Biodiversity-friendly production and commercialisation

Key results of the scoping phase of the "Private Business Action For Biodiversity" project
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Methodology

In its 18-month orientation phase (09/2016 to 02/2018), the Private Business Action for Biodiversity project investigated the potential and challenges of instruments, processes and mechanisms for promoting biodiversity-friendly production and commercialisation.

At global level, we conducted numerous interviews with experts, carried out internet and literature research and analysed two areas of funding instruments in depth, using two studies, one focusing on voluntary sustainability standards and labels and one on private financing mechanisms. In addition, two studies were carried out in each partner country – one on the policy framework and one on actors and existing instruments and mechanisms – to gain an overview of mechanisms and instruments already in use. At the same time, specific case studies for biodiversity-friendly production and commercialisation were identified and analysed. The results of these analyses are summarised in the present paper.

Results of the global studies

There are promising trends worldwide that are conducive to biodiversity-friendly production and commercialisation. Consumers and companies are becoming increasingly aware of the need to stop biodiversity loss.[1] These trends are flanked internationally by the Convention on Biological Diversity (CBD), which from 2016 to 2018 focussed in particular on mainstreaming biodiversity into the productive sectors agriculture, forestry, fisheries and tourism. Despite limited resources, the CBD also maintains the Global Partnership for Business and Biodiversity, which networks corporate initiatives for biodiversity conservation worldwide. In addition, the global involvement of the private sector in biodiversity conservation is also a recognised cross-cutting issue in the Sustainable Development Goals (SDGs). The European Union (EU) is another driving force with an impact on emerging countries; many of the priority areas mentioned in the global studies (supply chains, natural capital, traceability, sustainable investment) are being promoted by EU programmes.

In addition to the growing importance of biodiversity aspects in corporate sustainability strategies and in standards and labels, biodiversity criteria are also increasingly being discussed in the expanding area of sustainable investments. Moreover, the growing importance of biodiversity-friendly production and commercialisation is reflected in the fact that actors at national, regional and international level have joined forces in networks to share knowledge on biodiversity in an entrepreneurial context and on funding instruments.

However, the main contributors to the international debate are currently large companies. Small and medium-sized enterprises (SMEs), which are often at the beginning of a value chain, have insufficient access to networks, knowledge and funding instruments that support them in making their production and commercialisation biodiversity-friendly.[2] They are underrepresented in relevant initiatives and platforms, often because they do not have the necessary financial and personnel capacity. As a result, instruments and methods tailored specifically to SMEs are largely lacking, in particular simple and practical management tools that can be implemented at low cost.

Standards and labels offer an opportunity to integrate biodiversity and ecosystem services more effectively into business processes, particularly in agriculture and forestry. They are no longer a niche market in many value chains, but instead are becoming increasingly important in terms of overall production: between 2008 and 2014, the share of global production in which voluntary standard schemes were applied increased by 35 percent.[3] This figure refers to the eight value chains bananas, cotton, coffee, cocoa, tea, sugar, palm oil and soybean. For coffee, the proportion of standard-compliant production is particularly high, at 48 percent, followed by cocoa at 30 percent.

At the same time, the number of existing voluntary standards has grown to over 450 worldwide. There is a tendency to develop standards that relate to specific sectors or value chains or highlight specific issues. Individual topics such as energy and CO2 consumption have gained in importance, and standards have emerged that specialise in biodiversity (e.g. Union for Ethical Biotrade UEBT, Life Certification, Climate, Community and Biodiversity Standard). Most standards, however, do not yet take sufficient account of biodiversity criteria.[4] The standards often only refer to individual factors of biodiversity loss or individual ecosystem services. Terms are not clearly

1 Cf. UEBT Biodiversity Barometer http://www.biodiversitybarometer.org/ and initial results of the International Climate Initiative (IKI) project Scaling-up Biodiversity Communication for Achieving Aichi Target 1 (implemented by WWF).

2 Of particular relevance are the numerous business and biodiversity initiatives, which are well networked and play a decisive role in shaping issues such as the recent discussion on natural capital.

3 Cf. International Institute for Sustainable Development (IISD, 2017): Standards and Biodiversity: Thematic Review, p. 51. Available at https://www.iisd.org/sites/default/files/publications/standards-biodiversity-ssi-report.pdf (08.08.2018).

