

FINANCE AND NATURE



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Nature matters as much as climate

According to scientists (IPBES, IPCC), the degradation of nature is rapidly accelerating. For centuries, we took ecosystem services provided by nature for granted: water, pollination, climate, soils seemed to be available for free, as Jean-Baptiste Say, the French economist, stated this at the beginning of the industrial revolution. We now know that it is not true. We live in a limited world, where resources are scarce and nature in danger. According to The Stockholm Resilience Center, we already crossed six „planetary boundaries“ out of nine assessed in 2023.

In December 2022, 196 governments adopted the Montreal Kunming biodiversity framework aiming at better protecting nature. They commit themselves to restore 30 % of degraded land and water ecosystems, and protect 30 % of earth, to 2030. This huge ambition requires private financing, as target 19 of the agreement clearly states.

As nature is a common good, private finance cannot be the only solution but, to succeed, it is bottom-line to channel capital and investments toward sustainable productions and stop financing activities that destroy the

nature further, such as changes of uses of earth and seas (for example building without respecting ecosystems or abusing of pesticides); overexploitation (fisheries); climate change, pollution. As many companies begun already to work on climate, less on nature-related issues, it is worth underlining that both challenges are intertwined. Nature is a carbon sink. To destroy forests or pollute further the oceans will only accelerate climate transformation. And we should be aware of the existing trade-offs (electric cars requiring for example massive mining of raw materials).

Protests, political ideology and demands for getting « more time » to adapt will not stop nature transformation, nor climate change. The later we act, the more costly it will be; if some tipping points are reached, the consequences could be irreversible.

So, what can we do?

- i. firstly, public and private actors must understand how much their survival depends on nature, take responsibility both for regulation and disclosure.

Governments must implement the Kunming Montreal agreement and rapidly deliver on their promises. In the EU, as well as in California, disclosure rules are already compulsory, which is good news. As soon as companies measure their impact and dependencies, they realize how far they are from a sustainable path, becoming nature positive being as important as moving to net zero. In other jurisdictions, the efforts made by TNFD to develop a framework, as well as ISSB standards could be of a great help for companies acting on a voluntary basis.

- ii. Secondly, the degradation of nature poses a real economic and financial risk and should be treated as such. Supervisors and central banks can play a role in stressing the vulnerabilities of our economies, taking into account dependencies and impacts. According to a study published by the ECB in June 2023, around 72 % of banking loans in the euro area go to companies that are dependent or highly dependent to ecosystem services.

For private companies, it is not only a reputational issue. For many, it is

already a business issue. For agri-food for example, changes in climate conditions, invasive species or water scarcity can impact massively on value chains.

- iii. Finally, public and private investments must be swiftly directed towards the restoration of nature.

Multilateral and bilateral development banks can channel public money and they are beginning to do. “Blended finance” could help. Private finance can also provide new financing, taking into account the specificities of nature related issues. Biodiversity is always appreciated locally. There is no one metric such as the CO₂ ton. Furthermore, the interaction between ecosystems is a complex matter.

We live in a limited world, where resources are scarce and nature in danger. Finance has a role to play.

To achieve all these goals, biodiversity credits will certainly not be sufficient. However, if well calibrated, they belong to the most credible options. Any credit or « certificate » should be based on sound scientific analysis, be high integrity and allow Indigenous people and local communities, worldwide, to steward the projects.

The purpose of the International Panel on Biodiversity credits, launched by the French and the British authorities, I have the honor to co-chair with Dame Amelia Fawcett, is to put in place a set of principles, imagine archetypes, foster investment. We will deliver our work in Colombia during the next biodiversity COP in October 2024. It will certainly not be the end of the journey. Our success will depend on the mobilization of finance key players and corporate, acting with NGOs, scientist and of course IPLCS. The global biodiversity treasury is in our hands.



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Demystifying the Taskforce on Nature- related Financial Disclosures

TNFD provides the tools to integrate nature into decision-making and take action on nature.

A healthy economy depends on healthy ecosystems. The science is clear: due to human activities, nature is deteriorating globally and biodiversity is declining faster than at any other time in human history. There is growing evidence that this poses risks for businesses, capital providers, financial systems and economies. Yet, neither companies nor financial institutions are adequately assessing their dependencies on nature, their impacts and related risks and opportunities. The Taskforce on Nature-related Financial Disclosures (TNFD) aims to make action easier by providing the tools to integrate nature into corporate decision-making.

In September 2023, the TNFD published its Recommendations for organisations to report and act on nature related issues. TNFD seeks to inform better decisions by companies and capital

providers and help shift global financial flows toward nature-positive outcomes.

