Green Finance Institute

# What next for nature finance? Bolstering demand drivers to mobilise private sector capital and corporate action for nature

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Nature-related risks are financial risks. Water shortages can cripple manufacturing and energy sectors. Soil health decline can deplete crop yields. Beyond physical risks, reputational damage and litigation costs due to pollution or deforestation can cost companies millions of pounds.

In the UK, recent analysis curated by the Green Finance Institute (GFI) and delivered in partnership with University of Oxford, UNEP-WCMC, and University of Reading shows these risks, born of nature degradation at home and abroad, could lead to an estimated 12% reduction to UK GDP in the years ahead – larger than the hit to GDP from the global financial crisis or Covid-19. Day-to-day nature nature degradation alone could wipe out 3% of UK GDP by the end of this decade.

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Managing and mitigating these risks is good business and makes economic sense. The recommendations and guidance of the Taskforce on Nature-related Financial Disclosures (TNFD) have been essential in improving businesses' understanding of their own dependencies and impacts on nature and the risks and opportunities these create for their organisation. Over 400 organisations globally have now committed to report against the TNFD recommendations by financial-year-end 2025.

Boards are often choosing to develop TNFD-aligned reporting because they anticipate that it will become a mandatory regulatory requirement, or because their investors are requesting it. Despite the evidence, few boards outside of the agriculture and water sectors believe that the financial risks and opportunities posed by nature are material to their business.

As a result, corporate action off the back of disclosures is lagging. Only 9 businesses have published strategies to shift to practices with lower impacts on nature under the Now for Nature campaign.[1] Even fewer have published investment plans to maintain and restore the natural environments on which they depend.

Economic resilience and prosperity depend on the delivery of national and international targets for nature, such as those laid out in the Global Biodiversity Framework. In order to meet these, we will need to build on – and move beyond – assessments and disclosures to making a sufficient contribution to nature-positive outcomes.

This requires making even clearer the business case for avoiding and reducing harm to nature and conserving and restoring the natural environment. Businesses require clear paths for action.

With these, businesses will be equipped to translate their exposure to risks into financial opportunities. The World Economic Forum goes as far as to say that such a transition could generate $10 trillion in annual business value and create up to 395 million jobs by 2030.

At a closed-door discussion during London Climate Action Week (LCAW), leaders across finance, construction, fashion, agri-food, water and energy identified eight actions to unlock corporate action to avoid and reduce harm to nature and conserve and restore it. The barriers are in many cases analogous to those faced in the early days of climate change action, and there are lessons to be learned from how corporates, financial institutions and governments collaborated to start to tackle climate change-related risks.

**First, businesses need to start their journey on nature by considering the outcome they would like to see, not the disclosure they could make.** Leading CEOs and boards have taken a highly strategic approach to TNFD assessment and reporting. They started by asking: "how can this generate value for my business?" and "what actions can this inform?" From here, they focussed on the components of the TNFD framework that directly inform those actions. In doing so, they ensured that they invest resources into assessment and disclosure where it is most helpful and decision-useful. This maximises benefits and minimises costs, building a strong business case. If more businesses take this approach, they will build stronger ExCo and board support and move more rapidly to action.

**Second, businesses should start now; we don't need to wait for more guidance. New definitions, metrics and datasets relevant to nature are published every quarter.** Some businesses see this as a reason to delay action. Yet the resources currently and publicly available including the TNFD disclosure recommendations and guidance and SBTN target-setting guidance, as well as tools such as the ENCORE database and WWF risk filter are sufficient to identify a business' most material impacts and dependencies on nature. This is enough to understand where action to avoid and reduce impact on and conserve and restore nature can start. Early experimentation can help prioritise efforts, upskill teams, develop datasets, and already provide useful insights for strategy, risk management and asset allocation decisions. Methodologies and data will continue to develop for many years to come. Waiting for "the dust to settle" risks being unprepared.