4 Cf. also the baseline report of the EU Life project Biodiversity in Standards and Labels for the Food Sector, https://www.business-biodiversity.eu/en/baseline-report.

In Mexico, the main focus of the project is on agaves. This plant has a particular tradition in the country and is used, for instance, to produce mezcal and tequila.

defined; in some cases, there is a connection to biodiversity, but this connection is not explicitly mentioned. Important factors, such as pollination, have scarcely been taken into account to date.

In addition, the impacts of the standards have so far barely been monitored. Standards are often implemented where costs are lowest, but not necessarily where the need is greatest. Landscape approaches that do not concentrate on individual production units but instead focus on a larger coherent area can make an important contribution here. Moreover, standards such as the Forest Stewardship Council (FSC) develop principles for evaluating the impact of the standard on particular ecosystem services, for example. However, this concept requires even greater demand in order to become established.

The growing number of voluntary standards and the lack of impact monitoring is increasingly leading to confusion and to a crisis of consumer confidence. Standards need to be harmonised, terms defined more clearly, and biodiversity criteria integrated more consistently. A reliable traceability system is also important to restore consumer confidence.

Driven by growing demands from consumers and retailers, international companies in particular are increasingly committing themselves to tracing the origin of their raw materials and to observing environmental and social criteria. Biodiversity is not at the centre of the discussion here, but is currently being addressed by various actors for food industry standards (e.g. Global Nature Fund, TEEBAgriFood Initiative) and can provide important impetus for other sectors. More than 300 international companies have now committed themselves to deforestation-free supply chains, including soya, palm oil and cocoa. SMEs at the lower end of the supply chain are facing the challenge of implementing the new demands from their large costumers, e.g. within the framework of the New York Declaration on Forests (NYDF).

In addition, impact monitoring and landscape approaches must be further developed. Initial steps have been taken in this direction: the merger of UTZ and the Rainforest Alliance is a move towards harmonisation of standards, the alliance of sustainability standards ISEAL is stepping up its efforts to establish impact monitoring; actors such as the Rainforest Alliance, the FSC and the Better Cotton Initiative are working on landscape approaches.

The exact documentation of the origin of raw materials poses challenges for actors along complex supply chains.

Sustainable investments can be an interesting alternative for SMEs to obtain funds. With a volume of 145 billion euros (sustainable investments) and 98 billion euros (impact investments), this form of investment accounts for less than 1 percent of the market share in Europe and is therefore still a niche market.[5] However, there is an enormous increase in demand, which, according to market researchers, will continue with the increasing availability of capital among the younger generations (especially millennials). Investments that take sustainability criteria into account grew by 146 percent in Europe between 2013 and 2015 alone. Impact investments, for which positive effects must be proven, have increased by 400 percent over the same period.[6]

The challenges of this type of investment include the lack of suitable investment projects; in addition, sustainability projects are still considered both risky and unprofitable. In the area of impact investments, there is a lack of simple and practicable methods for demonstrating effects too. Biodiversity aspects have so far only been considered in isolated cases, even though important guidelines such as IFC Performance Standard 6 and the Equator Principles mention biodiversity.

SMEs and producers need better access to information on possible sources of finance and capacities in order to develop and submit projects ready for investment. There are currently few SMEs that specifically address these investment opportunities – in many cases they do not even approach banks as traditional financiers. The initial financing of the investments, some of which are very small, is often through funds from family and friends or through microcredits. Nevertheless, the trend towards 'sustainable' investment could create interesting financing opportunities for SMEs in the future. In addition, capacity development programmes (e.g. supported by the government) can better prepare SMEs for financing opportunities. State risk assumption (e.g. first-loss tranches) can also make sustainable investments and impact investments more attractive.

5 Cf. Eurosif (2016): European SRI Study 2016. Available at http://www.eurosif.org/wp-content/uploads/2016/11/SRI-study-2016-HR.pdf (08.08.2018).

6 Cf. Eurosif (2016)

Results of the country analyses

The partner countries Brazil, India and Mexico, which were selected during the orientation phase, have characteristics that make them particularly attractive for the implementation phase. They all belong to the group of megadiverse countries and are important regional powers, also with regards to environmental and nature conservation policy issues. They are home to a large number of globally important ecosystems and biodiversity hotspots, both terrestrial and marine. They are also part of the group of 20 industrialised and emerging countries (G 20). They have a broad entrepreneurial base, with a large proportion of SMEs (a significant proportion of which operate in the informal sector), and they are important exporting countries of primary products in world trade. At the same time, due to their size and population, they have very high domestic demand and SMEs are therefore also prioritised and promoted by governments.

