

# BIODIVERSITY INVESTMENT RATING AGENCY INITIATIVE OVERVIEW

## Why a Biodiversity Investment Rating Agency?

The Biodiversity Investment Rating Agency (BIRA) will make it easier for companies to measure, communicate, and track their biodiversity impact, which will help identify and unlock investments in the sector. Biodiversity is ranked as the third most significant threat to humanity, after carbon emissions and nuclear war. Yet, less than 16% of the required funding is currently available for biodiversity protection, leaving a US\$ 700 billion funding gap for biodiversity conservation and restoration. Private capital can play a critical role in closing this funding gap while tapping into an attractive asset class that is poised to grow. For instance, between 2018 and 2019, Global Sustainability Linked Loans that offer incentives for companies to reduce their negative impact on nature increased by 168%<sup>1</sup>. However, investments are currently constrained because there is no standard way to measure, communicate, and track biodiversity impacts.

This unmet need sits at the heart of the BIRA initiative, launched by FSD Africa Investments and Dalberg. BIRA aims to identify existing tools and/or frameworks (hereafter referred to as 'tools') for biodiversity measurement and to facilitate investor access to tools that meet their needs. BIRA has completed its initial landscape scan and identified existing tools that can be potentially used by investors. It is now exploring how these tools can be customized to better meet the needs of investors. FSD Africa Investments and Dalberg are the initial co-investors in this initiative. BIRA is now inviting one or two additional co-investors to join the founding partnership. This partnership will launch and test a biodiversity tool and/or an investor lens that can be used by financial investors.

## Who We Are

Established in 2012 and supported by UK Aid, FSD Africa is a specialist development agency working to build and strengthen financial markets across sub-Saharan Africa. Depending on the project, FSD Africa can provide a combination of grants, market insights, or technical assistance to ensure it achieves its objectives. FSD Africa Investments is the investment arm of FSD Africa. FSD Africa Investments provides early-stage, risk-bearing and patient capital to inventive commercial organisations in order to stimulate capital flows in support of green economic growth benefiting people and planet.

Dalberg is a strategy consulting firm committed to building a more inclusive and sustainable world where all people, everywhere, can reach their fullest potential. Our businesses provide high-level strategic, policy, and investment advice to the leadership of key institutions, corporations, and governments, working collaboratively to address pressing global problems and generate positive social impact.

FSD Africa Investments and Dalberg. The initiative was initially committed to developing a viable investment assessment tool that offers guidance to interested actors. However, we want our work to be additive and not duplicative. As such, our mission has pivoted towards helping overlay an investor lens on existing tools and scaling the reach of these tools. Through our engagement with over 30 stakeholders including investors and fund managers, we now understand how BIRA needs to make a strong case for biodiversity investments, and demonstrate real-life use of measurement tools, to bring onboard financial actors.



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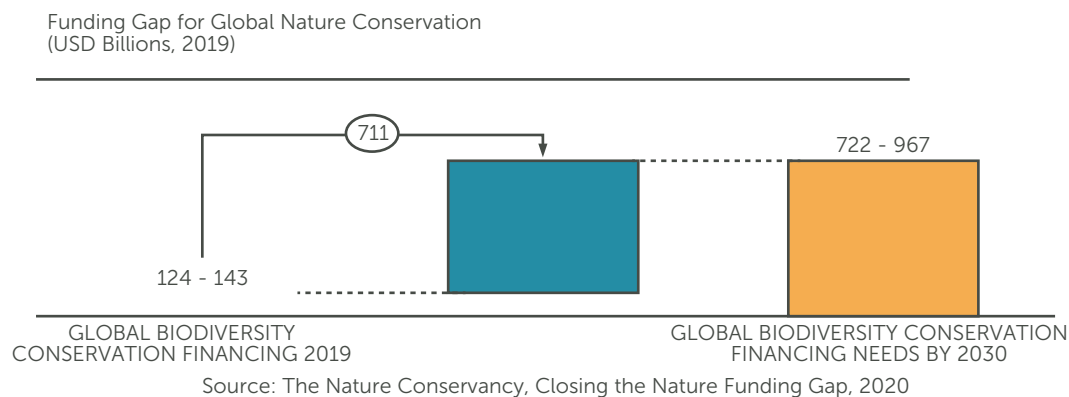
<sup>1</sup> The World Bank, *Unlocking Private Finance for Nature*, 2020

