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SUMMARY

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INTO THE WILD

Integrating nature into investment strategies

WWF France and AXA recommendations for the members
of the G7 Environment meeting in Metz, 5-6 May 2019

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This report was produced by WWF France, with the inputs and the careful rereading of AXA.

It relies on the analysis of the current, relevant available literature and 23 interviews conducted from February to March 2019 and the list of which is available in the annex.

AXA and WWF France co-produced and support the recommendations that are set out from pages 8 to 10 of the document.

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EDITORIAL

ISABELLE AUTISSIER

Global wildlife populations have declined on average by 60 percent in the past 40 years, largely due to threats and pressures induced by human activities. This is an alarming wake-up call that nature is in a state of emergency. And it is not just wildlife that is in crisis. Each year, around US\$125 trillion worth of ecosystem services are provided to the global economy through drinkable water, food and pollination, fresh air, heat absorption, and forests & oceans that soak up carbon dioxide – the equivalent of 1.5 times the global GDP.

But these crucial ecosystem services provided by nature, which underpin human well-being and survival, are at risk – as the last Global Assessment Report of the IPBES demonstrates again. Overexploitation, habitat loss and pollution, among others, generate an ecological debt, which future generations will have to bear.

We need a global action to bend the curve of nature loss, protect our natural capital and secure the future of humanity. For that, we have before us an unparalleled opportunity as we head into 2020. In China in autumn 2020, the world leaders will gather to agree on a new 10-year strategic plan for biodiversity under the UN Convention on Biological Diversity. This framework will have to set the targets and strengthened mechanisms to put us on the path towards a more sustainable future.

We need a real New Deal for Nature and People where everybody has a role to play – from business to civil society, governments and local authorities, youth and indigenous people, private finance actors and development banks – to, altogether, reverse the trend of nature loss and preserve our natural capital. This deal should focus on tackling the underlying root causes of nature's decline for the benefit of People and the Planet. We need a New Deal for Nature and People to unite world leaders behind the biggest issue of our generation and catalyze a new movement that can and will preserve the habitability of our planet.

That is why WWF France is proud to publish this report together with AXA, one of the first institutional investors to have really engaged in the fight against climate change.

We thank the French Ministry for the Ecological and Inclusive Transition, which commissioned this report for the G7 Environment Ministers meeting in May 2019. It is the first time a leading global institutional investor and an international environmental NGO are exploring together the consequences of biodiversity loss for investors and how the financial sector can have a positive impact to help protect and restore nature for the benefit of the whole society. It is a first step on a long and necessary path towards a future where people can live in harmony with nature.

Isabelle Autissier,
Chairman, WWF France



EDITORIAL

THOMAS BUBERL

Addressing eroding biodiversity is a complex but increasingly pressing challenge. Nature produces elements essential to human activity and to our very survival, from food and shelter to medicines' active ingredients. Moreover, diverse ecosystems are key to tackling climate change, as flourishing forests and well-preserved oceans absorb carbon emissions. Conversely, climate change accelerates biodiversity loss, creating a vicious circle. Our dependence on diverse ecosystems to thrive, if not survive, is therefore not to be doubted.

The implicit contributions of each species in our economies are also far-reaching: their roles can be seen as "services" provided free of charge by nature. For example, artificial pollination would cost an estimated 153 billion euros per year, generating labour and technological costs far exceeding any economic viability. Yet species are disappearing at a fast rate, endangering these services and threatening human integrity. Whilst this situation has not yet attracted as much political and media attention as the equally challenging concerns related to climate change, more and more analyses are starting to highlight the rate of species decline and its inherent threat to human welfare.

As a company which, over the past 5 years, took important decisions in the fight against climate change, we are convinced that the preservation of biodiversity requires an equally broad collective commitment from all stakeholders: from private sector actors, including financial institutions, to governments, NGOs and civil society.

The potential loss of key ecological services endangers not only populations but also certain businesses that depend on them and can therefore become a concern for investors. Investors' ability to understand and map these potential risks would enable them to identify opportunities and in doing so, help support solutions rather than environmentally unsustainable business practices.

This is why AXA decided in 2018, in the context of the "Act4Nature" project, to investigate this issue, by conducting an analysis of our exposure to biodiversity-related risks and opportunities in our insurance and investment activities. In 2019 we decided to support WWF's development of this report, which is a first attempt to map existing initiatives and call for a new public-private collaboration.

