

# Briefing for Finance: Biodiversity

## THE BUSINESS CASE FOR ACTION

Biodiversity creates significant global economic value, estimated at more than US\$150 trillion annually.<sup>1</sup> Businesses depend on ecosystem services such as food provisioning, carbon storage, and water and air filtration. Yet, due to land-use changes, the over-exploitation of natural resources, pollution and climate change, we are destroying biodiversity at an alarming rate. Safeguarding biodiversity has now become a core requirement to ensure economic and environmental stability and business resilience.<sup>2</sup>

The cost of inaction is huge. The recent Global Risks Report by the World Economic Forum lists biodiversity loss as one of the top three most severe risks.<sup>3</sup> Downstream effects of ongoing biodiversity loss could impact business operations for a large number of industry sectors, and poses significant risk to the normal functioning of the global economic system. This damage to our natural world is expected to slow progress towards 80% of the UN Sustainable Development Goal (SDG) targets, and is limiting our ability to tackle climate change.

Investing in biodiversity offers business opportunities – it is estimated that every \$1 spent on ecosystem restoration gives a return of around \$10 in ecosystem goods and services.<sup>4</sup> Working to protect the biodiversity in value chains will help to secure the long-term viability of business models, particularly those with significant interdependencies with natural capital resources. Protecting nature is increasingly being seen not only as an environmental issue, but also as one at the heart of maintaining business resilience and broader economic stability as significant loss of natural assets is accompanied by a range of developmental, social and security issues. Consequently, adopting a pro-active approach to biodiversity management has followed climate change onto the boardroom agenda. Responding appropriately is quickly becoming a necessity to maintain a social license to operate and to secure supply chains into the future.



### Key Facts

**US \$44 trillion** of economic value generation is moderately or highly dependent on nature and its services.<sup>5</sup>

**1 million** animal and plant species are now threatened with extinction.<sup>6</sup>

**68%** the average decline in species population sizes since 1970.<sup>7</sup>

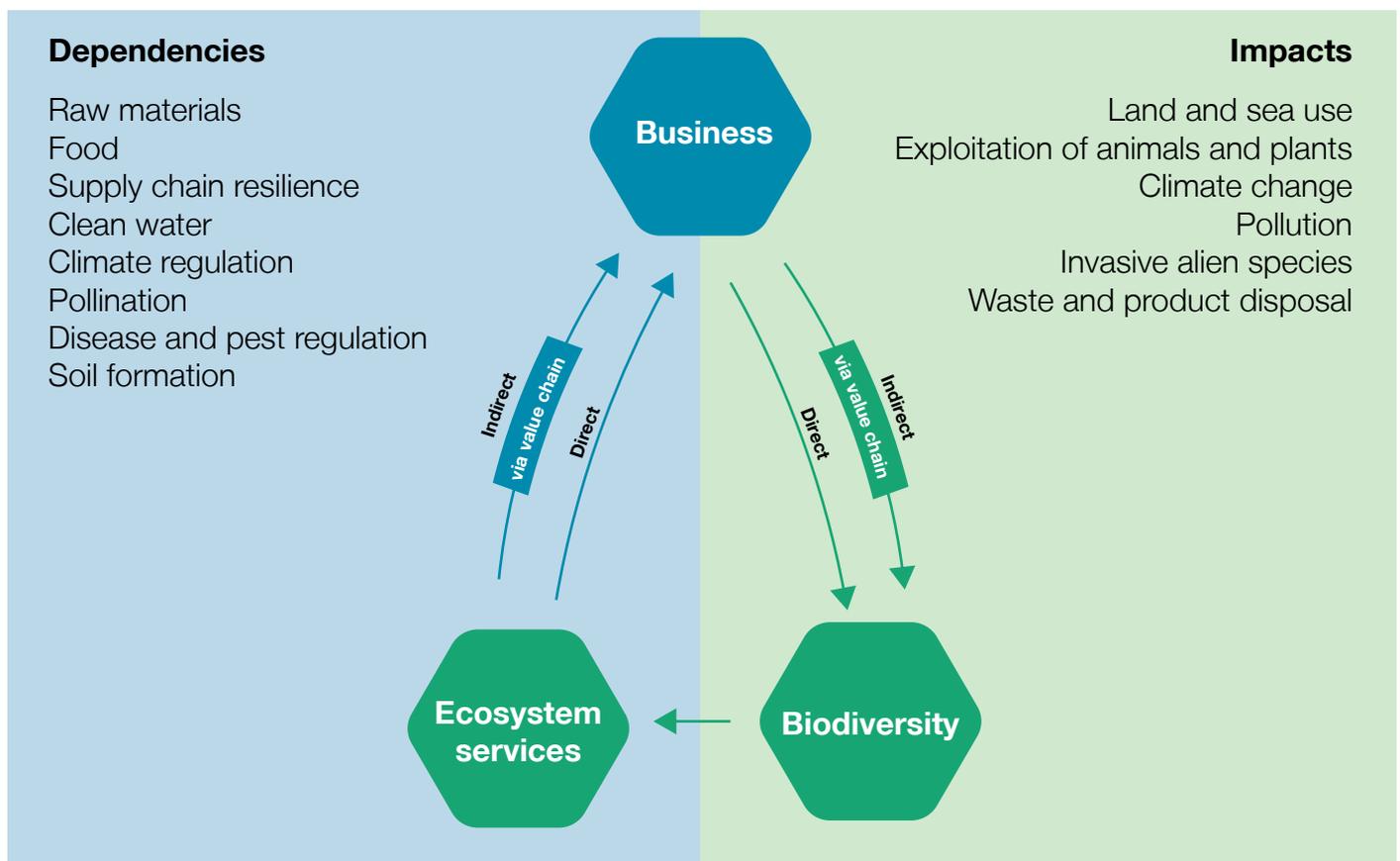
**US \$113bn** invested annually in nature-based solutions (US\$18bn from the private sector) needs to increase to US\$536bn by 2050 to allow the planet to maintain its ability to regenerate.<sup>8</sup>

