



# THE CONSERVATION EXCHANGE AND CANADA'S BIODIVERSITY FINANCE ECOSYSTEM: MILLANI'S RESEARCH FINDINGS

June 2023

The Conservation Exchange (The CX), established by Environment & Climate Change Canada (ECCC), is a three-year project developing and testing an approach for assessing and providing recognition for biodiversity benefits of conservation projects funded by businesses and delivered by proven conservation organizations.

## How would it work?

Businesses will pay conservation organizations to undertake projects. In exchange, the companies will receive government-backed certificates stating the expected biodiversity benefits to be realized by the projects over 20 years. The CX aims to provide a mechanism for the private sector to invest more in nature, increase the effectiveness and efficiency of biodiversity funding by focusing attention on a standard indicator of biodiversity value, and facilitate conservation finance.

Millani was asked by ECCC to test or validate assumptions concerning the potential relationship between The CX and biodiversity finance.

## Millani's findings:

There are some potential applications of The CX certificate within the sustainable finance ecosystem:

- Integration into existing environmental, social, and governance (ESG) analysis and ratings methodologies
- A proof point in sustainability-linked bond issuance or sustainability-linked debt reporting
- Evidence of contribution to ESG-related commitments

## Potential benefits of The CX



Based on Millani findings, stakeholders clearly support the overarching mission to channel more private capital into nature-related investments.



The existing system of ESG ratings, frameworks, and financial products along with the growing investor interest in biodiversity provides structure for the conversation around biodiversity finance to advance quickly.



There is a changing market dynamic in sustainable finance. Market signals suggest that mainstream ESG investing may shift from a traditional approach of risk and return to an expanded approach of **risk, return and sustainability outcomes**. There is a potential for The CX to connect to this shift if investors need to provide further disclosure on how their investment processes lead to positive sustainability outcomes.

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## Potential challenges of The CX

However, there are significant challenges that were highlighted through interviews with standard setters, regulators, investors, and other financial stakeholders. The most significant challenge relates to the perception of greenwashing:



There are concerns that aspects of The CX may be used to claim more biodiversity benefits than have been delivered, or to use it to “offset” activities that would have taken place with or without participation in The CX. To mitigate this risk, investors would like to see **a more direct link between the conservation project and a company's activities.**



Although global events such as COP15 and frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD) are contributing to awareness around biodiversity, many investors are early in their understanding and awareness of the topic. The CX certificate could include **additional information**, e.g., the potential risks or negative impacts related to the project; more detail on metrics calculation and species selection; and information on how regular reporting and assurance would be conducted.



Without **a clear financial incentive, or a demonstration of the materiality of biodiversity risk** for a company, participation in The CX may be perceived as philanthropy, which narrows the potential for investors to credibly use the certificate within their investment processes.

## What are the implications?

- For The CX to gain momentum, it needs **buy-in** from the potential users of the certificate.
- It would need to **integrate** with other widely used and respected ESG-related standards and frameworks, as well as existing environmental requirements at the municipal, provincial and federal levels.
- Any concerns around greenwashing and offsets must be refuted by aligning with current market requirements around **data transparency, auditing and reporting.**
- **Education and targeted engagement** would also be required to ensure the right stakeholders are communicating correctly about the goals of the projects.

### About Millani

Millani provides advisory services on ESG integration to both investors and companies. For the past 15 years, Millani has become the partner of choice for institutional investors. By providing advisory services on developing strategic ESG communications, engagement and disclosure strategies and integrating material ESG issues into their investment strategies and decision-making processes, we help our clients reduce risks, increase returns, and create value. Millani is also leveraging this expertise and its experience in ESG consulting to help reporting issuers improve their ESG disclosure and engagement strategies to optimize their market value.

For more information, contact us at [info@millani.ca](mailto:info@millani.ca) or visit our website: [www.millani.ca](http://www.millani.ca)