TNFD is a market-led, science-based and government-supported global initiative. The 14 TNFD Recommendations help business and finance to identify, assess and disclose their exposure to nature dependencies, impacts, risks and opportunities. Similarly to the climate disclosures of the Task Force on Climate-related Financial Disclosures (TCFD), they are structured around four pillars: Governance, Strategy, Risk management and Metrics and Targets. Companies and financial institutions are encouraged to adopt the TNFD Recommendations on a voluntary basis, to help halt biodiversity loss, regenerate nature and make their business models more resilient.

The TNFD Recommendations have been designed to enable the achievement of the global policy goals outlined in the Kunming-Montreal Global Biodiversity Framework, signed by over 190 countries at COP15 in December 2022.

In parallel, the NGFS (the Network for Greening the Financial System, including over 130 central banks including the ECB) has been leading work to mainstream the consideration of nature-related risks and help guide action by central banks and financial supervisors. It published its Conceptual Framework on nature related risks last September.

Over the past two years, the European Financial Reporting Advisory Group (EFRAG) and the TNFD have worked closely together to reach a high level of consistency in the language and the approach of the ESRS environmental standards. All 14 TNFD-recommended disclosures are incorporated into the ESRS. ESRS refers to the TNFD LEAP approach for companies conducting materiality assessment on environmental topics. A draft paper showcasing the interoperability mapping between ESRS and TNFD, co-written by both, is currently available for review.

Today, many market participants are already taking action on adopting the TNFD: 320 companies and financial institutions from 46 countries have announced their intention to publish TNFD-aligned disclosures over the next two financial years. They already represent over USD 4 trillion of market capitalisation. Among them are 100 financial institutions, including asset owners and asset managers with AUM of USD 14 trillion, and 7 of 29 GSIBs.

TNFD 'Getting Started' guidance helps companies embark on the nature journey. TNFD also provides a detailed methodology to *Locate* nature issues,

Evaluate impacts and dependencies, *Assess* risks and opportunities and *Prepare* reporting. The so-called LEAP method has been piloted by over 200 companies and offers a practical approach. Guidance is also provided for key sectors including the sector guidance for Financial Institutions. The TNFD Data Catalyst hosts over 120 data and analytics providers, showing that a range of data sources is already available to help organisations get started.

**TNFD provides the tools
to integrate nature into
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take action on nature.**

TNFD encourages organisations to expand the depth and breadth of their nature-related disclosures over time. In identifying their nature challenges companies will come across issues they can immediately address, and some which may require long-term plans. By doing so, they will be moving forward on building internal capabilities, reducing future business risks and taking positive action on nature. Starting now, with the information currently available, is a necessary step for moving the real economy and the financial system towards nature-positive outcomes, leading to a more sustainable future for all – the economy, the society and nature.



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Caisse des Dépôts promotes biodiversity in a multilevel commitment

The ecological transformation is at the heart of the Caisse des Dépôts Group's ambition. It plays into all our strategic objectives, with the aim of aligning all our activities with a pathway of limiting global warming to 1.5 °C. The preservation of biodiversity, defined as all living beings, the ecosystems in which they live and the interactions between them and with their environment, is essential in the fight against other environmental scourges such as climate change, desertification, the scarcity of water and pollution. Since 2020, CDC's entities have set themselves goals in terms of biodiversity through initiatives relevant to their activities (such as "Finance for Biodiversity" or "Entreprises Engagées pour la Nature – act4nature France").

During COP-15 Biodiversity in December 2022, Caisse des Dépôts Group published its very first biodiversity policy, which constituted a major step forward, as it promotes factoring biodiversity into

all of our activities through a dozen commitments corresponding to the themes set out in the Kunming-Montreal Global Biodiversity Framework as adopted at COP-15. In this context, CDC also signed a joint statement drawn up by the UNEP Finance Initiative (UNEP FI), the Principles for Responsible Investment (PRI) and the Finance for Biodiversity Foundation, including the firm commitment to contribute to the protection and restoration of biodiversity and ecosystems through their financing activities and investments.

CDC's biodiversity policy covers the Group-wide's operational businesses and the internal running of its entities, as well as its financial business lines and is supplemented by various biodiversity action plans at subsidiary entity level. It is structured around four key blocs:

1. Measuring the biodiversity footprint

With the creation of a dedicated "CDC Biodiversité" subsidiary in 2007, CDC positioned itself ahead of the curve in preserving biodiversity. The consulting firm specialised in positive actions for biodiversity launched in 2022 its Global Biodiversity Score (GBS), a tool to measure the footprint of economic actors allowing to assess their biodiversity impact in all areas of their activity. Like a carbon footprint, the GBS measures the impact of companies, across its entire value chain based on their activity data and expresses it in a single metric. This allows the definition of objectives and trajectories in line with the Global Biodiversity Framework (Kunming-Montreal Accord) and a methodical monitoring of commitments. The GBS approach is aligned with international frameworks (TFND, SBTN) and European regulatory requirements (CSRD).