**Third, businesses need to upskill on nature to use and understand the wide range of data already available today.** Understanding how to reduce a business' impact on nature and build its resilience requires a new set of skills that many don't currently have. For example, as nature impacts and risks are highly localised, sustainability teams often need to work with geospatial data. There is a broad range of data currently available on the health of natural ecosystems. However, it often takes specialist skills to access, clean and use this data. Businesses interested in insetting[2], for example, may need ecological expertise to help identify where nature restoration can help build their resilience. Businesses should focus on identifying which skills are required across different corporate functions and consider where to acquire new talent and where to upskill teams to develop these. This will both help integrate nature into strategic decision-making across the business and improve the availability of data to underpin nature assessments.

**Fourth, governments and scientists need to develop nature-positive sectoral pathways (NPPs) to demonstrate how businesses can build resilience and align with the transition.** NPPs lay out the specific changes needed within a sector or system - and at what pace - to align with a government's nature-related targets following the Global Biodiversity Framework (GBF) and domestic policy. For example, what changes are needed across the agriculture, construction and water sectors over time to reduce local nitrogen and phosphorous build-up and ensure the continued supply of high quality, safe water. Businesses are demanding governments develop these pathways as they provide actionable steps that businesses can take to mitigate risks, build resilience and bolster growth. Businesses want to know what bad and good looks like. This can help unlock innovation by identifying nature-friendly technologies and business models that will underpin the transition. In doing so, it can also demonstrate how much capital will be needed across different sectors and technologies, giving the financial sector the confidence to develop product offerings to support it.

**Fifth, governments need to develop a suite of policies to ensure the actions required in NPPs are economically viable and therefore investible.** To underpin climate change action, governments have employed a suite of demand and supply side policies and incentives to support the development and uptake of low-carbon/ zero emission technologies. These include, for example, emissions trading schemes, feed-in tariffs and innovation grants. For NPPs to drive action at scale, they will need the same policies and incentives that ensure the actions make financial sense for the private sector. Policy support will be required where actions and technologies are not net present value (NPV) positive.

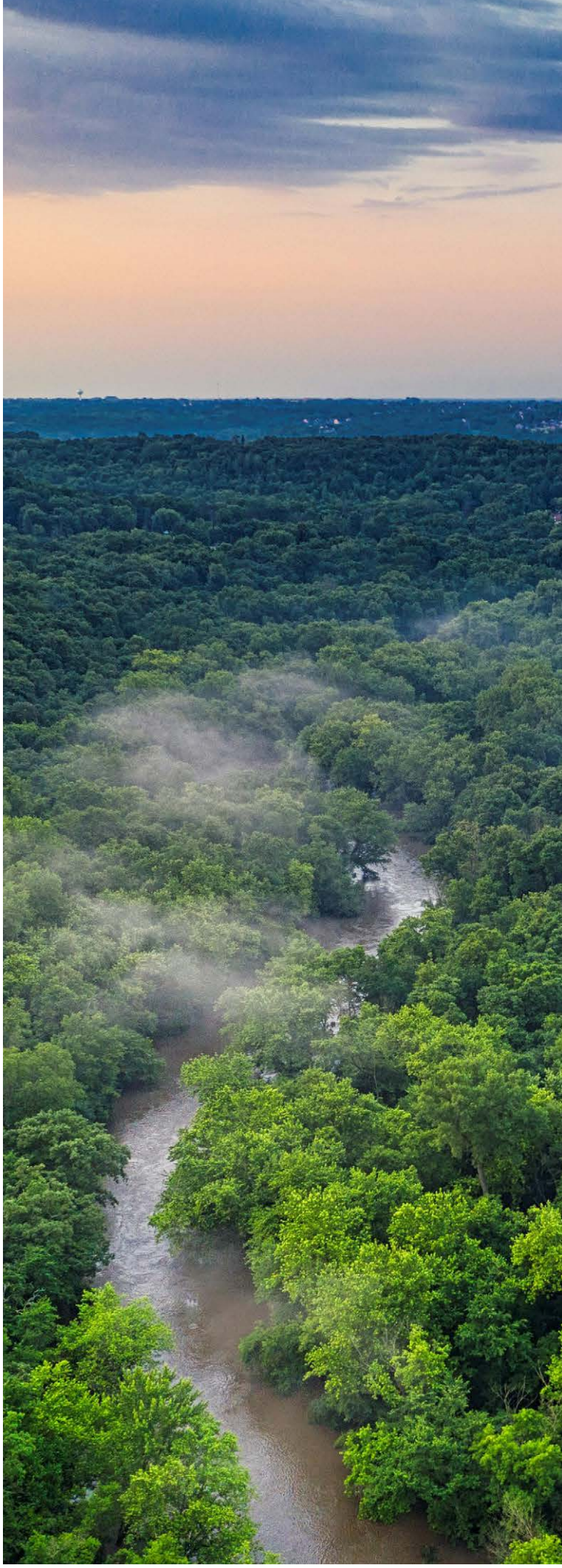
**Sixth, governments should integrate the private sector's voice into the development of NPPs and support uptake by sharing successful examples. To be effective, the pathways must be both science-based as well as practical.** Businesses are keen to contribute by helping to identify which technologies and business models have the highest potential to be commercially viable while also avoiding and reducing impact on or conserving and restoring nature. In addition, businesses want to form a community of practice to learn from one another and understand real life examples of actions that they can take. For example, how manufacturers are working to reduce their water consumption and how construction companies are working with their suppliers to switch to more sustainable materials.

