



Breaking the Environmental Crimes-Finance Connection



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FINANCE FOR
BIODIVERSITY
Initiative

Breaking the Environmental Crimes-Finance Connection

About this publication

This report presents Finance for Biodiversity's (F4B) analysis and recommendations on how to break the connection between environmental crimes and finance. It has been prepared as an invited contribution to the UK Government-sponsored Global Resource Initiative (GRI), a multi-sectoral taskforce assigned to provide recommendations on greening the UK's international supply chain footprint.

This paper's primary focus is the potential for extending the use and positive impact of Anti-Money Laundering (AML) rules in reducing environmental crimes. In exploring this potential and its limitations, however, the report highlights the need to go beyond the broader application of AML in breaking the current connection between legitimate financing and environmental crimes. The report proposes a way forward, encouraging the financial community to take leadership in advancing voluntary measures paralleling anti-slavery and conflict diamond approaches.

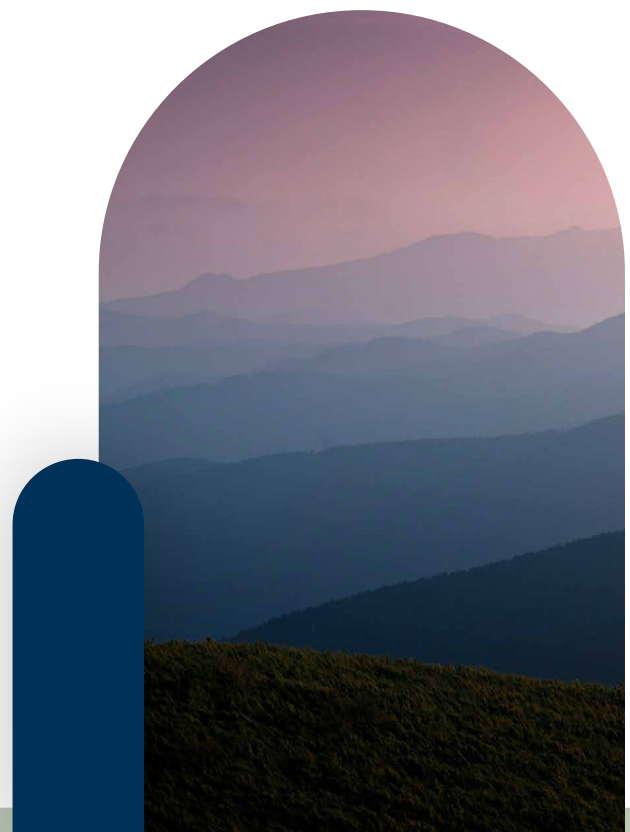
Comments are welcomed to **Simon Zadek** at simon.zadek@f4b-initiative.net.

This work is part of F4B's wider programme on advancing liabilities-based approaches to increasing the materiality of biodiversity in financial decision-making.

Acknowledgements

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This work has been supported by the Mava Foundation, as well as by the Gordon and Betty Moore Foundation through The Finance Hub, which was created to advance sustainable finance.



About FINANCE FOR BIODIVERSITY Initiative

F4B's goal is to increase the materiality of biodiversity in financial decision-making, and so better align global finance with environmental conservation and restoration.

Our work on liabilities draws from the entirety of our portfolio, which is organised across five workstreams:



Market efficiency and innovation: including a leadership role in the Taskforce on Nature-related Financial Disclosures (TNFD), and support to several data- and fintech-linked initiatives.



Enhanced liability: extending the legal liabilities of financial institutions for biodiversity outcomes, including innovations such as legal personhood for nature.



Citizen engagement: public advocacy, campaigning and advancing digital approaches to catalysing shifts in citizens' financing behaviour.



Public finance: advancing measures and advocacy linked to stimulus and recovery spending, and the place of nature in sovereign debt markets.



Nature markets: catalysing nature markets by developing new revenue streams and robust governance innovations.

F4B has been established with support from the MAVA Foundation, which has a mission to conserve biodiversity for the benefit of people and nature. F4B's work benefits from partnership with, and support from, the Children's Investment Fund Foundation (CIFF) and the Gordon and Betty Moore Foundation through The Finance Hub.

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This report has been prepared as a contribution to the UK Government-sponsored Global Resource Initiative (GRI) taskforce to support its consideration of recommendations that support the UK lightening its environmental footprint across international supply chains.

The views represented in this document are solely those of the Finance for Biodiversity Initiative, although it has benefited from inputs from GRI members.

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Summary

Environmental crime is in the top five most profitable global criminal enterprises, generating up to almost US\$300 billion annually. Associated tax revenue losses amount to nearly US\$30 billion per annum, notably in poorer, environmentally-rich countries.