## Why a Biodiversity Investment Rating Agency?

**Biodiversity loss is the third biggest global risk in terms of impact and will have a tremendous effect on the world's economy if not addressed<sup>2</sup>.** For instance, the world has astonishingly lost 68% of monitored populations of mammals, birds, reptiles, amphibians, and fish in 45 years between 1970 and 2016<sup>3</sup>. In a business-as-usual scenario, environmental degradation could result in a cumulative loss of US\$ 10 trillion by 2050<sup>4</sup>. This economic shift will have devastating ripple effects, including but not limited to global price hikes in commodities such as timber, cotton, oilseeds, fruits, and vegetables, especially affecting Africa, Asia, and Latin America.

**While funders understand the magnitude of the funding need, their level of activity is not commensurate with this understanding, and funding is lagging behind the required commitment.** On the one hand, financial investors, fortunately, understand the need for their involvement and investment in biodiversity. In a Credit Suisse report, 84% of finance asset owners and managers were concerned about biodiversity loss, and 1 in 2 believe it is an urgent issue that should be addressed in the next 24 months<sup>5</sup>. However, investors have not yet backed up their concerns with action; for instance, 9 out of 10 financial actors surveyed in the Credit Suisse study do not have measurable biodiversity-related targets. As a result, their participation is limited, which results in the biodiversity funding lag. Specifically, the funding gap for biodiversity conservation and restoration stands at over US\$ 700 billion.<sup>6,7</sup>

Figure 1: Illustration of the biodiversity conservation funding gap



**A set of challenges limits the ability of financial actors to participate in the biodiversity investment landscape.** Chief among them is the fact that biodiversity is a non-commodity asset with no universal value unit, which makes it difficult to calculate the value of investments or compare potential investments to one another. In addition to the lack of standards and metrics, there is limited investment-grade data for biodiversity, especially robust data that shows causality of impact. The lack of reliable data, in turn, paralyzes investors who value data-driven decision-making and the ability to determine the true effect of their capital on unlocking growth for the biodiversity sector. Lastly, biodiversity is still a nascent sector in the financial world, which often implies limited expertise in identifying viable opportunities, especially within investor teams. Thus, investors need external guidance to help formulate investment plans that look beyond financial returns and consider the non-financial environmental and social benefits of their investments. This is a key need for a rapidly growing generation of investors who are looking for more than a financial return. To address these challenges, a critical opportunity lies in improving existing tools through an investor lens applicable across asset classes and conservation-focused business models that combine rigorous metrics and verification, allowing effective fund deployment.

<sup>2</sup> World Economic Forum, Global Risks Report, 2020

<sup>3</sup> WWF, Living Planet Report, 2020

<sup>4</sup> Ibid

<sup>5</sup> Credit Suisse, Unearthing investor action on biodiversity, 2020;

<sup>6</sup> The Nature Conservancy, Closing the Nature Funding Gap, 2020

<sup>7</sup> In 2019, biodiversity spending was estimated to be between \$124 and \$143 billion annually, against the required annual total of \$722 and \$967 billion



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## Approach and Progress-to-Date

We have adopted a three-phased approach to this engagement. We have finalized the first phase, where we have scanned the existing landscape of solutions. We are currently in the initial stages of Phase 2, which is focused on fine-tuning and testing a solution. In a future Phase 3, we will explore how the solution should be institutionalized.

## Reflections and lessons from Phase 1

We gained a thorough understanding of the biodiversity investment landscape, explored existing tools being used to assess biodiversity outcomes, and shortlisted existing tool developers. The tool developers were shortlisted based on five criteria: 1) whether their tools are designed with investors and funders in mind, 2) credibility of the tool developer, 3) applicability within different spheres of biodiversity, geographies, and sectors, 4) quantitative and comparable output to facilitate investment decision making, and 5) whether the tool is readily available and usable with no need for extensive technical expertise.