**Seventh, governments should consider expanding compliance markets for nature impacts.** Compliance schemes require businesses to mitigate as far as possible, and then compensate for, the negative impacts that they have on nature. There are several examples of existing schemes across the world including in the UK, USA and Colombia. Under the UK's Biodiversity Net Gain (BNG) scheme, property developers are required to mitigate their impacts on nature due to, for example, land use change and pollution, as far as possible. They must then invest in nature restoration either onsite or through an offsite provider to ensure an overall 10% net gain measured by a specific BNG metric developed for the scheme. While compliance markets may not be appropriate for all sectors and types of impacts on nature, they create a demand driver and can unlock investment into nature restoration from the private sector.

**Finally, businesses, financial institutions and NGOs should work together to scale innovative financing mechanisms that enable payments for nature restoration across multiple companies and the value chain.** Multiple businesses across different sectors can mutually benefit by sharing the cost of nature restoration schemes. For example, a reforestation project could help increase surface water run-off, improving water availability for local industry as well as filter and purify ground water, thereby reducing treatment costs for local water utilities. The project may not be NPV positive for any individual business, but it may be if they all share the cost. Financial institutions and NGOs can play an active role in identifying where there are potential nature restoration projects that provide financial benefits to multiple businesses and then helping to bring those businesses together and structuring appropriate financial instruments for the investment.

Assessments and disclosures are essential but not enough; concerted action is needed to transition to an economy that values and invests in nature and translate risks into opportunities. By following the actions above, businesses can turn disclosures into action and develop transition plans for how they plan to avoid and reduce their impact on and conserve and restore nature. Yet they need support from government through the development of nature-positive sectoral pathways underpinned by a suite of policies and incentives.

We are developing a programme of work to support this approach and develop nature-positive sectoral pathways for the UK. We invite potential delivery partners to get in touch to discuss how we can work together to accelerate corporate action to avoid and reduce impacts on and conserve and restore nature.



# Endnotes

1 https://nowfornature.org/strategies/

2 The World Economic Forum defines insetting as “doing more good rather than doing less bad within one’s value chain” via “the implementation of nature-based solutions such as reforestation, agroforestry, renewable energy and regenerative agriculture.” (https://www.weforum.org/agenda/2022/03/carbon-insetting-vs-offsetting-an-explainer/)