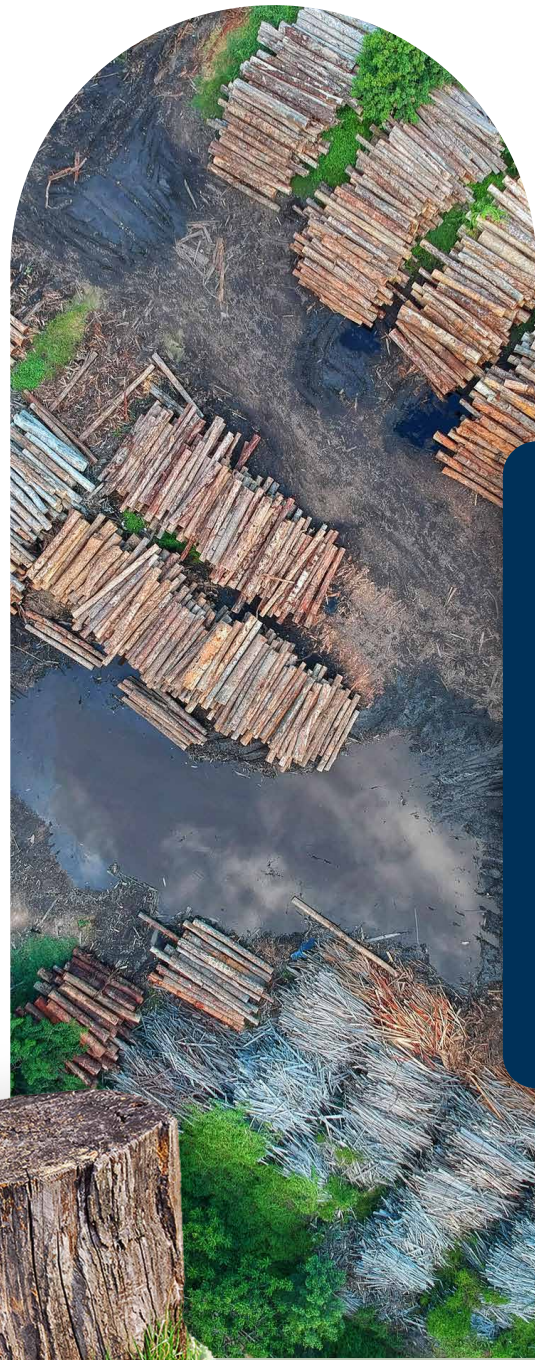
Yet it is damage to the environment itself that results in more profound, extensive, and often permanent costs to societies. More than two-thirds of tropical deforestation to make way for agricultural production, for example, is illegal. Such illegal destruction through criminal activities reduces the environment's contribution to economic prosperity and livelihoods, undercuts the resilience of communities and nations, and diminishes the environment's contribution to addressing climate change.

Efforts to reduce environmental destruction are ramping up, including high-level commitments made at COP26 in Glasgow to reduce deforestation to zero by 2030. There are renewed efforts to make wider use of anti-money laundering (AML) rules in reducing environmental crimes, building on the breakthrough Financial Action Task Force (FATF) report on environmental crime.

Many financial institutions are increasingly committed to addressing the occurrence of environmental crime in their financial value chains, not least because of the associated compliance requirements and penalties for non-compliance, and growing reputational and litigation risks. Concerns are raised by the industry, however, as to the practical challenges in turning such commitments into practice, given the complexity of transactions and supply chains. That said, digitally-powered innovations increasingly enable even the most complex traceability challenges to be overcome, especially if linked to suitable incentives and channels for stakeholder voices.

Breaking the Environmental Crimes-Finance

Connection is grounded in Finance for Biodiversity's fundamental position that our collective aim must be to ensure the entire value chain of legal financing should be free of environmental crimes. Notably, there is a need to ensure there is no beneficial relationship accruing to financial institutions from ecosystem services linked to environmental crimes.



In exploring how best to catalyse major progress towards achieving this aim, the report explores three practical fronts:

How best to extend the application of AML regulations to a wide range of environmental crimes.

How best to broaden the basis on which AML-linked culpability would arise, notably to address the critical issue of how to end beneficiary relationships between legal financiers and environmental crimes.

Whether, and if so how, to move beyond AML regulations in establishing a due diligence framework to ensure that financing value chains are free of environmental crimes.

Progress across these three fronts would make a significant difference in alerting the financial community to the presence of environmental crimes in their financing value chains, and encouraging more rapid, robust and remedial action. Such progress would be further amplified and accelerated by being associated with a raft of new environmental-focused developments, from new due diligence obligations (DDOs) on deforestation, to mandatory public reporting on environmental impact, and to improve nature-related risk management through initiatives such as the Taskforce on Nature-related Financial Disclosures (TNFD).

In this context, although developed with an initial UK perspective, our analysis and recommendations are internationally relevant across many financial centres and jurisdictions, including environmentally-intensive countries.

Breaking the Environmental Crimes-Finance Connection concludes that there is major potential to make significant progress towards the goal of an environmental crime-free financing value chain through the combined effects of:

More intensively and resolutely applying existing AML rules.

Strengthening the environmental-related capacities of existing financial regulators.

