet reflected in national reporting (e.g. in the Gross Domestic Product) or in corporate financial reports. Therefore, the following goals, among others, are up for negotiation at CBD COP 15¹⁰:

- Target 14: Member states should account for the values of biodiversity and ecosystem services at the national level across all sectors and incorporate it into decisions for a more sustainable economy in line with the Sustainable Development Goals (SDGs).
- Target 15: Member states should require businesses and financial institutions to record and disclose their impacts and dependencies on biodiversity and ecosystem services in order to reduce economic activities that negatively impact biodiversity and promote actions that positively contribute to biodiversity conservation.

The Bio-Mo-D project, titled "Appreciating biodiversity – Modernising economic accounting in Germany ", aims to develop synergies between these two objectives and thus contribute to the modernization of corporate reporting ([Bio-Mo-D Vision](#)). For this purpose, the research partners work closely with the practice partner and business association Value Balancing Alliance e.V. (VBA) as well as governmental actors involved in the national reporting in Germany. The project is funded by the German Federal Ministry of Education and Research as part of the Research Initiative for the Conservation of Biodiversity (FEEdA), which aims, among other, to better incorporate the societal value of biodiversity into economic and political decision-making processes.

In the [side event](#)¹¹ at CBD COP 15 in Montréal, the Helmholtz Centre for Environmental Research - UFZ and the Value Balancing Alliance (VBA) bring together key stakeholders currently developing international corporate reporting standards for measuring impacts and dependencies on biodiversity and ecosystem services. The objective of the event is to inform CBD negotiators, corporate stakeholders as well as the general public about current developments with regard to the integration of biodiversity in corporate reporting and decision-making. Furthermore, next steps for implementing such reporting requirements will be discussed and how these can contribute to the transformation of the economy for achieving the UN Sustainable Development Goals (SDGs).

9 According to a study of the World Economic Forum are over 50% of global Gross Domestic Product ,moderately' to ,highly' dependent on biodiversity ([Herweijer et al. 2020](#)).

10 Draft of CBD COP 15 negotiation text: [CBD/WG2020/REC/4/1](#)

11 CBD Side Event of Bio-Mo-D: <https://www.cbd.int/side-events/4993>

In the following, findings on the importance of biodiversity for the economy and businesses as well as current developments for the integration of biodiversity into corporate reporting are summarized.

2. The importance of biodiversity for businesses

A significant part of the global economy depends on intact nature and thus on biodiversity and ecosystem services – for example directly related to the production of goods and services and via global supply chains.

A study by the World Economic Forum (WEF) in collaboration with the accounting firm PwC states that over 50% (approximately \$44 trillion) of global gross domestic product (GDP) is 'moderately' to 'highly' dependent on biodiversity ([Herweijer et al. 2020](#)). Similar to the risks related to climate change, the rapid loss of biodiversity, especially ecosystem degradation, and the associated decline in ecosystem services are increasingly recognized as a systemic risk to the economy. For example, the Coalition of Finance Ministers for Climate Action states that degradation of nature causes significant economic costs and structural risks ([Power et al. 2022](#)).

A World Bank study shows that by 2030 even a partial collapse of a few selected ecosystem services can result in annual costs of over US\$2.7 trillion, which equates to a decrease in global economic output (GDP) of about 2.3% annually ([Johnson et al. 2021](#)). Moreover, climate change and biodiversity loss are closely linked and increasingly mutually reinforcing: changing land uses and ecosystem degradation lead to increasing greenhouse gas emissions directly contributing to even more pronounced climate change (joint IPCC and IPBES report - [Pörtner et al. 2021](#)).

The loss of biodiversity and ecosystem services poses numerous risks to businesses: **1) physical risks** through direct impacts on production, supply chains, or the value of investments; **2) transition risks** through changes in regulatory frameworks, consumer behaviour or legal and financing costs, which entail e.g. legal consequences and changes in competition, thus indirectly impacting businesses.

