



Brief on Discussions

“Sustainability Redefined”

9 May 2012, Mumbai

The National Biodiversity Authority (NBA) organized a one day expert consultative meeting on 9 May 2012 in Mumbai in association with Royal Bank of Scotland (RBS) on the topic of “Sustainability Redefined” to link role of financing and non-financing agencies such as banks to deal with issues of biodiversity conservation, sustainable use and sharing of benefits.

This event was attended by several bankers, risk managers in banks, sustainability experts along with the Executive Director of Reserve Bank of India.

Biological Diversity (biodiversity) is defined as the variability amongst living organisms. Such diversity is the basis of human survival and well-being since biodiversity offers a range of goods and services for the people. This diversity is fast disappearing from this Earth putting everyone at risk. Unlike climate change that can be reversed by mitigation and adaptation actions over a period of time biodiversity once lost is lost forever (extinction!).

Loss of this natural capital that is almost all times never considered as one of the key elements for country’s growth and performance has direct and widespread negative effects on financial performance. The Equator Principles (EPs) were initially developed in 2003 after a number of banks, including ABN Amro, Barclays, Citigroup and WestLB, received public scrutiny for their involvement in actions impacting ecosystems. As of June 2010, 80 banks representing 85% of the global project finance market signed up to the EPs.

In the area of operational risks that will be faced by financing institutions during the coming years, the following sectors will have an immense impact in the way socio-political and economic responses will guide the returns – oil and gas, mining, hydropower, fisheries, forestry and agribusiness. Such impacts will be directly guided by issues related to ecosystems and biodiversity.

In addition to the risk related issues, biodiversity and ecosystem services offer a range of opportunities for the financial institutions such as those defined by UNEP-FI, namely

- Early movers can demonstrate integration of biodiversity and ecosystem services can bolster their reputation and create value for marketing practices (Robobank, Credit Suisse, VicSuper),
- The capacities built in-house can benefit in terms of advisory services for corporate clients (DB, RBS),
- Advising clients how to integrate biodiversity and ecosystem services in supply chain management can lead to cost reductions for clients (Sumitomo Trust and Banking Company), and
- Environmental markets are increasingly starting to take shape in a growing number of countries. Financial institutions that understand these markets may profit through offering brokerage services, registers, or specialized funds (New Forests, Agro-Ecological).

Given the above, time has come to review the preparedness of banking and finance sector in India to seize the potential opportunities that biodiversity and ecosystem services provide to their business and investments. Apart from this, the growing industry (large as well as small and medium scale) and infrastructure sectors provide an opportunity and a challenge for the financing sector to respond to their needs not compromising protection of biodiversity and the nature with development.

The directive from Reserve Bank of India to deal with sustainability solutions for the banking sector (2007) , the advisory from the Comptroller and Auditor General of India to work towards developing a ecological audit for the country (2010) and the suggestion from the Planning Commission to develop an Ecological Performance Index (EPI) to deal with resource allocation from the next planning period (2012) all need to be linked and discussed together in the country to ensure the impact of such initiatives are collectively felt than dissipated.