Encouraging the financial community to develop and adopt new due diligence frameworks and data sources.

By advancing ambitiously on these fronts, environmental crimes can be significantly reduced, mitigating the threat to financial institutions of reputational damage and litigation, and obviating the need for new, onerous regulations.

Breaking the Environmental Crimes-Finance Connection provides recommendations to enable the wider use of AML to stem environmental crimes. Yet it also highlights the limitations of such an approach in terms of scope, effectiveness, and the likely inertia in securing practical, scaled outcomes. Notably, we point to an in-built limitation in the potential of AML in its exclusive focus on illicit financial flows, rather than the environmental crime itself. This means that AML rules are not currently useful where sources of legitimate financing are fully aware of, and indeed may be implicitly benefiting from, economic activities dependent in part or wholly on ecosystem services linked to environmental crimes, in effect another form of money laundering, albeit largely unintentional.

Given these limitations, Finance for Biodiversity's recommendations extend beyond the wider application of AML in proposing an approach that would seek to break once and for all the connection between legitimate financing and environmental crimes. Specifically, proposed is to advance a new due diligence mechanism requiring financial institutions to ensure the absence of environmental crimes in their financing value chain, with a focus on being able to demonstrate the absence of any beneficial interest in the economic value associated with such crimes.

Important precedents exist for such a development, notably in regulations aimed at ensuring the absence throughout the value chain of slavery, conflict diamonds, and corruption. That said, F4B remains neutral as to the merits of different mechanisms, with or without regulations, as this has not yet been examined or outlined in this report. Thus, with the core aim and overarching recommendation in mind, this report concludes with a series of proposed next steps that together make up a roadmap for advancing towards environmental crime-free financing value chains:

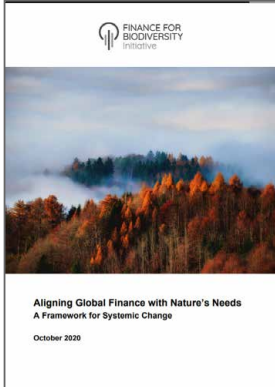
Mapping the landscape: there is an urgent need to develop the breadth and depth of empirical evidence, notably to establish the breadth and depth of linkages between financing and environmental crime. There may be merit in establishing an online, digital map highlighting the specifics of this relationship, which would be of relevance to identified as well as other interested parties.

Making AML work: the more intensive application of AML to environmental crimes is a work-in-progress involving many actors in and around the financial community. Progress could be made by the UK's Financial Conduct Authority (FCA) in ensuring that regulated financial institutions respond collectively, systematically and transparently to new mandatory due diligence requirements associated with deforestation, due to be applied to non-financial businesses but without doubt of great relevance to the financial community.

Environmental crime-free due diligence: going beyond AML, there is an opportunity for the financial community, with interested stakeholders, to develop and adopt more extensive due diligence that enables them to ensure they are not unintended supporters, or beneficiaries, of environmental crimes. Failing such voluntary action, or building on such action, there will eventually be merit to consider enabling regulatory measures.

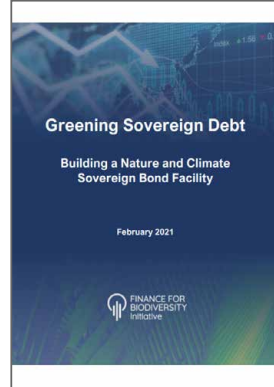
Breaking the Environmental Crimes-Finance Connection is Finance for Biodiversity's contribution to the UK Government-sponsored Global Resource Initiative (GRI), a multi-sectoral taskforce assigned to provide recommendations on greening the UK's international supply chain footprint. Although preliminary in its findings, it does outline a practical basis on which the link between environmental crimes and finance, both illicit and legal, can be broken. We hope that all leaders and institutions that wish to be on the front line in ridding the world of environmental crimes by making them visible and unprofitable as well as illegal, will support these recommendations.

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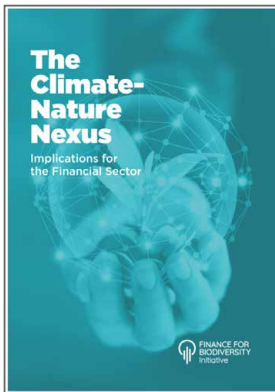
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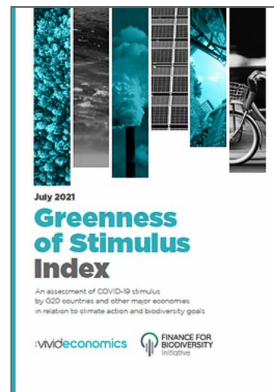
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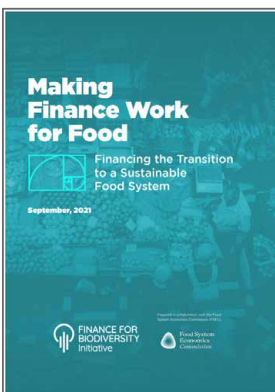
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