



# BLOG POST

## TNFD: A FRAMEWORK TO PLACE NATURE AND BIODIVERSITY AT THE CENTER OF FINANCE

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As climate change continues to cause greater environmental and social crises, the importance of preserving nature and biodiversity becomes increasingly visible. In recent years, the World Economic Forum (WEF) has highlighted the benefits of promoting conservation for better environmental and economic results, and avoiding potentially severe consequences in the future. The loss of biodiversity and the collapse of ecosystems are among the global risks that will have the fastest impact on the planet, and corresponding negative consequences for the market[1]. Research from the WEF shows that US\$44 trillion of economic value generation depends to some extent on nature and its services, and it is therefore exposed to risks from natural losses.[2]

The WEF's Global Risk Report 2023 lists climate and environmental risks as top global risks in the next decade. Due to their short term severity, natural disasters and extreme weather events, failure to mitigate climate change, large-scale environmental damage incidents, failure to adapt to climate change, and natural resource crises are listed as the main environmental risks. Furthermore, climate change and the loss of nature and biodiversity are interlinked and can also be related to geo-economic confrontations and migration.[3] The Intergovernmental Panel on Climate Change (IPCC) argues that fast action is essential to adapt and facilitate climate-resilient development, preserve biodiversity, and reduce or avoid greenhouse gas emissions, to deliver broader benefits and ensure a sustainable and livable future for all.[4]

## USING FINANCE TO ENSURE A NATURE POSITIVE FUTURE

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It is clear that it is time to act now, and more sustainable investment is needed to halt biodiversity loss, reduce emissions, restore degraded land, and eliminate nature-negative financial flows.[5]

At the public sector level, in 2015, all the country parties to the United Nations Convention to Combat Desertification (UNCCD) were invited to formulate voluntary targets to achieve Land Degradation Neutrality (LDN), a concept defined as a "state whereby the amount and quality of land resources necessary to support ecosystem functions and services and enhance food security remain stable or increase within specified temporal and spatial scales and ecosystems".[6,7] The establishment of LDN highlights the relevance of the conservation dimension from the environmental perspective, and demands governments to take action to prevent new degradation by reducing existing degradation and intensifying efforts to restore and return degraded land to a natural or more productive state[8,9].

Similarly, the Convention on Biological Diversity sets the global framework for actions on biodiversity, and the topic is present throughout the SDGs, and Goal 15.[10,11]

Innovative finance is at the core of successful action to achieve LDN and biodiversity conservation goals. Economic and financial activity must also be aligned with biodiversity and the Paris Agreement.[12] The private sector plays a key role in this movement. The United Nations Environment Programme Finance Initiative (UNEP FI) has encouraged banks to align with the Kunming-Montreal Global Biodiversity Framework (GBF), resulting from the 15th UN Biodiversity Convention celebrated last year. This Framework consists of 23 action-oriented global targets to be achieved by 2030 and beyond to safeguard and sustainably use biodiversity. [13]

Additionally, achieving global biodiversity and nature conservation goals implies a deep understanding of nature and biodiversity-related financial risks and opportunities. Some years ago, the Task Force on Climate-related Financial Disclosures (TCFD) developed a set of recommendations on climate-related disclosures, so that companies and financial institutions have a framework to improve their reporting on climate-related financial risks and opportunities. Inspired by this process and based on the GBF, the Task Force on Nature-related Financial Disclosures (TNFD) was created.

## **TNFD: WHAT IS IT AND WHY DOES IT MATTER?**

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During the WEF meeting in Davos in 2019, a working group was created to discuss how to integrate nature into financial and business decisions. The group, with 40 senior executives from companies and financial institutions globally, worked to develop a set of disclosure recommendations and guidance for organizations to report and act on evolving nature-related dependencies, impacts, risks and opportunities. After various rounds of discussions, analysis, and literature review, the first version of the TNFD framework document was submitted for market consultation in 2022 and the final recommendations published in 2023.[14]

TNFD is a global initiative that is market-led, science-based, and supported by governments. The main objective of the TNFD is to provide organizations with a framework to manage and disclose the risks related to nature, and support a transition in worldwide financial streams from detrimental impacts on the environment to favorable effects on nature.

