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Biodiversity on the balance sheet

The September 2023 release of the Taskforce for Nature-Related Financial Disclosures is just one event in a groundswell of discussion around who must pay to protect and restore nature.

Companies cause destruction of nature, but this very destruction poses multiple risks to business. For more than two years, the Taskforce on Nature-Related Financial Disclosures (TNFD) has been developing a risk-management and disclosure framework designed to enable companies and other organizations to report and act on nature-related risks. The TNFD also states that its ultimate aim is to support a shift of global financial flows away from 'nature-negative' outcomes and towards 'nature-positive' ones. Its emergence is part of a growing recognition of the need for greater accountability for nature loss, and for large-scale finance to prevent further loss and provide for nature repair. But how can these desires be reconciled with global systems that are still geared inexorably towards growth and profit? This is an intractable question, but three Comments in this issue expose some of the issues that must be considered.

The risks of nature loss to a company may be direct, such as the losses to agricultural companies from decreased pollination services or soil nutrition, or far-removed, such as the risk to any entity of zoonotic disease emergence driven by land-use change or wildlife trade. Companies are also seeking to minimize reputational risk by presenting their responsible-business credentials. Researchers and practitioners in conservation and biodiversity fields are watching this trend with some optimism, and considerable wariness. In a Comment directly discussing the TNFD, Philip Linsley and co-authors summarize the development of the framework since its launch in June 2021 up to the release in March 2023 of the fourth and final beta version 0.4. Woven into this overview, the authors discuss numerous factors that the TNFD initiative and future users of the framework must grapple with to avoid it becoming a vehicle for greenwashing.

Linsley et al. acknowledge that over the four beta iterations of the framework, the TNFD has broadened its consultation and feedback processes — including adding regular meetings with Indigenous peoples and local community leaders. However, these groups are not represented on the TNFD Stewardship Council or governing taskforce. Further, independent scientific expertise is missing from the TNFD governance. Linsley et al. also discuss the potential shortcomings associated with the TNFD's market-led approach. There is concern that the framework will be used to assess and report on how nature-related risk may affect a company's performance and value but will neglect to sufficiently address 'double materiality' — the need for equal assessment and reporting on the company's impacts on nature.

In a second Comment, Katie Kedward and co-authors echo many of these concerns, and raise others, in their discussion of the difficulties that are associated with any mechanism that aims to capture alleged private willingness to pay for public environmental goods. The authors summarize the multiple existing financial instruments that are designed to draw private finance into conservation, of which risk-disclosure frameworks such as the TNFD are just one. By categorizing these instruments according to their intended purposes (such as companies internalizing the costs of environmental damage, or directly investing in ecological outcomes), the authors provide useful definitions and comparisons for anyone who is grappling with the difference, for example, between biodiversity offsets and biodiversity credits.

The main thesis of Kedward and colleagues' Comment is that public finance and public oversight must remain key to conservation. They discuss how effective conservation requires patient investment, a high tolerance for uncertainty, robust baselines, local adaptation and inclusion, and other factors that are — in most cases — antagonistic to the typical requirements of large private investors. The authors argue that this tension must be constrained within robust public systems, including well-resourced environment regulatory agencies for monitoring and enforcing governments. They also call for state-directed financial regulation that reorients private and public investment portfolios away from economic activities that drive biodiversity loss. Furthermore, they point out the potential for mission-driven public policy and investment to provide economic and nature 'multipliers' — such as green-job creation that enhances political legitimacy for public spending on conservation.

Many of these investments, private or public, involve international activities: companies must assess financial risks and nature impacts across global supply chains, and governments must consider trade deals, debt-for-nature swaps or other financial instruments between nations. In a third Comment in this issue, Dilys Roe and colleagues discuss the imbalance in the causes and effects of biodiversity loss between nations: consumption by people in rich countries of the Global North is the primary driver of biodiversity loss but many of the negative repercussions of biodiversity loss are more severe in countries of the Global South. The Kunming-Montreal Global Biodiversity Framework has already recognized that countries of the Global North should pay more than countries of the Global South towards halting and reversing biodiversity loss. Roe and co-authors take the further philosophical step of suggesting a dialogue around expanding this responsibility to encompass compensation: a 'loss and damage' finance mechanism for biodiversity.

Loss and damage funding is already integrated into international agreements around climate change. Recognizing that compensation is similarly applicable to nature loss could contribute to elevating the biodiversity crisis to a recognition level similar to that of climate change. Companies and governments have had an earlier start on attempting to quantify climate-associated risks: the Task Force on Climate-Related Financial Disclosures released its recommendations in 2017. Now, responsible entities will need to try to assess both their climate and nature impacts, and to integrate the two. Working towards 'nature positive' may be even more complicated than working towards 'net zero' — even the operational definition of the former term will be the topic of much future discussion. But organizations must start to try. The research community can support this by supplying data and evidence-based metrics and indicators — and should be closely involved in the necessary scrutiny.

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