Insurers, in their capacity as risk carriers, can leverage their expertise to provide solutions. We also have a strong role to play by engaging with the investment community, not least in sectors and companies that are committed to "transition" towards more sustainable activities. Having been among the first large institutional investors engaged in the fight against climate change, we know that the financial sector cannot drive sustainable change on its own: operating in a predictable environment, relying on robust and harmonized methodologies, using clear scientific definitions and being able to have sufficient "investment depth" to progressively shift investments towards the targeted sectors are key to ensure a positive impact in the long run. Only this way can we avoid generating binary, pro-cyclical effects. A forward-looking, dynamic view will also be essential to avoid the pitfalls of static approaches.

Finally, the adoption by governments of international science-based biodiversity targets can help provide further clarity. General aspirations will not be sufficient to generate tangible outcomes. Only then, provided these targets are clear enough, may companies, financial institutions, and civil society organizations attempt to translate these nature conservation objectives into investment strategies.

We are happy to have, thanks to the mission we were given by the French Ministry of Environment, the opportunity to share our experience and learnings on responsible investments and insurance with WWF, a world leading NGO on the fight for preserving biodiversity. We are aware that this is only the starting point of a long journey which will require a much broader collaboration, dialogue and mobilization of governments, private sector, international organizations, regulators and civil society. It is crucial that we build collective awareness and willingness to take action.

Thomas Buberl,
CEO, AXA Group



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EXECUTIVE SUMMARY AND RECOMMENDATIONS

IF COMPARED TO THE WORLD'S TOP 10 ECONOMIES, THE OCEAN WOULD RANK 7TH WITH AN ANNUAL VALUE OF GOODS AND SERVICES OF \$ 2,500 BILLION

CLIMATE IS NOT THE ONLY PIECE OF THE NATURE "PUZZLE" FOR FINANCIAL INSTITUTIONS

SEEING THE BIGGER PICTURE: BEYOND CLIMATE, FINANCIAL INSTITUTIONS MAY BE EXPOSED TO THE "BANKRUPTING" OF NATURE

Nature is currently being degraded at an unprecedented pace and scale. The rate of global loss of nature has been increasing drastically in the last 50 years, leading to a global environmental crisis. The degradation of our planet's natural ecosystems, such as the oceans or land-based ecosystems is undermining

its ability to provide vital goods and services that enable our economies to thrive.

Crossing the ecological limits of our planet may also put the profitability of some investments at risk. Certain financial returns are inextricably linked to nature through the dependencies and impacts of economic activities they finance. For example, a European pharmaceutical company lost almost 40% of its market capitalization in less than one year, causing shareholders billions in losses, after acquiring an agrochemical company accused of causing adverse impacts on bee populations and facing multiple health-related trials.

Concerns over environment-related threats, starting with climate-related financial risks, are growing. Since the launch of the Taskforce on Climate-related Financial Disclosures (TCFD), a growing number of policy-makers have been acknowledging the importance of climate change for financial institutions. The mainstreamed mobilization of companies and financial institutions on climate can inspire similar initiatives to address other nature-related issues such as biodiversity; but systematically replicating the same approach is not the answer. For instance, it might be useful to take stock of this approach and shift to a more integrated and impactful strategy: investing in and accompanying countries, companies and projects supporting the transition to a low carbon economy, a healthier and a fairer & more resilient society.

RECOMMENDATION 1

We recommend to launch a **Task Force on Nature Impacts Disclosures**, to create the conditions to transition towards protection, restoration and promotion of biodiversity. Financial institutions have an important leadership role to play in supporting awareness and decision taking around biodiversity loss. Achieving meaningful change, however, will require a broad-based coalition gathering the full spectrum of actors that are part of the issue and of the solution. With this Task Force, we recommend to foster an open dialogue with the private & public sector, including policymakers, with the objective to promote cross sectorial and cross border engagement.

This Task Force should identify and analyze business activities that have a material impact on biodiversity as well as activities with "transition" potential to support biodiversity protection and restoration. This analysis should be careful to avoid pitfalls that would hamper transition efforts rather than encourage them, such as: generating pro-cyclical effects by highlighting niche activities only, or creating rapid, uncontrolled exclusion mechanisms that would lead to sudden divestments from companies at a moment when they need to invest on their transition efforts.

NAVIGATING THE ISSUES ASSOCIATED WITH NATURE DEGRADATION - AND THE OPPORTUNITIES FOR ITS PROTECTION

THE ABSENCE OF MATURE, EFFECTIVE METHODOLOGIES HINDERS FINANCIAL INSTITUTIONS' CAPACITY FROM HAVING A COMPREHENSIVE VIEW OF IMPACTS ON NATURE

Identifying impacts on nature is an essential starting point to analyse, manage and ultimately report on them. For this purpose, the following report proposes to review existing frameworks to understand business dependencies on ecosystem services and their impacts on nature, to provide financial institutions with an insight into existing initiatives.