The TNFD recommendations were developed based on the TCFD recommendations, incorporating the natural risks to finance at the same level, following the global sustainability standards of the International Sustainability Standards Board (ISSB), and the impact materiality approach used by the Global Reporting Initiative (GRI). The TNFD recommendations were designed to include corporates, regulators, stock exchanges, assurance and accounting firms, data providers, credit rating agencies and financial service providers.[15] The recommendations adopt the “nature in scope” approach which is based on seven principles, namely, market usability, science-based, nature-related risks, purpose-driven, integrated and adaptive, climate-nature nexus, and globally inclusive.[16]

According to the TNFD, nature-related risks are systemic, physical and transitional and have financial effects on an organization, but can also bring opportunities. As a result of the TNFD recommended disclosures, TNFD worked with key partners to develop an internal guide called the LEAP (Locate, Evaluate, Assess, and Prepare) for companies to understand their environmental relationships and how they can improve their mutual impact. Over 240 organizations pilot-tested LEAP in the draft versions of the TNFD framework, which has helped further inform users on how to best apply the TNFD recommendations.[17]

## **TNFD VS TCFD: SIMILARITIES, DIFFERENCES, AND EVOLUTION**

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Both frameworks provide recommendations for voluntary actions. TCFD was launched in 2017, and proposes a commitment to market transparency related to climate-related financial risk. The goal of TCFD is to encourage companies to disclose information that will help investors, lenders, and others make more informed decisions about where to allocate their capital related to the financial impact of climate change and climate-related opportunities.

TNFD was launched in 2023, and places emphasis on disclosing not only risks and opportunities but also impacts and dependencies related to nature and how to direct financial flows towards nature-positive outcomes. The following chart provides a comparison of TNFD and TCFD.

Pillars	TNFD	TCFD
<b>Governance</b>	The governance processes, controls and procedures the organization uses to monitor and manage nature-related issues	Organization's governance around climate-related risks and opportunities.
<b>Risk Management</b>	The process used to identify, assess, prioritise and monitor nature-related dependencies, impacts, risks and opportunities	The organization's process for managing climate-related risks is addressed.
<b>Strategy</b>	The approach the organization uses to manage nature-related issues	Climate-related risks and opportunities impact an organization's businesses, strategy, and financial planning.
<b>Metrics and Targets</b>	The metrics and targets used to assess and manage material nature-related dependencies, impacts, risks and opportunities.	The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Source: Prepared by HPL based on information from the TNFD and the TCFD

The market expectation is that the adoption of the TNFD will be gradual, as happened with the TCFD. The number of climate-related disclosures in financial reports has grown close to 40% compared to 2020, when it was 18%.[18]

Recently, Jonathan Bailey, the Global Head of Environmental, Social and Governance (ESG) & Impact Investing at Neuberger Berman, expressed his hope to Environmental Finance that the new framework related to biodiversity “should not become another four-letter framework that boards think about once a year”.[19]

In September 2023, the Carbon Disclosure Project (CDP), a non-for-profit that runs an environmental disclosure platform for corporations, announced its alignment with the TNFD. CDP has included biodiversity and plastic pollution in their reporting scope. In addition, of the 18,600 companies that disclosed through CDP on climate change in 2022, 7,700 companies answered questions related to biodiversity.

In November 2023, UNEP FI launched a Finance Resource Database for Biodiversity (FIRE), co-developed by the United Nations Development Programme Biodiversity Finance Initiative (UNDP BIOFIN), and other partners. The new database aims to center projects focused on nature and biodiversity with public and private supporters. The objective is to enhance the efficiency of financial resource distribution, ensuring allocation for the preservation and restoration of biodiversity.[20]

## WHAT CAN WE EXPECT MOVING FORWARD?

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The consequences of the effects of climate change highlighted by science over the middle of the last century are visible. Biodiversity is directly related to the survival of not only animals but also humans. In Latin America and the Caribbean alone, around 94% of biodiversity has been lost in the last 50 years.<sup>10</sup> The challenges resulting from nature and biodiversity loss, which in turn affect the rainfall cycle, food production, and migrations will be increasingly frequent.

As we near the 2030 deadline to reach the goals stipulated by the 2030 Agenda for Sustainable Development, there is a greater urgency to transform the economy and decarbonize. This process needs to be done alongside the preservation and conservation of nature and global biodiversity. Initiatives, such as the TNFD, are extremely relevant to mobilize the global economy towards a more holistic, realistic and resilient path.

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