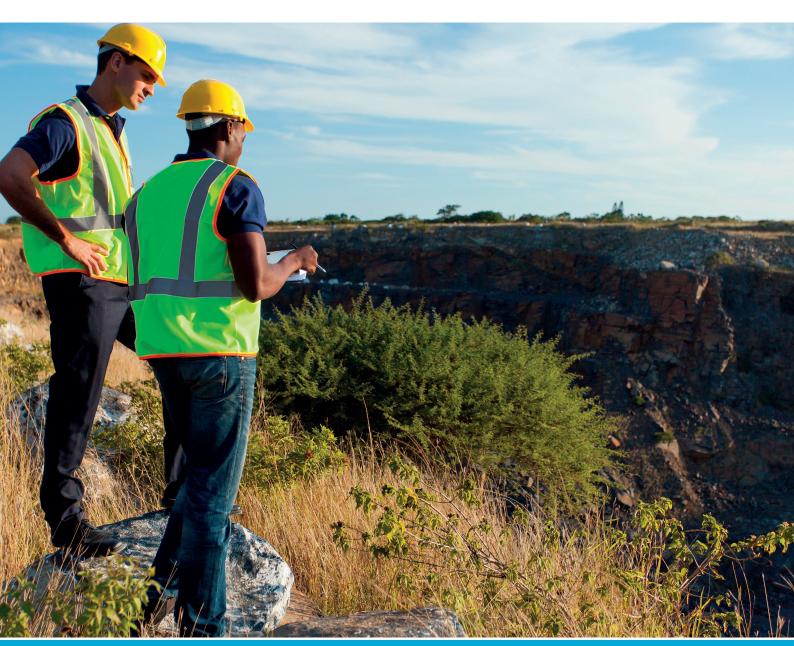


Net Positive Impact on biodiversity

The business case



International Union for Conservation of Nature





Net Positive Impact on biodiversity: the business case

Key messages

- Businesses adopting Net Positive Impact (NPI) as a concept or target aim to achieve net gains for biodiversity from their business project outcomes.
 Operationalizing NPI involves using the Mitigation Hierarchy to prioritize impact avoidance and mitigation, as well as rehabilitation, above biodiversity offsets.
- Voluntary, company-wide commitments to NPI began about ten years ago and a number of major companies are moving towards NPI or similar voluntary commitments.
- Two major drivers of business applications of NPI are the rise in government biodiversity offset regulations and the widespread establishment of financial institutions' performance standards for biodiversity management.
- The business case for NPI centres on the ability of NPI-implementing companies to comply with these regulations and standards as well as the potential of such businesses to gain a significant competitive advantage by, for example, avoiding costs and delays caused by protests about biodiversity impacts, and benefiting from a credible reputation for sound biodiversity management.

What is this paper about?

NPI on biodiversity is realized when the presence of a business (or organization) in a region ultimately generates positive impacts on biodiversity - impacts that not only balance but are broadly accepted to outweigh, over a quantified timescale, the biodiversity disturbances and impacts associated with its activities. Implementing an NPI approach entails the use of the Mitigation Hierarchy, a decision-making framework for the systematic planning of actions to reduce biodiversity impacts. The Mitigation Hierarchy prioritizes impact avoidance as the most preferred option, followed by impact mitigation and rehabilitation and finally, once these options have been exhausted, biodiversity offsetting.

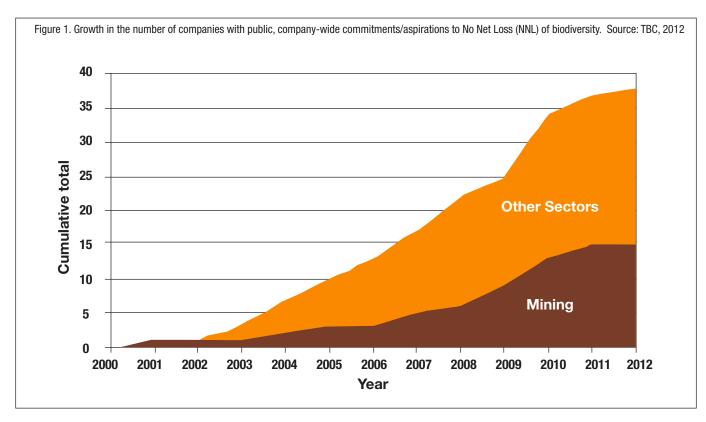
This paper summarizes the business case for private sector applications of NPI. It outlines the opportunities available for businesses that implement best practice biodiversity management by applying NPI in their operations. The conservation case for NPI is outlined in a separate briefing paper.