This common measuring language allows for a large ecosystem of users and is complemented by the BIA-GBS database developed with Carbon4Finance for measuring the biodiversity footprint of portfolios of listed assets. In 2022, CDC Biodiversité has carried out 33 biodiversity footprint assessments for companies (Schneider Electric, Hermès, Vattenfall), financial institutions (BNP Asset Management, CDC) and local authorities.

2. Reducing negative impacts

CDC's biodiversity policy includes criteria to mitigate its direct and indirect negative impacts on the five "pressures" on biodiversity and ecosystems as identified by the IPBES (Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services): changing use of land and sea, natural resource use and exploitation, pollution, and invasive

species, with climate change already being covered by a dedicated policy.

The policy focuses on reducing the Group's impact in terms of deforestation (by excluding companies involved in the exploitation of high-risk raw materials and which do not have a recognised prevention policy), urbanisation of green spaces, destruction of sensitive areas, overfishing, and chemical pollution.

By creating "CDC Biodiversité" in 2007, CDC positioned itself ahead of the curve in preserving biodiversity.

3. Stepping up initiatives to promote biodiversity

CDC's policy foresees that the restoration of biodiversity should be financed, through mandatory compensation, natural offset sites, the offsetting of agriculture, the renaturing of cities, payment programmes for environmental services. As part of its recovery plan, CDC has committed an overall €3bn for biodiversity-friendly projects in 2020-2024. Our Nature 2050 programme allows companies to finance nature-based solutions at regional level, which has already helped to support more than 60 nature-based solution projects, dedicated innovations and solutions, and partnerships and contributions to collaborative initiatives. Overall, a total of 3,236 hectares of greening projects have been financed by CDC Biodiversité in 2022.

4. Research, training and awareness-raising

CDC is actively involved in financing research around biodiversity issues through the Economy and Biodiversity mission led by CDC Biodiversité (€7.9 million over 2020-2024), as well as through programmes run by the CDC Institute for Research and Société Forestière. In addition, training and awareness-raising initiatives are organised by many entities within the Group.



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Nature's financiers - Balancing growth and green stewardship

"The planet is in the midst of a biodiversity and climate crisis... and we have a last chance to act... A nature-positive future needs transformative - game changing - shifts in how we produce, how we consume, how we govern, and what we finance."
Marco Lambertini, the Director-General of WWF International.

Ecosystem services are essential for human well-being and survival. They include provisioning services like food, water, and materials; regulating services for climate, water purification, and disease control; supporting services like biodiversity and nutrient cycling; and cultural services, providing recreational, aesthetic, and spiritual values. Humans rely on these services for daily needs, economic activities, and cultural enrichment. However, human activities threaten these services, emphasizing the importance of sustainable practices and conservation efforts to ensure their continued availability for present and future generations.

What can the financial sector do to help preserve and restore biodiversity?

1. Increase investments in sustainable projects and companies – encourage and promote investments in envi-

ronmentally sustainable projects such as conservation initiatives, renewable energy and sustainable agriculture.

2. Expand green finance mechanisms that are transparent – issue and/or use green bonds/loans and adopt green lending practices.
3. Invest in innovation and technology – increase investing in technologies that contribute towards environmental conservation and restoration.
4. Price in externalities and improve risk management – enhance risk assessment models to incorporate environmental risks and improve disclosure of exposure to these risks.
5. Promote incentives and regulation to create enabling environment – advocate for regulatory frameworks that promote sustainable practices and penalise harmful activities. Support policies and align financial incentives that help preserve/restore biodiversity. Contribute to the creation of and adopt industry standard disclosure frameworks on reporting environmental impacts and dependencies such as the TNFD and ISSB.
6. Build partnerships and support development of industry best practice– collaborate with governments, NGOs, industry initiatives and the private sector to grow expertise and resources. Partner with conservation organisations to support projects aimed at preserving biodiversity.

Balancing growth and green stewardship is not only a responsibility but also an opportunity.

7. Consider the social impact – in all the above actions, consider all environmental and social impacts of your investments including any unintended consequences. Financial investments should have a positive social impact where impact on all relevant stakeholders including the local communities are considered, and most importantly,
8. Act as active owners of your investments – engage with your investee companies to understand how they are assessing and mitigating nature-related risks and opportunities and encourage companies to commit to having a net-positive impact

on biodiversity throughout their operations and supply chains.