In ***Mexico***, biodiversity received considerable attention at national level in the wake of the 13th meeting of the Conference of the Parties to the UN Convention on Biological Diversity (COP 13), which took place in Mexico in 2016. The focus here was on discussions about the integration of biodiversity into the primary sectors agriculture, forestry, fisheries and tourism. The National Biodiversity Strategy was adopted during the meeting and contains important elements for the conservation and sustainable management of the country's biodiversity. The conference also led to the creation of the Mexican Biodiversity Alliance AMEBIN, in which companies, private initiatives and non-governmental organisations have joined forces to promote dialogue between the various biodiversity stakeholders and companies.

Efforts to implement biodiversity legislation have so far been reflected very little in policies and framework conditions, however. Environmental and economic sustainability are too often still seen as diametrically opposed goals, which is also evident in the fact that the use of biological diversity is often restricted or prohibited instead of promoting sustainable use.

SMEs are of great importance in the Mexican economy. They provide 72 percent of jobs and account for 52 percent of GDP.[7] Nevertheless, there are only very few support instruments that explicitly aim to support SMEs in biodiversity-friendly production and commercialization. These focus on subsidies; the development of capacities SMEs for biodiversity-friendly production and commercialization has not yet been taken into account. There are currently no special financing instruments for biodiversity-friendly SMEs. The majority of SMEs belong to the informal sector, which constitutes an obstacle to participation in state support programmes. In addition, only a small proportion of these enterprises are aware of government support programmes.

Mexico lacks integration of the concept of sustainable use of biodiversity across ministries and also the corresponding policies and instruments to promote implementation of legislation. Special instruments for SMEs should be considered. The impact of government support instruments should be recorded through monitoring and evaluation mechanisms to ensure continuous improvement.

India was one of the first countries to adopt comprehensive legislation to implement the requirements of the CBD. The basis is the Biodiversity Act of 2002, which is implemented using a three-level structure (national – federal – local) and accompanied by various policies. Nevertheless, implementation requires time, political will, resources and the establishment of appropriate processes. In 2016, for the first time the National Green Tribunal put pressure on the Indian states to implement the Biodiversity Act by bringing an action against high-raking officials. The country's Corporate Social Responsibility Act 2013 is an interesting financing mechanism in which companies above a certain size must spend 2 percent of

7 Instituto Nacional de Estadística y Geografía (2015): Encuesta Nacional sobre Productividad y Competitividad de las Micro, Pequeñas y Medianas Empresas.

In India, the project supports the development of Biodiversity Action Plans to integrate biodiversity into the Indian spice sector, e.g. for nutmeg and pepper.

their net profit for the common good; these can also be measures to protect biodiversity. However, the resulting financing possibilities have not yet been used strategically; there is great potential here to offer companies multi-year projects to promote biodiversity conservation. India also has a state support programme for organic farming with incentive programmes for producers. The state of Sikkim deserves special mention here, as its entire area has been used exclusively for organic farming since 2016.

SMEs employ a total of 120 million people in India and account for 45 percent of exports,[8] but their share of GDP is comparatively low. This share is to increase significantly through government support programmes, as SMEs are seen as the key to the country's economic development. Currently, the vast majority of SMEs belong to the informal sector (94 percent) and have little access to finance (87 percent of SMEs were self-financed in 2006).[9] There are as yet no special instruments to support SMEs in biodiversity-friendly production and commercialisation. However, India has a well-established national business platform on biodiversity (Indian Business and Biodiversity Platform, IBBI), which has already developed various management tools to promote biodiversity-friendly production and commercialisation and supports mainly large companies in implementing biodiversity-friendly measures. IBBI is also increasingly recognising the importance of SMEs and is currently working to adapt instruments and management tools for this group of companies.

