



A climate for nature: to what extent does nature and ESG play into corporate success?

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The evolution of ESG in the corporate world in response to our changing climate has seen an increased focus on identifying, addressing and disclosing material ESG issues. Nature-related dependencies, impacts, risks and opportunities are all important considerations as part of the corporate reporting process. But what are the challenges and benefits of nature-related disclosures? What frameworks and guidance is there to help organisations evolve their thinking in this area? And how can they create a culture that prioritises the protection of nature and brings the right skills and information together to build a successful approach?

In this next article in our 'a climate for nature' series, **our Sustainability Partner Ben Stansfield discusses these questions and more with Josephine Bush, a Non-Executive Director and Chair of the ESG Committee at NextEnergy Solar Fund PLC.**

Discussion highlights:

What is TNFD and why is it important?

TNFD stands for the Taskforce on Nature-related Financial Disclosures, a global initiative that provides a framework for organisations to identify, assess, manage and report on their nature-related dependencies, impacts, risks and opportunities. The aim is to help businesses generate quality information that can inform their strategic and capital allocation decisions and support the transition to a nature-positive economy. The TNFD follows the structure of the Taskforce on Climate-related Financial Disclosures (TCFD) and is aligned with the global policy goals in the Kunming-Montreal Global Biodiversity Framework.

Solar energy electricity generator NextEnergy Solar Fund is incorporating the TNFD framework into its corporate reporting, becoming one of its early adopters. The framework consists of conceptual foundations, the nature-related disclosures, a set of general requirements and a set of recommended disclosures structured around four pillars: governance, strategy, risk and impact management, and metrics and targets. Applying this structure to the company's reporting enables it to disclose and report in a meaningful way on the nature-positive initiatives it is delivering to enhance the organisation's biodiversity footprint.

What are the challenges of making nature-related disclosures?

Nature is complex, intangible and diverse, making it difficult to measure and report on its value and condition. There is no universal methodology or metric for assessing nature impacts, and data availability and quality are often limited. Moreover, nature impacts are often localised and context-specific, requiring a granular level of analysis and reporting.

The TNFD appears to be the forerunner in providing an approach and framework, but how to apply this will be specific to each organisation - influenced by the nature-related impacts that are relevant to their sector, business type, markets, locations, and supply chain. Challenges in the reporting process really vary: from defining the parameters of responsibility for reporting, the depth of investigation to establish your biodiversity baseline, right through to reporting on both upstream and downstream value chain impacts and dependencies.

The localised element of biodiversity means it's really important for businesses to understand the value of nature in areas where they have assets located, as well as the condition of nature there and whether it's degraded or not. The TNFD offers further support here through additional guidance on how to identify, assess and report on nature-related issues, using the LEAP approach (Locate, Evaluate, Assess and Prepare).

What are the benefits of making nature-related disclosures?

Nature-related disclosures can help businesses to manage and mitigate the risks and opportunities associated with nature loss and degradation. According to the World Economic Forum (WEF), more than half of the world's GDP is at risk due to nature loss - highlighting the importance of mapping potential impacts of that loss and scenario planning. Yet alongside the potential risks, there are also opportunities and figures from the WEF to indicate that nature-positive solutions will deliver \$10 trillion per annum in business opportunities and open up 395 million new jobs by 2030.

So nature-related disclosures are not only a matter of accountability and transparency, but a source of resilience and competitive advantage for businesses. They can also help align with global policy goals and regulatory requirements, such as the EU Nature Restoration Directive and the Corporate Sustainability Reporting Directive (CSRD), while enhancing public perception and reputation; as society increasingly expects business to contribute to the enhancement of the natural environment, securing its social licence to operate.

Some of the ways NextEnergy Solar Fund has sought to enhance its biodiversity footprint, as part of its wider strategy, include: supporting pollination, enabling sheep grazing, and developing biodiversity management plans. It's continuing to develop its strategy in a way that respects nature and, in terms of reporting, has committed to the TNFD methodology and International Sustainability Standards Board (ISSB) standards, which will integrate nature-related disclosures.

How can businesses evolve a culture that prioritises the protection of nature?

By engaging in an organisation's culture, there is an opportunity to set the tone of how things are done, create a sense of collaboration and purpose, and provide for a positive impact. Once defined, an organisation's culture will influence the behaviours and direction it follows - setting cultural boundaries. This is something recognised in the Transition Plan Taskforce (TPT) framework for the development of climate transition plans, which has the development of purpose and culture as one of its first initiatives. In

addition, to deliver an effective response to climate change and biodiversity loss, company boards need to ensure that they have sufficient representation and education on nature-related issues; and that they exercise their fiduciary duty by considering the nature dependencies and impacts of their business.

Q&A with Josephine:

So to begin with, can you tell me - what is TNFD?

The TNFD (Taskforce on Nature-related Financial Disclosures) provides organisations and financial institutions with a risk management and disclosure framework to identify, assess, manage, and report on material nature-related dependencies, impacts, risks, and opportunities. The aim is that through its recommended approach, businesses are able to generate quality information that can be integrated into strategic and capital allocation decision-making and this, in turn, can shift the flow of capital to more positive outcomes for nature and society.