# How do businesses and biodiversity impact each other?

Businesses and financial organizations impact nature both directly, through their own operations, or indirectly, through the value chain and investment decisions. Direct impacts stem primarily from land use and waste generation and often occur at the same time and in the same place as business activities.

Indirect impacts result from the actions of others and are usually the hardest to identify, predict, manage and control. Organizations with business operations that routinely involve the use of, or interface with, natural assets, such as those in the primary sector, will typically have a high natural capital management risk and opportunity profile. However, even organizations with operations relatively remote from dependency on, or consumption of, environmental resources need to examine their exposure to direct and indirect impacts of biodiversity loss including exacerbating effects on climate change risk.

Extractives, energy, agribusiness, food, real estate and construction, and fashion and textiles are among the industries that have highest risk exposure for potential impacts, and are also the most vulnerable to ecological destruction. Analysis of environmental impacts associated with the apparel supply chain shows direct linkage to soil degradation, conversion of natural ecosystems, and waterway pollution.<sup>9</sup>



# What are the risks to business?

Biodiversity loss has tangible costs and impacts to business. However, it is often hidden or incorrectly priced in supply chains, obscuring the link between nature loss and the bottom line. Risks your organization may face include:



## Physical risk

Biodiversity loss can disrupt ecosystems and increase natural hazards and may lead to supply chain disruption, increased input costs, reduced quality goods, asset impairments or gaps in trading.<sup>10</sup>



## Regulatory and legal risk

Damage to local ecosystems may lead to litigation or restrictions on land use, reduced access to raw materials, supply chain disruption and loss of license to operate.



## Market risk

Consumer preference is changing as awareness increases. Customers and investors are demanding action. Failure to respond may lead to reduced revenues, the breakdown of long-term commercial relationships or increased cost of materials. Companies at the forefront of this shift stand to benefit.



## Reputational risk

Negative press coverage or divestment may lead to reduced revenue, reduced access to capital or loss of social license to operate.



## Transition risk

As new standards and policy changes arise, there are increasing demands on businesses. Businesses that do not adapt to the societal and economic shifts will be exposed to additional costs and risks, including those listed above.



# What are the opportunities for business?

There are significant business opportunities for those committed to maintaining and restoring natural ecosystems.

## Nature-based solutions

The World Economic Forum identified a series of nature-positive solutions, with annual business opportunities worth \$10 trillion that could create 395 million jobs by 2030.<sup>11</sup>

## Reputation

Businesses that adopt corporate level biodiversity goals, such as Science Based Targets for Nature<sup>12</sup>, can use these to drive change internally and demonstrate to stakeholders a firm commitment to reduce biodiversity loss, with associated reputational benefits and access to capital.

## Increased Efficiency

By understanding biodiversity across your project life cycle and value chain, and looking ahead to the opportunities generated through the prioritization of nature, businesses will benefit from increased efficiency, new markets, cost savings, brand enhancement and increased market share.