In ***Brazil***, the government focuses on the targeted promotion of small and micro enterprises, of which there are 12.4 million in Brazil and which account for about 98.5 percent of all companies. They are a driving force behind job creation and employ 52 percent of the official workforce. Their contribution to Brazil's GDP is 27 percent, with medium-sized companies contributing a further 25 percent.[10]

The study that was conducted analysed three groups of support instruments for biodiversity-friendly production and commercialisation (which, however, do not exist with this exact terminology in Brazil): Firstly, there are policies and programmes for poverty reduction and food security, which have a direct link to natural resources and are or were attached to the Ministry of Social Affairs and the Ministry of the Environment. In addition, there are financing strategies and credit lines for sustainable pro-

8 https://www.cii.in/Sectors.aspx?enc=prvePUj2bdMtgTmvPwvisYH+5EnGjyGXO9hLECvTuNuXK6QP3tp4gPGuPr/xpT2f

9 http://www.worldbank.org/en/news/press-release/2015/03/31/india-sme-project-signing

10 http://www.sebrae.com.br/sites/PortalSebrae/ufs/ro/artigos/perfil-das-microempresas-e-empresas-de-pequeno-porte-2018,a2fb479851b33610VgnVCM1000004c00210aRCRD

The impacts of certified forest management on biodiversity are being measured in Bailique, a Brazilian region in which the so-called „superfruit" Açaí is produced and marketed.

duction. Thirdly, there is a whole support package for indirectly biodiversity-friendly production, e.g. programmes to combat climate change or deforestation.

Brazilian government support strategies for poverty reduction have also contributed to the greater valorisation of biodiversity-friendly products, as the study shows. In particular, the concept of 'protection and sustainable use', i.e. the preservation of traditional lifestyles and production methods, was supported over a period of almost ten years, for example through areas of use for traditional peoples. Brazil has also presented very successful concepts such as the purchase of ecologically certified agricultural products for school meals or the military (Aquisição de Alimentos, PAA and Alimentação Escolar, PNAE) and a minimum price policy for products of sociobiodiversity (Preço Mínimo para os Produtos da Sociobiodiversidade, PGPMBio). These programmes have benefited numerous small farmers, cooperatives and SMEs and promote traditional biodiversity-friendly value chains.

Nevertheless, Brazil lacks practical and easily accessible financing instruments to support the transition towards more biodiversity-friendly production methods and business models. The advice offered by various institutions such as rural advisory services or SEBRAE (a service network for small and micro enterprises) is often still inadequate, which means that applicants' capacity is insufficient too. An important and successful non-repayable financing mechanism is the Amazon Fund, a REDD (Reducing Emissions from Deforestation and Forest Degradation) mechanism that finances biodiversity conservation projects and, since 2017, also allows companies to apply for funding. Here too, however, access to funds is highly complex, often making it more difficult for cooperatives, for example. Due to the recession in recent years, some of the programmes mentioned have become increasingly underfunded.

However, initiatives and instruments for biodiversity protection are still strongly positioned in Brazil, and society as a whole is highly aware of *brasilidade* as a symbol of Brazilian products of sociobiodiversity, tradition and self-perception. Especially in the cosmetics and food industry, Brazilian companies show a high degree of innovation and play an active part in international discussions (see for example the company Natura as well as initiatives such as Origens Brasil).

Conclusions

The analyses in the partner countries have confirmed that successful examples of biodiversity-friendly production and commercialisation already exist, but they are not being implemented on a broad and widespread basis. In addition, there is an increased awareness of the problem, which is leading to positive trends in consumer behaviour and entrepreneurial decisions that can strengthen biodiversity-friendly production and commercialization. While many private sector actors are already developing approaches to integrate biodiversity, the political framework conditions are not yet generally geared towards the promotion of biodiversity-friendly production, for example by taking greater account of environmental costs. To maintain and reinforce the positive trends, we need effective implementation of private and public support mechanisms and instruments that promote and disseminate promising approaches in our partner countries. This is particularly true for SMEs that do not have the resources, knowledge or tools to improve their production and commercialisation.

The project has identified the following fields of action in which instruments and mechanisms have particular potential for promoting biodiversity-friendly production and commercialisation:

- **Impact monitoring:** In order to strengthen standards and labels and to integrate biodiversity criteria into impact investment products, suitable instruments must be available for both cost-effective and meaningful impact monitoring.
- **Traceability:** Simple traceability tools are key to enabling companies to take responsibility for complex supply chains and to identify positive effects.
- **Financing mechanisms:** There are not enough investment-ready projects available to meet the growing demand for sustainable investment opportunities. Improved matchmaking between investors and investment projects and capacity building among SMEs are necessary.
- **Management tools:** Tools for integrating biodiversity into business processes must be simplified in line with existing capacity, especially for SMEs.
- **Capacity development:** Instruments and mechanisms are mainly geared towards large companies and not towards the needs of SMEs. In addition, the actors involved need to be sensitised to the dependence and effects of entrepreneurial activity on biodiversity.