Since NPI is a relatively new concept and business applications of NPI are still at an early stage of development, few data are available on the costs and benefits associated with implementing NPI. This paper therefore focuses primarily on the potential costs and benefits.

Rationale for businesses addressing biodiversity issues

Many businesses rely on ecosystem goods (e.g. timber, fisheries and natural pharmaceuticals) and services (e.g. pollination, erosion control and air quality regulation) - all of which are underpinned by biodiversity (PwC, 2011). These vital goods and services are being increasingly impacted by human activity, including business practices and policies. A recent global assessment found that almost two-thirds of the ecosystem services examined are being degraded or used unsustainably (Millennium Ecosystem Assessment, 2005a). If current trends continue, these ecosystem services will no longer be available or will be more expensive in the near future. These additional costs will certainly affect primary industries first, but will also be passed down to secondary and tertiary industries. This will transform the operating environment of businesses worldwide by influencing customer preferences, stockholder expectations, regulatory regimes, governmental policies, employee well-being, and the availability of finance and insurance (Millennium Ecosystem Assessment, 2005b).

The ability of any business to achieve long-term success therefore depends on its ability to understand and manage biodiversity impacts and dependencies. There is growing awareness within the private sector about the linkages between business and biodiversity. Recent surveys of top business managers found that



27% of CEOs were either 'extremely' or 'somewhat' concerned about biodiversity loss as a threat to their business growth prospects, and nearly half of the CEOs surveyed agreed that resource scarcity and climate change will transform their businesses (PwC, 2010a and 2014).

At the same time, biodiversity offers important opportunities for businesses. By integrating biodiversity into business decision-making, companies can enhance their performance, not only by reducing risks but also by increasing revenue streams, reducing costs or improving their products. Furthermore, biodiversity itself presents potentially huge untapped opportunities in the form of new products and services, and new markets for biodiversity and ecosystem services are emerging (TEEB, 2013).1

There are therefore clear business interests in maintaining or enhancing biodiversity values and the associated ecosystem goods and services.

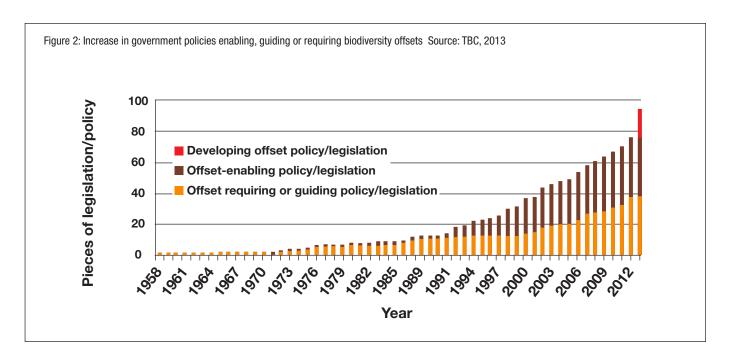
Business applications of the NPI concept

The early adopters of NPI commitments within the business community have come from the mining sector. In 2003, Solid Energy, a state-owned mining company in New Zealand, was the first to commit to an NPI approach – in this case, to achieving a net positive result on the New Zealand environment based on a cumulative result of all their activities. In 2004, Rio Tinto committed to achieving NPI on biodiversity as part of the company's corporate biodiversity strategy; the company aims to achieve NPI on biodiversity by the closure of each of its operations. Other companies currently moving towards NPI-type commitments include Teck Resources, The Disney Corporation, Dow, BC Hydro, Puma, Holcim and BG Group.