Throughout Phase 1, the team collected learnings primarily about potential investor needs, desired features of tool metrics, assessment of impact, and potential partnership structures to advance the work in subsequent phases. A few of our insights include:

- **Private sector engagement:** The private sector, through its access to a variety of resources, including internal company data, is best positioned to lead the development of an effective tool to measure the biodiversity impact of investment activity. Sectors such as ecotourism, forestry, and agriculture are current focus areas for investors, and these sectors include several biodiversity-related investments driven by private, non-philanthropic investors.
- **Assessment tool metrics:** Metrics must be based on scientifically robust and transparent biodiversity datasets, which are also agile and easily upgraded as the underlying science and technology evolves. Further, the tool metrics should be spatially explicit to allow users to quantify the impact they will have in a target location, and they should be quantitative to allow investors to easily determine the biodiversity value of an investment.
- **Impact assessment:** The ultimate goal of using the tools should be to assess the magnitude and nature of the actors' impact. As such, in terms of pricing biodiversity credits or investments, the focus should be on finding a more fundamental way to price biodiversity so that people are motivated to protect and/or enhance it. Further, the impact of financial actors' investments should not be viewed in isolation as a commercial activity; human livelihoods and environmental sustainability are interconnected with impact areas such as carbon and socio-economic dynamics, which should be considered in the tools.
- **Potential partnership structures:** Our analysis of the existing tools showed us that other organizations have already started developing sound tools to measure biodiversity impact.
  - Partnering with organizations to build on existing tools for investors will allow us to leverage organizations' existing knowledge and experience, build on the credibility of the tools, and more readily link to a greater body of stakeholders working to achieve similar goals as us.
  - BIRA's contributions, going forward, will be to facilitate the incorporation of investor perspectives into subsequent phases, to help shape the rating of the tool so that investment managers can easily understand and use it, and test whether the tool can cut across different ecosystems, locations, and sectors.

## Current priorities and path forward (Phase 2 and Phase 3)

We are currently in the initial stages of Phase 2, which builds on the work in the earlier phase by 1) further understanding the overall suitability of prioritized tool developers, including assessing their tools' scientific underpinning, and 2) developing the Investor guide explaining why investors should prioritize biodiversity and how investors can use existing shortlisted tools for financial purposes.

During Phase 2, we seek to address the following questions:

- How can the prioritized tools be further adapted to meet investor needs?
- What would a financial module that meets investor needs look like in practice?
- How can investors be engaged through case studies, short courses, etc. to better understand the tools and their applicability?
- What is the scientific underpinning of the prioritized tools? And of the proposed financial modules?
  - Have the tools undergone credible peer review? If so, what was the tools' rating?
  - How robust is the science and technology on which the tool is based?
- What are the tool developers' ability to scale the reach of their tool?

By the end of this phase, we will have created a bridge between existing tools and financial investors current and planned needs. We are currently developing a "financial module" that can serve as this bridge, as well as engaging investors to enhance their understanding of potential solutions. After this phase of work, we will discuss options to institutionalize our learnings within existing tool developers, educational institutions, and/or through an independent Biodiversity Investment Rating Agency.

## Go-Forward Support

To date, BIRA has received investments through FSD Africa Investments and Dalberg. BIRA is now seeking 1 or 2 additional partners who can contribute to Phases 2 and 3 of this initiative. BIRA is open to technical partnerships or investor groups that can support the investor engagement process. BIRA is also open to financial investments from 1-2 funding partners who can also lend their experience and insights to the initiative.

The new funding will be used to attain the following objectives:

- Technical biodiversity and investment expertise to further refine the tools and improve prioritized tool developers' value proposition to investors. Our primary focus is to develop a financial module that developers can overlay on top of their tools.
- Ongoing investor engagement, including a virtual convening, to showcase existing tools, provide case studies, and discuss how the tools can be adapted for financial investors.

While biodiversity is increasingly on the radar of stakeholders, most of the actors we engaged are still examining opportunities. Joining the BIRA initiative will enable partners to be founding members of an initiative that is seeking to unlock systemic bottlenecks in the biodiversity sector. The initiative offers partners an opportunity to be leaders and catalysts in the sector.

On behalf of the BIRA team, we are pleased to drive this incredibly important, and urgent work. The need for biodiversity investment has gone largely unnoticed and we are committed to changing that with your support. We also value being a flexible and responsive partner and welcome any feedback from interested parties.

For questions about BIRA and our approach for this work, please contact:

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