The reality is that very few businesses fully understand their nature dependencies and impact, so the first step is to baseline where you are now. The core pillars of the TNFD won't be so unfamiliar to those in the sustainability sector at least, as it follows the structure of the Taskforce on Climate-related Financial Disclosures (TCFD) framework and now the new International Sustainability Standards Board (ISSB) standards. The framework consists of conceptual foundations, the nature-related disclosures, a set of general requirements and a set of recommended disclosures structured around four pillars: governance, strategy, risk and impact management, and metrics and targets.

The recommendations of the TNFD have been designed to: meet the corporate reporting requirements of organisations across jurisdictions; be consistent with a global baseline for corporate sustainability reporting; and be aligned with the global policy goals in the Kunming-Montreal Global Biodiversity Framework.

Why did NextEnergy become an early adopter of TNFD? And what were the challenges around getting everyone on board?

Well, in truth, we didn't encounter any significant difficulties, because we recognise that adopting nature-positive initiatives builds resilience within our business model and supply chains. The real challenge is ensuring that you have a credible approach and can report in a meaningful way. As a solar energy electricity generator, the essence of NextEnergy's business model creates an intimate relationship with the natural world; we depend upon a free natural resource to activate our generation capacity; and our solar panels comprise raw materials extracted from the earth and are positioned on land that has a biodiversity footprint. We would ignore at our peril an understanding of the natural world and how it is impacted by climate change and biodiversity risk.

Our society and our stakeholders - including regulators and government - are increasingly asking business to step up, to be accountable for its impacts, value its dependencies and contribute to enhancement of the natural environment where it is able to do so. NextEnergy has voluntarily and organically developed its strategy over the years in a way that respects nature - very early on, we developed a forward-thinking approach to nurturing and enhancing the organisation's biodiversity footprint. Some examples of how we are implementing that approach are: supporting pollination through

beehives onsite, enabling sheep grazing and developing biodiversity management plans to a granular level, to include bird and invertebrate population support initiatives, among other things. Nature obviously works at its own pace; it doesn't sprint to the finish line, particularly where restoration, regeneration and enhancement is concerned. So the wait and see approach just doesn't work from a nature perspective - "the time is now", as they say.

What are the challenges in making nature-related disclosures and how do you make reporting accurate, reliable and accessible?

It's a good question. Nature is complex, it's intangible and diverse, making it really difficult to hone-in on a single issue that is the subject of disclosure, and to report in a way that enables comparability. There isn't, as yet, a universal methodology for measuring nature impacts; albeit TNFD appears to be the forerunner in providing an approach and then a framework.

Challenges really vary from defining the parameters of responsibility for reporting, the depth of investigation to establish your biodiversity baseline, right through to reporting on both upstream and downstream value chain impacts and dependencies. This information is far from readily available and so, for example, carbon emissions and reductions are a focal point for climate change reporting, but there is no perfect key performance indicator (KPI) for biodiversity in view of its complexity. How you approach this is likely to be influenced by the sector in which you operate and the nature of the company's operations, because biodiversity impacts are often localised and may vary depending on the season.

In contrast to measuring overall carbon footprint, this localised element of biodiversity makes accessing data particularly difficult. Therefore, you need to know where a company has its assets and the value of nature in that location, as well as its condition and whether it's degraded or not. The TNFD has sought to help here by producing additional guidance on how to identify, assess and report on nature-related issues and that's called the LEAP approach (which stands for Locate, Evaluation, Assess and Prepare).

NextEnergy has been developing its approach in this area and will report against the TNFD methodology in its next sustainability report.

Accurate and reliable reporting starts with the quality of data you have collated; and that data will be bespoke to each and every organisation. Overall, getting access to good quality data is becoming easier, but there is still a long, long way to go. TNFD obviously helps in terms of providing a framework and, similarly, developments in technology, such as satellite imaging and remote sensing, help us to assess the health of ecosystems and natural resources, with geo-specific data being a top priority for most data providers. You've got to start somewhere, so gathering what information you do have and ensuring that biodiversity is on the boardroom agenda is a good place to begin. And taking those initial steps will enable you to start evaluating how to translate that data and research into risk and opportunity for your particular organisation in the locations where you have operations, or impact or influence.

In the UK, and elsewhere, TCFD was initially voluntary, then the UK legislated to make TCFD-aligned disclosures mandatory. Similarly, is there a stage at which there is an advantage to bringing TNFD into legislation?

In short, yes is the answer to that question; and I think the ISSB taking over certain responsibilities for these frameworks is really going to help, particularly as it relates to listed companies. But I think more

could be done. Otherwise, left to market forces, we will not be moving quickly enough to prevent irreversible tipping points in the natural world.

There are a number of external forces driving change - including the move by some campaigning groups to call for new legislation to implement the human right to a healthy environment in law. One of the aims of this movement of thought is to criminalise environmental destruction; and that's a really serious matter for directors to contemplate. In other developments, [the EU passed a Nature Restoration Directive](#), promising to restore a fifth of its territory by 2030. And also, we shouldn't ignore the increasing incidents of climate litigation - NGOs, shareholder activists and class actions are emerging in line with the science of attribution that links nature impacts to anthropogenic causes. However, outside of that legal framework it feels to me like there are a number of pressure points converging to accelerate TNFD-aligned disclosure.