More broadly, private sector companies are increasingly adopting environmental management and biodiversity conservation strategies and making more systematic efforts to alleviate their impacts on biodiversity. While few have gone as far as making public, company-wide commitments to NPI, a significant number of businesses have committed to related goals for biodiversity. As of 2012, there were 38 companies with commitments to no net loss (NNL) of biodiversity, including 15 from the mining and aggregates sectors (see Figure 1). The current range of NPI and NNL commitments can be considered as a continuum, ranging from more aspirational goals to clear commitments and firm targets backed up by detailed protocols on impact mitigation, offset design and quantitative impact measurement (TBC, 2012).

Drivers of NPI uptake by businesses

The major external drivers behind the growth in business applications of NPI (and related commitments such as NNL) are:
(i) the increase in biodiversity regulations facing companies' operations; and



(ii) the increased use of biodiversity-related performance standards by financial institutions as investors in business operations. These two drivers are summarized below.

CHANGING REGULATORY LANDSCAPE

Requirements for NPI are rapidly moving from the voluntary space to the compliance space. When the first voluntary NPI policies were launched by businesses in 2003/2004, few national or sub-national jurisdictions were regulating biodiversity management; for example, biodiversity offset requirements to compensate for significant residual biodiversity impacts were restricted to a small number of jurisdictions in OECD countries.

The picture is quite different today. Figure 2 shows the rapid rise in biodiversity regulation over the last decade, as expressed by the number of national and sub-national offset policies.² Currently 46 countries have regulations in place at a national and/or sub-national level that enable, guide or require the use of biodiversity offsets (TBC, 2013). A further 17 countries are developing national-level

legislation or policy on biodiversity offsets (TBC, 2013). In addition, the EU is in the process of developing an NNL policy initiative, which is due to be in place by 2015.

National regulatory frameworks for biodiversity offsets commonly require or guide project proponents to apply the Mitigation Hierarchy and develop biodiversity offsets in order to compensate for any significant residual impacts on biodiversity after impact avoidance, and mitigation and rehabilitation options have been exhausted.

CHANGING INVESTMENT LANDSCAPE

The past decade has also seen a significant increase in the role that financial institutions play in ensuring better environmental and social outcomes of the projects they finance. Specifically, the IFC and other financial institutions have been increasingly including biodiversity-related provisions in their environmental and social sustainability policies. The revision of the IFC Performance Standards in 2012 firmly embedded the concept of NPI by including a requirement for a net gain of biodiversity

for projects that impact critical habitat (and NNL of biodiversity for projects that affect natural habitat) (IFC, 2012).

The IFC Performance Standard 6 (PS6) is having an important impact on development projects worldwide, particularly in countries with no (or weak) legislative policies on biodiversity conservation. The PS6 has quickly become the benchmark biodiversity standard for a large number of project financing and lending institutions including:

- Export credit agencies. Approximately 33 OECD institutions, such as the Australia's Export Finance & Insurance Corporation and Canada's Export Development Canada, follow a harmonized approach, which references the IFC's Performance Standards (OECD, 2012).
- Commercial banks that are signatories of the Equator Principles. Some 79 financial institutions have adopted the Equator Principles on environmental and social risk management for project finance.
 These financial institutions are based in 35 different countries and account for over 70% of international project finance debt in emerging markets. The

Equator Principles reference the IFC's Performance Standards for application in project financing and corporate loans for projects.

Other multilateral finance institutions. While other multilateral finance institutions, such as the African Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank and the Inter-American Development Bank have their own performance standards, these are increasingly converging with the IFC standards. For example, their standards often require projects to apply the Mitigation Hierarchy and demonstrate minimization of impacts on important biodiversity.

The IFC's PS6 has also helped focus the attention of the extractive industry on the Mitigation Hierarchy. For example, an extractive industry forum called the Cross-Sector Biodiversity Initiative, co-organized by the International Council on Mining and Minerals, IPIECA (a global oil and gas industry association for environmental and social issues) and the Equator Principles Association, was launched in 2013. The aim of this initiative is to develop and share good practices and practical tools for the application of PS6.