## Key concepts

### Nature

The natural world, with an emphasis on the diversity of living organisms (including people) and their interactions among themselves and with their environment.<sup>13</sup>

### Natural capital

Natural capital is the world's stock of renewable and non-renewable natural resources on Earth (eg plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits or "services" to people. The value of natural capital can be estimated using a process known as natural capital accounting which measures the assets and services which nature holds and provides.<sup>14</sup>

### Biodiversity

Biodiversity is the measure of the variety of living life on Earth. A high level of biodiversity boosts the productivity of ecosystems and therefore increases natural capital. Importantly, it also increases the resilience of an ecosystem to climate change.<sup>15</sup>



# What actions can finance take?

Solutions to the issue of nature loss are complex, but there are steps you can take now to understand the relationship your business has with biodiversity. In doing so, you can reduce potential negative impacts, and identify mitigation and adaptation opportunities that could significantly improve your business resilience as well as improve scope to create positive impact, to increase the health of the natural capital with which your business or value chain interfaces.

1. Engage with your sustainability team to develop an in-depth understanding of how your organization and your value chain may negatively impact biodiversity.
2. Assess how your organization might enhance biodiversity through the application of mitigation and adaptation strategies that enhance long-term business sustainability.
3. Develop an in-depth understanding of the risk dynamics of biodiversity loss for your organization and your value chain.
4. Develop a view of the organization's associated value at risk as the basis for setting a risk appetite policy. Consider an appropriate risk management approach to achieve reduced probability of occurrence and/or risk impact.
5. Develop the capability of management information systems to collect and compile relevant data for monitoring those risks and impacts for the organization, and across the value chain.
6. Set goals and targets and then develop an appropriate performance measurement approach, including metrics to enable ongoing measurement and monitoring of the organization's performance. Determine how these metrics and supporting information can be used to inform all key business decision making processes at strategic and operational levels.
7. Ensure appropriate internal governance processes are in place to embed biodiversity considerations into relevant organizational policy and to guide decision making across the organization – operations, procurement, research and development, commercial finance and investments, capital budgeting and expenditure evaluation, risk and compliance and stakeholder relations.
8. Develop an approach to reporting. The Taskforce on Nature-related Financial Disclosures (TNFD) is developing a framework for organizations to report and act on evolving nature-related risks, building on the success of the Task Force on Climate-related Financial Disclosures (TCFD).



# Further resources

## Explore:

- [A4S Essential Guide to Natural and Social Capital](#)

## Read:

- [The Natural Capital Protocol](#) – a decision making framework that enables organizations to identify, measure and value their direct and indirect impacts and dependencies on natural capital.
- [The Transparent Project, Corporate natural capital accounting](#) – this document outlines the landscape and leading applications, challenges and opportunities around natural capital.
- [Paulson Institute, Financing nature: closing the global biodiversity financing gap](#) – this report lays out the economic case for protecting nature.
- [Nature4Climate, Nature positive recovery](#) – this report sets out the principles for investing in nature-based jobs and initiatives to stimulate the post-COVID economy.
- [CISL, Business and Biodiversity](#) – this report looks at the opportunities and challenges for business.

## Watch:

- [Our Planet, Our Business](#)

## Take part:

- [Business for Nature](#) – a global umbrella coalition, is seeking to reverse nature loss. It hopes to showcase business solutions to inspire others to follow and to amplify a powerful business voice calling for governments to act now.
- [The Finance for Biodiversity Pledge](#) – 89 financial institutions representing 19 countries and over €13 trillion in assets have so far signed.

## Stay up to date:

- [The Taskforce on Nature-related Financial Disclosures \(TNFD\)](#) – formed in 2021 to deliver a risk management and disclosure framework for organizations to report and act on nature-related risks.
- [NGFS/INSPIRE, Statement on Nature-Related Financial Risks](#) – in this statement NGFS acknowledges that nature-related risks, including those associated with biodiversity loss, could have significant macroeconomic implications, and that failure to account for, mitigate, and adapt to these implications is a source of risks relevant for financial stability.

## Endnotes

1. BCG, [The Biodiversity Crisis Is a Business Crisis](#)
2. United Nations, [The Sustainable Development Goals Report 2021 \(Goal 15\)](#)
3. World Economic Forum, [The Global Risks Report 2022](#)
4. United Nations, [The Sustainable Development Goals Report 2021 \(Goal 15\)](#)
5. World Economic Forum, [Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy](#) (page 8)
6. United Nations, [Nature's Dangerous Decline 'Unprecedented'; Species Extinction Rates 'Accelerating'](#)
7. WWF, [Living Planet Report 2020](#)
8. World Economic Forum, [This is why it's good business to invest in nature conservation](#)
9. McKinsey, [Biodiversity: The next frontier in sustainable fashion](#)
10. World Economic Forum, [Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy](#)
11. World Economic Forum, [395 Million New Jobs by 2030 if Businesses Prioritize Nature, Says World Economic Forum](#)
12. Science Based Targets initiative, [Ambitious corporate climate action](#)
13. The Taskforce on Nature-related Financial Disclosures (TNFD), [TNFD's definitions of nature](#)
14. [Capitals Coalition](#)