For those that are at the start of the journey, the two priorities I would recommend are captured under points 4 and 8:

- Assess the impact and dependencies of your current investments using frameworks such as the TNFD. One might find that you're not able to incorporate all of the TNFD recommendations in your first year of assessment and there are some barriers in achieving this including the lack of reliable data that is available in a useful format. Therefore, identify parts of the recommendations you can implement and start the journey.
- Engage with your investee companies to encourage them to evaluate the extent to which their business models rely on biodiversity and ecosystem services, considering both risks and opportunities. Additionally, urge companies to understand, mitigate and reverse the negative impact their operations and supply chains are having on biodiversity and ecosystems. This will include mitigating their contribution to the drivers of biodiversity loss, such as climate change, pollution and land use change.

The financial sector, as nature's financiers in partnership with governments, plays an important role in preserving and restoring nature. By prioritising the above listed actions, financial institutions can contribute significantly to a more sustainable and resilient global ecosystem and financial system. Balancing growth and green stewardship is not only a responsibility but also an opportunity for the financial sector to shape a future where economic prosperity goes hand in hand with environmental health.



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The case for getting started with TNFD

The need of having a holistic view incorporating nature

Climate change is one aspect of nature degradation. Scientists point out that dealing with nature is equally, if not more, urgent as dealing with climate change. At the same time, policy aiming at addressing climate only can have negative impacts on nature. One example is the construction of renewable electricity generating facilities by cutting down trees in the forests. As such, policy needs to be formulated with a holistic view dealing with nature as a whole. The need to avoid a narrow focus on climate-only is becoming all the more stronger with the increased pressure to increase renewable power following COP28. The European Sustainability Reporting Standards (ESRS), which covers a much wider range of environmental issues than just climate change, supports this view.

Increased attention from supervisors

The Network of Central Banks and Supervisors for Greening the Financial System (NGFS) has published “Nature-related Financial Risks: a Conceptual Framework to guide Action by Central Banks and Supervisors” in September 2023, and “NGFS Recommendations toward the development of scenarios

for assessing nature-related economic and financial risks” in December 2023.

The TNFD recommendation

The Taskforce on Nature-related Financial Disclosures (TNFD) published a set of disclosure recommendations on 18 September 2023. The disclosure recommendations accommodate the different approaches to materiality in use currently and are aligned with the goals and targets of the Kunming-Montreal Global Biodiversity Framework adopted in December 2022. The recommendations and accompanying guidance will help business and finance to integrate nature into decision making, and ultimately support a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.

The disclosure recommendations are structured around four pillars, consistent with the Task Force on Climate-related Financial Disclosures (TCFD) and the International Sustainability Standards Board (ISSB) to enable integrated climate- and nature-related reporting. The four pillars are: governance, strategy, risk and impact management (risk management in TCFD and ISSB), and metrics and targets. The TNFD replicates all 11 TCFD recommended disclosures for nature-related issues, and adds three, making the total number of recommendations 14. The TNFD has been working closely with the EFRAG (European Financial Reporting Advisory Group) to align the TNFD recommendations with the ESRS. The EFRAG and the TNFD signed a cooperation agreement to further advance nature-related reporting on 21 December 2023.

Getting started with TNFD

Recognising that not all organisations (report preparers) are likely to be able to disclose all aspects of the disclosure recommendations across the whole value chain from the beginning, the TNFD has also published a guidance on how to get started with the TNFD recommendations. The guidance presents seven steps, but my personal view is that the following five are critical among the seven:

- Start with what you have
- Plan for progression over time
- Monitor and evaluate your own adoption process
- Gain buy-in from management and board, and
- Register your intention to start adopting at the TNFD website

This basically means that organisations do not have to wait until they can disclose

the full TNFD recommendations. They can (and should) start with partial disclosure with a clear plan to expand the scope, and a monitoring framework to check the actual progress against the plan, with a view to change the plan if necessary. The board level buy-in is important as a full commitment by the organisation. Registration on the TNFD website will make it easy for observers to see the list of TNFD adopters at a glance.

Adopting TNFD is one obvious way to start the urgently needed work addressing nature-related issues.

Early adopters

Until 10 January 2024, the TNFD has been inviting organisations to become “Early Adopters” of TNFD, organisations which intend to start making disclosures aligned with the TNFD recommendations in their corporate reporting for the financial year 2025 results (or earlier). On 16 January, the TNFD announced the inaugural cohort of Early Adopters, which was 320 organisations from over 46 countries. European domiciled companies are 43% of the list, and Asia Pacific 42%, with 80 organisations from Japan, 46 from the UK, 19 from France, 14 each from the United States and Taiwan.

It is true that, in the nature area, there is still no equivalent of the 1.5 degrees target for climate change. However, there seems to be growing understanding that rather than waiting for a target to be set, we need to start working in this area before it gets too late.

Adopting TNFD is one obvious way to start the urgently needed work addressing nature-related issues.