The business case for adopting an NPI approach

The business case for good biodiversity management in general has been mentioned above and is set out in the literature (e.g. TEEB, 2013, PwC, 2010b, MEA, 2005b). This section will therefore look at the incremental benefits that can be achieved by businesses adopting an NPI approach.

THE BENEFITS OF IMPLEMENTING AN NPI APPROACH

The main benefits that can be achieved fall into two categories: regulatory compliance and competitive advantage.

Regulatory compliance

By far the most important business benefit of applying NPI is that it enables companies to align their projects and operations with the biodiversity-related performance standards and regulations, as previously described. The IFC's PS6 is particularly significant and is likely to affect even major corporations that do not normally seek finance. This is because of the following issues, among others:

- In joint venture or multi-partner projects, one partner may have PS6-related financing, which can impact schedules and costs for all partners;
- Purchase of small or medium-sized companies or projects that were started with bank finance results in inheritance of loan conditions:
- Nations (especially non-OECD countries) that are required to own a percentage of mining projects often obtain their financing from development/multilateral banks, which increasingly follow PS6 or similar biodiversity standards; and
- PS6 is now viewed as best practice, and corporations and governments are increasingly using PS6 as a global benchmark for their own standards and regulations.

Competitive advantage

Adoption of an NPI approach, whether or not it is required by investors or national or sub-national jurisdictions, can provide businesses with an important competitive advantage. This advantage can apply in a number of ways, including for example gaining access to land and resources in significant biodiversity areas, becoming the developer of choice for resource holders, achieving cost reductions and innovations in project design, and gaining first-mover advantage in terms of reputation and readiness. Some of these advantages are outlined next.

Access to land and resources

Companies committing to an NPI approach are in a better position to acquire access to land which has significant biodiversity values. This applies particularly to companies with limited options for the geographical siting of impacts – such as in the mining and oil and gas industries. In addition, new resources for many extractive industries are often in areas of high biodiversity and a clear commitment to NPI (or at least NNL) may be the only way for such businesses to gain access to these resources.

Good relations and reputation

A credible reputation for environmental and biodiversity-related management performance based on NPI can improve relations with regulators, local communities and civil society, and secure a 'social licence to operate'. A strong commitment to, and good record on, biodiversity management can also help businesses attract and retain good employees.

First-mover advantage

As NPI-type approaches become more widespread, experience in this field will help businesses to anticipate and influence emerging environmental regulations and policies, as well as maximize strategic opportunities in emerging markets.

Avoiding costs and delays

Especially when applied in areas of conservation concern, NPI can help businesses achieve faster permitting and avoid delays to the project from, for example, legal actions or protests, through early identification of biodiversity issues and credible application of the Mitigation Hierarchy.

Better decision-making

By adopting NPI (or NNL), companies can benefit from the systematic nature of the Mitigation Hierarchy as a decision-making framework. The challenge of focusing first on the 'avoid' and 'minimize' steps of the Mitigation Hierarchy can lead to more careful site and route selection, as well as technical innovation in the search for less invasive solutions and smaller footprints.

A transparent, results-oriented approach

The field of biodiversity management has spawned a confusing array of tools, approaches and issues such as natural capital accounting, ecosystem service assessment and valuation. Within this context, NPI has several advantages. It is an outcome-based approach using real project pilots on the ground; it is bold and simple enough to be understood and endorsed by senior executives and a majority of stakeholders; it can be easily communicated; and, perhaps most significantly, it is flexible enough to incorporate a range of different methods and approaches. An NPI on the environment is what most stakeholders wish to see, and they are mainly interested in outcomes rather than details of the methods used to get there.

Opportunities from offsets

By using biodiversity offsets in a strategic, responsible manner, within the framework of the Mitigation Hierarchy, businesses can benefit from the increased credibility and robustness of these offsets. For example, the offsets can become flagship Corporate Environmental and Social Responsibility (CESR) assets to highlight their enhanced stewardship. The offsets can also be used as banks of biodiversity and ecosystem credits, as assets on company balance sheets (e.g. by selling forest carbon credits or excess biodiversity credits to other developers). While care needs to be taken with respect to additionality, this approach is already being pursued by some leading mining companies.