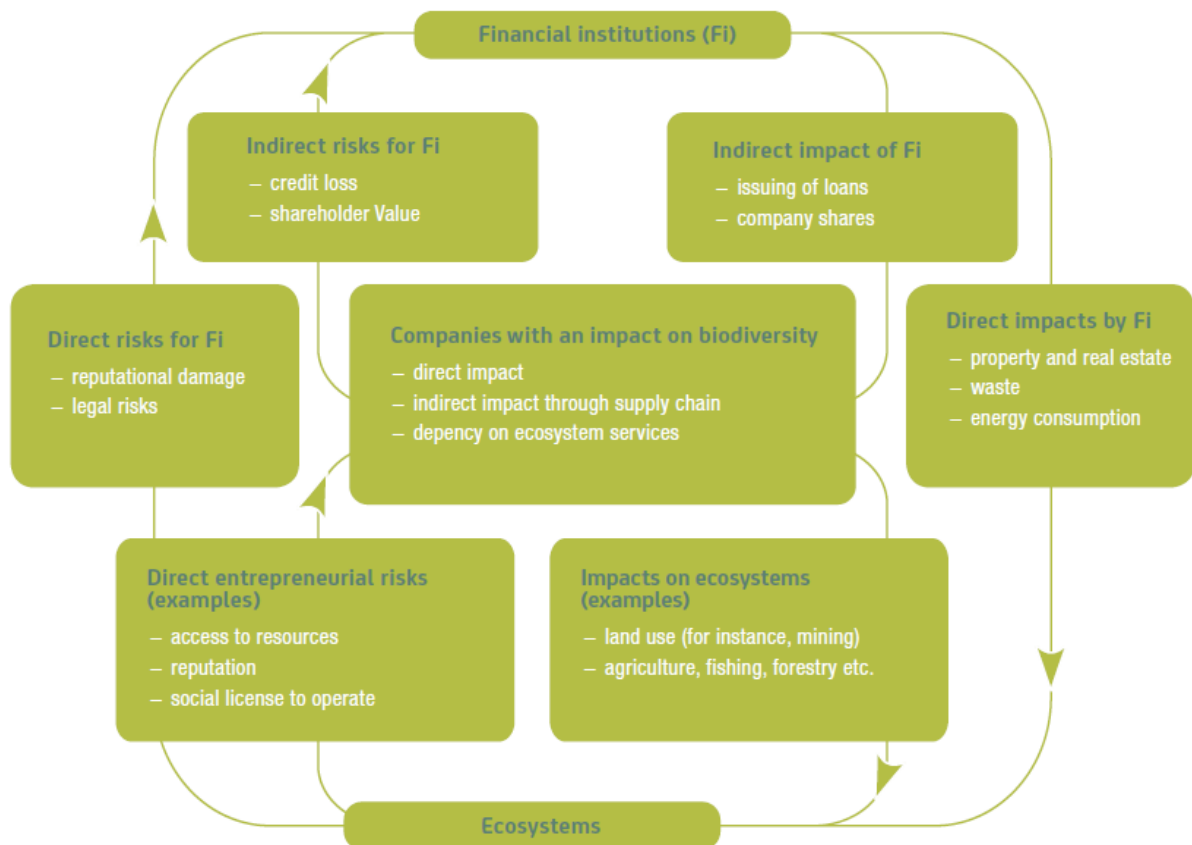
To move forward this discussion, the National Biodiversity Authority (NBA) [which is an independent and statutory body established by an Act of Parliament in 2003 to facilitate conservation, sustainable use and sharing of benefits from biodiversity across the country, to regulate misappropriation of biodiversity and to advise Government of India on related issues] convened an expert meeting on the topic 'Linking Ecological and Economic Indicators' on 18 January 2012 to begin developing an integrated framework of action. During the meeting, it was suggested to bring on-board the banking and finance sector, a key sector in the country that has both a role and impact in managing our natural resources including biodiversity, to identify ways of promoting an India-centric approach to financing and conservation.

Based on these ideas, the brainstorming discussion focused on the following:

- The role and relevance of ecosystems in sustainable business, from a Banking perspective
- Possibility of launching a national initiative on the lines of UNEP-Finance Initiative in India
- Address the emerging role of investments and financing sector in global policy making.

After self-introductions and brief welcome remarks by RBS and NBA, the Chairman, NBA made a presentation on the role of biodiversity and ecosystem services (BES) and financing and non-financing sectors. During the presentation he highlighted the issues of not just business risks associated with lack of focus on BES but also risks due to regulations and reputation. He cited examples from The Economics of Ecosystems and Biodiversity (TEEB) study that enunciated the potential value of investments in BES as well as highlighted the costs of inaction on issues of conservation in the short, medium and long terms. The potential new businesses based on BES such as water quality trading, wetland banking, mitigation credit trading, threatened species banking, innovation in pollution treatment, reuse and prevention as well as new markets based on fair trade practice, certification of ecosystem products, organic and environmentally-friendly products. Citing the UNEP FI report on contributions of environment to business, the Chairman highlighted that it is not properly understood that contribution of BES to business which is close to ten times more than carbon markets. He mentioned that the future of carbon trading and markets is rather bleak and time has come for financing and non-financing sector to look at BES as a potential emerging market for investments, risk reduction as well as spreading risk (insurance).