Companies are becoming increasingly aware of these risks and in particular institutional investors with a long-term investment strategy are demanding more transparency about the impact of biodiversity loss and the potentially significant investment risks this loss entails.¹² For example, over 100 central banks have formed the *Network of Central Banks and Supervisors for Greening the Financial System* (NSGF), emphasizing the need for investment decisions and corresponding financial market regulation to take into account biodiversity loss and climate change as mutually reinforcing systemic risks to the stability of global financial markets ([NSGF 2021](#)). An increasing number of companies and financial institutions are also calling for biodiversity reporting to be made mandatory for companies. For example, as part of the *Business for Nature* initiative, more than 330 companies and financial institutions from 52 countries (combined annual turnover of \$1.5 trillion) have joined forces and are calling on CBD member states to establish legally binding rules on corporate biodiversity reporting (Target 15 of the Global Biodiversity Framework).¹³

¹² Finance for Biodiversity Foundation: <https://www.financeforbiodiversity.org/about-the-foundation/>

¹³ Business for Nature: <https://www.businessfornature.org/make-it-mandatory-campaign>

With the *Finance for Biodiversity Pledge*, 111 financial institutions from 20 countries with assets under management totalling over €16.3 trillion have pledged their contribution to reversing the loss of biodiversity. They are working towards making biodiversity a more integral part of investment and lending decisions. It is likely that in the future, financial investors will also consider the risks companies are exposed to in relation to biodiversity loss when making investment decisions. The rating and scoring of companies according to ESG (Environment, Social and Governance) criteria play an important role within this ESG-informed decision process. However, the analysis by [Wildner et al. \(2022\)](#) has shown that these so-called ESG ratings have so far hardly or insufficiently taken biodiversity into account. There is also a lack of transparency in the valuation approaches used, which makes it difficult to objectively assess the biodiversity risks to which a company is exposed.

3. Current developments on the integration of biodiversity into business reporting

A systematic assessment of *impacts* and *dependencies* on biodiversity and ecosystem services is of central importance for both adequate risk management and forward-looking corporate strategy and decision making. Disclosure of relevant and robust information plays a defining role in supporting a transformation towards a more sustainable economy and can also open up opportunities for investment in more biodiversity-friendly economic practices ("nature positive economy").

While carbon accounting and reporting is already widely established for climate change mitigation, **comparable reporting for biodiversity is far less developed and accepted.**

Numerous international initiatives aim to standardize the recording of biodiversity and ecosystem services in corporate reporting in order to enable comparability between economic sectors, industries and companies. Currently, among the most important initiatives are:

- The European Union's **Corporate Sustainability Reporting Directive (CSRD)** will set legally binding requirements for corporate sustainability reporting. The CSRD establishes principles to ensure the quality and transparency of reporting and demands businesses to account for double materiality. This means that when assessing the materiality of e.g. biodiversity for a company including its value chain, both its *impacts* on and *dependencies* must be considered. The final version of the **European Sustainability Reporting Standard (ESRS), defining the content of the CSRD**, are already available and are scheduled to be adopted by June 2023¹⁴. This means that large companies will have to report on the relevance of biodiversity for their company starting with the 2024 reporting year, while small and medium-sized enterprises (SMEs) will need to do so from 2026 onwards. Ultimately, this affects approximately 50,000 companies in the European Union and around 15,000 companies in Germany.¹⁵

14 Recent drafts of the European Sustainability Reporting Standards (ESRS): <https://www.efrag.org/lab6>

15 Bundesverband Nachhaltige Wirtschaft BNW: <https://www.bnw-bundesverband.de/csr/d>

- The Global Reporting Initiative’s (GRI) disclosure requirements are one of the most widely used private standards for corporate sustainability reporting worldwide. GRI is currently revising the guidelines for reporting on biodiversity. The draft of the GRI Biodiversity Standard is open for public consultation until February 2023. The final version is expected to be published by mid-2023.¹⁶
- The International Financial Reporting Standards (IFRS) Foundation with the **International Sustainability Standards Board (ISSB)**: The IFRS Foundation is the recognized authority for the establishment of internationally accepted corporate financial reporting standards. The ISSB was created to establish uniform standards for the reporting of ESG (Environment, Social and Governance) issues. In this context, the ISSB aims to include biodiversity in its corporate sustainability reporting requirements.
- **The Taskforce on Nature-related Financial Disclosures (TNFD)**: The TNFD aims to develop a framework for the management and disclosure of nature-related risks and thus also to steer financial flows from nature-damaging to nature-promoting activities. The approach is modelled on the already established *Taskforce on Climate-related Financial Disclosures* (TCFD) and thus builds on internationally accepted climate reporting processes. TNFD has recently published the third working version (v0.3 beta release) of its methodology, which can now be tested by financial actors and companies. Fundamental to TNFD’s work is its structured and standardized process for locating, assessing, evaluating and preparing biodiversity-related information and disclosure (LEAP-Approach).