The costs of adopting an NPI approach

The business case for NPI needs to take into account the additional burden borne by businesses applying NPI. These costs, which stem from the use of more rigorous and ambitious conservation targets in project development, are summarized as follows:

- Budget impacts. Generally, most companies with impacts in areas of high biodiversity values undertake biodiversity impact avoidance, minimization and rehabilitation. The additional costs involved in achieving NPI are therefore related to further avoidance and mitigation of impacts, quantification of residual impacts and/or development of offsets.
- Schedule impacts. Implementing NPI may entail project delays because of the time required for baseline data collection, NPI accounting, offset design and implementation. However, experience has shown that project delays due to biodiversity issues are often caused by the concerns of stakeholders and the inability of companies to credibly make the case that biodiversity issues will be managed properly. Adopting an NPI approach in these cases would save time in the long run and allow for a positive engagement on stakeholder concerns and opportunities to mitigate biodiversity impacts.

Conclusions

While business applications of the NPI concept began with voluntary commitments within the mining sector and several major corporations have moved towards similar voluntary, company-wide commitments to NPI/NNL, future uptake of NPI may be driven largely by obligations. The last decade has seen a sharp rise in national and sub-national biodiversity offset regulations and financial institutions' biodiversity performance standards, most significantly the IFC's Performance Standard 6. It is these regulations and standards that will push and shape the growth of NPI applications in the coming years. Their impact is already being seen; indeed, the business case for NPI today is defined predominantly by the ability of NPIactive businesses to comply with these requirements.

Nonetheless, businesses that adopt an NPI approach even where biodiversity management regulations and standards are weak or non-existent, and businesses that make company-wide commitments over and above the regulations in place, can also expect to achieve an important competitive advantage and can position themselves well to deal with what will be an increasingly constrained business environment (resource depletion, tightening regulations, climate change impacts, etc.).

Adopting an NPI approach may entail potential costs and delays. However these are far outweighed by the risks of not applying NPI, especially given the way that the regulatory and investment landscapes are changing, the growing importance of CESR and the need to meet the expectations of increasingly biodiversity-aware stakeholders, consumers, employees, local communities and governments.

Adopting NPI – as a company-wide commitment, project target or even aspirational goal – makes sound business sense as it supports long-term business value. It provides a robust means of understanding biodiversity impacts and defining an end-goal for impact mitigation, so that projects can be designed and implemented effectively and sustainably.

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This paper was produced as an output of the NPI Alliance, a cross-sectoral collaborative initiative with Rio Tinto plc, Shell Global Solutions International B.V., The Nature Conservancy and IUCN, with advisory support from the International Finance Corporation.

The initiative, which explored how an NPI approach on biodiversity could enable the private sector to better manage biodiversity and contribute to global conservation, ran from 2014-2015.

IUCN is currently drafting a Biodiversity Offsets Policy, which may provide further guidance.

For more information, visit: www.iucn.org/business

Published by: IUCN, Gland, Switzerland

DOI: http://dx.doi.org/10.2305/IUCN. CH.2015.06.en

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Citation: NPI Alliance (2015). Net Positive Impact for biodiversity: The business case. Gland, Switzerland: IUCN.

Cover photo: IUCN/Maria Anna Borges

Layout: Louise Tait

¹ Madsen et al. (2011) note 45 biodiversity market mechanisms (such as conservation banks) globally and 27 more under development. Further details on the global growth in biodiversity markets and related programmes can be found in BBOP (2009) and Tanaka (2010).

² Biodiversity offset legislation provides a useful indicator of NPI policy development as a growing number of national and state legislators have framed their offset legislation with the aim of delivering an outcome of no net loss or net gain of biodiversity.

³ Critical habitat is defined in IFC Performance Standard 6 as areas with high biodiversity value, including (i) habitat of significant importance to Critically Endangered and/or Endangered species; (ii) habitat of significant importance to endemic and/or restricted-range species; (iii) habitat supporting globally significant concentrations of migratory species and/or congregatory species; (iv) highly threatened and/or unique ecosystems; and/or (v) areas associated with key evolutionary processes.



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