RECOMMENDATION 2

To improve on methodologies, we urge **non-financial rating agencies** to ensure the inclusion of material biodiversity considerations within their ESG criteria and rating methodologies. We also advise governments to help structure the market for non-financial rating agencies by way of more rigorous accrediting processes. The Task Force should review how to best **integrate biodiversity impact measurement into existing frameworks on climate change and ESG** criteria and not create a new, separate framework, which would risk creating undue complexity and hampering mobilization rather than fostering it. In terms of available data, we advocate for governments to create conditions to facilitate the harmonization of biodiversity-related data, for instance through the development of **open source platforms, which would contain information on the transition plan of private and public actors.**

IN THE SHORT RUN, EXTRA-FINANCIAL AGENCIES ARE PIVOTAL FOR MAINSTREAMING AND HARMONISING ASSESSMENT TOOLS EVALUATION METHODOLOGIES

The lack of accurate, comprehensive and tailored nature-related data prevents financial institutions from developing investment strategies taking them into account and engaging effectively with companies.

While tools for sectoral and geographical analyses of assets are emerging, there is a knowledge gap by non-financial companies on their value chain. This does not allow them to monitor their impact/dependency relation on nature in a comprehensive way and, in turn, to provide financial institutions with reliable and useful data. In the short term, financial institutions can use the ratings and information provided by extra-financial agencies that are supposed to have larger datasets, proxies and scoring methodologies. These methodologies are largely heterogeneous and are unlikely to provide standardized and comparable information. In the longrun, the development of comprehensive metrics and conventions for reporting on them should be encouraged, either by market players and financial rating agencies, or by regulators, or via new forms of collaboration.

RECOMMENDATION 3

The Task Force should include institutional investors and **develop a framework for investors to use in analyzing biodiversity risk and engaging with the businesses in which they invest, especially in the sectors that can be most damaging for biodiversity.**

This framework should promote a direct dialogue with businesses on transition towards protection, restoration and promotion of biodiversity and appropriate reporting.

THE BIOFIN ESTIMATES THAT
THE NEEDS OF FINANCIAL
FLOWS TO PROTECT NATURE
RUN UP TO US
\$440BN

There are also promising opportunities for financial institutions in meeting the rising societal demand for nature conservation. Among them are the potential for new financial products, investments, and markets as well as early mover advantages. Private-public financing solutions can play a decisive role in bridging the ever widening gap between the need for new investments to protect nature and current capital flows.

RECOMMENDATION 4

We propose that governments create the conditions for a continuing and constructive dialogue between public authorities and the full spectrum of private sector actors concerned by these issues with a view to addressing rising societal demand for nature conservation. This should include specific initiatives to raise public awareness including, for example, such as **labels for financial products with a positive impact on nature.**

EXPLORING AN INTEGRATED SUSTAINABILITY APPROACH: TAKING INTO ACCOUNT ECOLOGICAL LIMITS INTO INVESTMENT STRATEGIES

The risks and opportunities for financial institutions in managing the protection of nature may not be enough to preserve its ecological limits or maintaining the resilience of our biosphere. This is because in the conventional approach to pressures, mitigation is neither systematic nor built to fit within ecosystem functioning. A new ecological approach to integrating nature into financial institutions in order to address this issue in a more systematic way is required. In the climate context, a similar approach – that is the call for alignment with the Paris Agreement in absolute terms – has attracted a considerable amount of attention among various actors of civil society as well as public and private organizations. Many financial institutions are working towards this objective, in a “test and learn” phase.

RECOMMENDATION 5

Governments should establish clear priorities in this field of biodiversity protection since it is particularly vast and holistic and they should encourage the full spectrum of actors (private and public) concerned by these issues to be part of this effort. Governments should provide visibility to economic actors on areas that are the most sensitive and where transition efforts should urgently start.

Ensuring financial activities are compatible with the viability of ecosystem functionality is a major issue, with three main considerations:

- 1) understanding, characterizing, quantifying and monitoring the impact on nature of the activities investors are financing,
- 2) defining the level of impact that can secure ecological functionalities and the resilience of the biosphere,
- and 3) managing business and financial activity in order to maintain this level of impact.

There are two complementary paths for integrating of these considerations into financial strategy. The first path, which is already underway, is initiated by companies. It requires them to measure their impacts, define individual ecological limits and to make this information available for financial institutions. The second path, which is only now emerging, is initiated by financial institutions. It assumes that the financial institutions measure themselves the impacts of their portfolios on nature, and define associated ecological limits.



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WWF FRANCE

in few numbers

1973

year of creation of WWF's french office

117

employees of WWF France committed to passing on a living planet to our future generations



1 000 000

donors of WWF France

4 000

active volunteers in metropolitan France and overseas



Why we are here

To stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature.

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