The presentation also cited that the finance sector is at a relatively early stage in understanding, assessing and managing biodiversity risks. Whilst the implementation of a biodiversity management framework is largely focused at the asset level, the application of the mitigation hierarchy and offsets is in its infancy. While banks in India are in the embryonic stages of addressing biodiversity risks, the bank policy frameworks and procedures lack strategic consideration of biodiversity risks and are primarily focused on negative screening. It also mentioned that Implementation of a biodiversity management framework focuses at the asset level and there is need for greater rigour at all levels of assessment and management, including at the client and portfolio levels. The presentation concluded with the following diagram and suggested the following possible actions:



- Undertaking a special Study on the preparedness of Banks in India to redefine sustainability and their responses (BES specific);
- Development of national Biodiversity Finance Sustainability Framework
- Establishment of a National Biodiversity Finance Initiative (NBFi)
- Presentation of key ideas and outcomes during the Ministerial Segment at CBD COP 11

Responding to the over-view presentation, the participants highlighted the following issues besides suggesting some ways forward:

1. There is a need to define concepts of biodiversity and ecosystem services (BES) for the sector. Development of a conceptual framework for financing and non-financing system in the country and clarification of role of BES in business needs to be presented in a language and manner that the stakeholders in the sector can understand and relate to;
2. The multinational banks seem to have a better understanding of issues related to BES because of the directives and background they receive from their headquarters or counter-parts from around the world. However, national banks seem to be not in the 'loop' on issues of sustainability as required;
3. The role of risk managers in banks to better understand and integrate elements of BES into their operations is critical. A special and focused meeting for risk managers need to be planned soon;

4. A website and blog on issues related to BES and financing sector needs to be created soon to attract more information, inputs and ideas to take the issues forward. NBA was requested to develop this component;
5. Suggestion was made to ascertain and show-case business opportunity, mitigation principles, availability of incentives and emerging reporting requirements as the basis for need to focus on BES by the financing sector;
6. While at global level frameworks such as Global Reporting Initiative (GRI) and adoption of Equator Principles (EI) are prevalent, their relevance to Indian scenario is still not clearly understood. Thus, there is a need to 'localize' these frameworks and principles that suit our business models and needs;
7. Role of partners such as NABARD, National Institute of Rural Development (NIRD), Indian Institute of Banking Finance (IIBF), Association of Indian Bank (AIB) need to be encouraged to look at issues of BES through appropriate mechanisms including training and orientation to its staff and students as needed;
8. While the RBI's financial inclusion component is a part of performance appraisal, RBI can be requested to re-look at the appraisal form and format that includes issues of BES. In order to develop this, a methodology on how to report for BES needs to be developed;
9. An incremental approach to include BES as a part of systemic review of financing and non-financing sector was suggested that focuses on roles, responsibility, rights and obligations;
10. Priority sector learning programme was identified as a way forward to ensure better integration of ideas;
11. Suggestions were made on presenting case studies from around the world on biodiversity finance project, insurance project focusing on BES and the related;
12. Innovative ideas such as cloud investing, innovative investments need to be experimented with. It was suggested that a two-level approach for inclusiveness can be thought of. The first level being a discussion with multinational banks and related networks and the second a discussion with nationalized banks and related networks. It was suggested that RBI can facilitate such a discussion based on the preparatory work suggested above.

The participants further discussed the issues of communicating right messages to the sector and requested for a meeting along with RBI and agencies such as IBA, ASSOCHAM, CAFRAL, CII, NABARD, NIRD, FICCI, WWF and others.

Suggestions were also made for NBA to prioritize actions towards show-casing some ideas for the forthcoming eleventh meeting of Conference of Parties to the Convention on Biological Diversity (CBD COP 11) in October 2012 where a special event bringing together the sector with conservation and development community was identified as a better idea to make peer learning possible.

The meeting concluded with words of thanks to all the participants, especially the executive director of RBI for his interest and involvement.