Based on these five fields of action, the Private Business Action for Biodiversity project has agreed on subprojects in the three pilot countries for the implementation phase starting in November 2018 to test instruments and mechanisms for promoting biodiversity-friendly production and commercialization, refine them if necessary and feed the findings into international debate.

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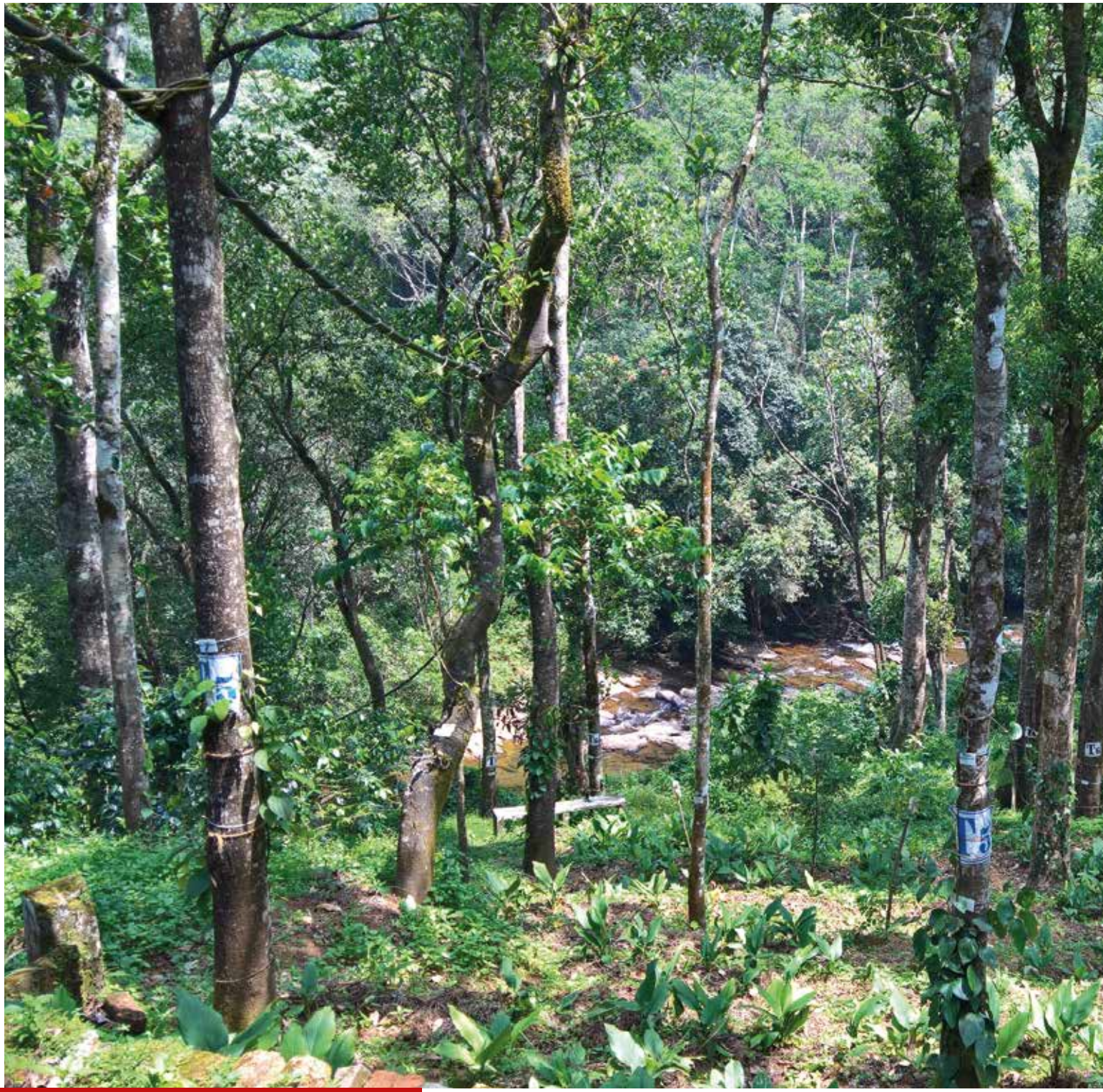

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