In addition, numerous initiatives are developing methods and tools to facilitate the systematic accounting and evaluation of the role of biodiversity and ecosystem services in companies. The following are among the most influential:

- The **Science Based Targets Network** (<https://sciencebasedtargetsnetwork.org/>): The network is an alliance of renowned organisations in the field of climate, biodiversity and sustainability research with the core objective of establishing and implementing science-based targets that are in line with the UN Sustainable Development Goals (SDGs).
- The EU LIFE project **TRANSPARENT** (<https://capitalscoalition.org/project/transparent/>) is an initiative led by the Value Balancing Alliance (VBA) and the Capitals Coalition. The objective of the project is to develop a standardised approach to capture and value the role of natural capital, the corporate impact on natural capital and making such information accessible for management accounting and ultimately corporate decision making. It is intended to contribute to the goal of the European Green Deal to establish a sustainable economy by 2050.
- **ENCORE - Exploring Natural Capital Opportunities, Risks and Exposure** (<https://encore.naturalcapital.finance/en>): The tool was developed by the Natural Capital Finance Alliance in cooperation with UNEP WCMC and allows to identify and visualise both impacts (insight-out perspective) and dependencies (outside-in perspective) of biodiversity for individual companies and sectors. The ENCORE tool can provide a useful

¹⁶ GRI: <https://www.globalreporting.org/standards/standards-development/topic-standard-project-for-biodiversity/>

entry point to assess both financial and impact materiality of corporate activities on biodiversity, especially at an industry-specific level and with regard to e.g. CSRD reporting. In order to capture impacts on and dependencies of biodiversity more precisely, however, further analyses are necessary for a more detailed collection of indicators and data on local biodiversity matters. In principle, the ENCORE tool and the further development of comparable methods should be seen as a work-in-process, yet they already offer an opportunity to familiarize with the topic in a well-founded manner and in the sense of comprehensive sustainability reporting.

- The **EU Business @ Biodiversity Platform project 'Align'** aims to develop a set of best practice principles and criteria on measuring and recording biodiversity. The objective is to strengthen synergies between existing initiatives and to develop both science-based and user-oriented recommendations in cooperation with businesses and business representatives. Recommendations for a standard on corporate biodiversity measurement and valuation was recently published¹⁷.

The current challenge within the subject area of corporate biodiversity reporting is to integrate the multitude of initiatives in the field in such a way that they can be efficiently implemented by companies and at the same time develop added value beyond reporting to facilitate more sustainable corporate management and decision making. At the same time, the proposed approaches must be fundamentally based on robust and accepted scientific research with regard to the role of biodiversity in economic activities. In this context, it is important to build on existing knowledge from socio-ecologic biodiversity research and to translate this and make it easily accessible and usable for sustainability reporting. Ultimately, however, increased expertise on the socio-economic importance of biodiversity is needed especially within financial and corporate management, so that the information provided by meaningful biodiversity reporting is appropriately reflected in both economic and political decision making. Only through relevant, targeted and transparent reporting on the role of biodiversity for society, business and the economy can sustainability reporting be credibly addressed. The conditions for this are already in place, now the unique opportunity for establishing meaningful sustainability reporting within corporate and national accounts should be seized at CBD COP 15 in Montréal.

17 UNEP-WCMC, Capitals Coalition, Arcadis, ICF, WCMC Europe (2022) Recommendations for a standard on corporate biodiversity measurement and valuation, Aligning accounting approaches for nature:
https://ec.europa.eu/environment/biodiversity/business/assets/pdf/2022/Align_Report_301122.pdf

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Further information:

Side Event at CBD COP 15: <https://www.cbd.int/side-events/4993>

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