Climate change and nature loss are so deeply intertwined, you can't deal with one part of it through TCFD, and now ISSB reporting, and not tackle the nature challenge; it just doesn't make sense. The ISSB has already indicated that it intends to extend its remit to nature, following investor pressure for more disclosures. In addition, the EU has also integrated aspects of TNFD guidance into its regulatory reporting regime, specifically the Corporate Sustainability Reporting Directive (CSRD), which requires in scope entities to ensure disclosures are provided in line with the European Sustainability Reporting Standards (ESRS).

It's also relevant to talk about fiduciary duty here; the exercise of fiduciary duty has received a lot of commentary, and it would appear to be the general consensus that consideration of climate impacts are a legitimate expression of that duty. Nature considerations, to my mind, are inevitably an extension of this, given that inextricable link. Following this logic, nature dependencies and impacts are a relevant consideration for all company boards to contend with.

And what's critical in my view is an enabling policy environment as well, supported by a tax system that provides the right incentives to invest in nature and the right penal taxes to prevent damage to nature; and I think this is where the law can really help.

Can you tell us why it is important that businesses engage with the impact of nature-related threats and what are the opportunities?

Well, it's very important to engage and I think you can look at this from a number of perspectives. For me, it goes to the heart of what it means to be a business; its role and function as an economic being, and also the part it plays as a consumer of natural resources in raw materials and as a contributor to the profits and losses, not only of its own balance sheet but that of the nation where it resides. I think we would all agree that corporates have dependencies and impacts on nature and communities well beyond the corporate veil, but these externalities have never really been fully explored or priced, let alone disclosed. Nature is not an infinite provider of free resource, yet we don't know how to curb our consumption; even though we know this poses an existential threat to us as human beings and, by deduction, the businesses we run. Yet, alongside the challenges of managing these risks, there is also an opportunity to bring about the changes needed; and those that are able to truly grasp that can develop a competitive edge.

At the macro level, the [World Economic Forum tells us that more than half of the world's GDP - circa \\$44 trillion - is at an immediate risk due to nature loss](#). That's an enormous figure whose impacts would be felt by every economy, business and community, either directly or indirectly. Those that anticipate the reality of this economic impact on their business model will have a head start, and good governance will support that process and encourage businesses to scenario plan to map potential impacts.

But it's not just negative outcomes that one would map. Investment in nature-positive outcomes can create new business opportunities - indeed the [World Economic Forum has estimated that nature-positive solutions will create \\$10 trillion per annum in business opportunities and open up 395 million new jobs by 2030](#). The opportunities are diverse: ranging from natural capital and blue economy solutions, agri- and aqua-farming innovations, clean tech, digital and AI linked to natural capital, as well as evolutions in pharma products that utilise natural resources. So, we have both ecological drivers and socio-economic ones to put nature higher up the strategic priority list.

How does business evolve a corporate culture that prioritises the protection of nature?

An organisation's culture will evolve, whether we're actively engaged in it or not - you just might not get the culture you want, if you don't consciously engage in developing it.

By engaging in an organisation's culture, there is an opportunity to set the tone of how things are done and provide for a positive impact. And impact to my mind is a function of purpose, and the development of purpose is a strategic imperative; even though it's a leadership choice. So once defined, your culture becomes 'the North Star', as they say, of your organisation and sets the cultural boundaries. You can see why the Transition Plan Taskforce (TPT) framework for the development of climate transition plans has the development of purpose - and logically, culture - as one of its first initiatives. And there's a good reason for that, as it will set the tone from the top and drive the authentic organisational response to climate change and biodiversity loss. It will influence behaviours and, ultimately, executive decision making.

What are your thoughts on whether nature-related disclosures influence public perception or the reputation of the business?

So, the public have a much more heightened sense of the impacts of nature, given last year was the hottest on record. Hurricane Beryl this year marked the earliest recorded Atlantic Category 5 hurricane and, notably, the last two to three years has seen us experience unprecedented flooding and wildfires. These natural events are signalling change, as tipping points are breached and, as a result, the public will expect the business community to respond - if it doesn't, the public will vote with its feet.

Nature-related reporting is a really important step to manage and address some of these public perceptions. It's an important step in transparency, because being transparent will help develop trust with the public, and it will also foster more accountability and encourage organisations to own their approach, and response, to climate change and biodiversity loss. As we know, that comes with some challenges due to the difficulties in measuring and recording nature-related impacts, and the fact that there are no commonly agreed metrics. We're working within an evolving disclosure environment, but these are areas of risk that need to be managed and balanced in order to maintain public trust and confidence in organisations.

I think to avoid the risks and preserve reputations, organisations should ensure that their nature-related disclosures are really clear, complete and fully substantiated - and that last point is what's really important. You need to be transparent as to the scope of your disclosures, including your approach to materiality, the scope of your value chain and geographic locations and the relevant time horizons that are covered. I think getting your nature-related targets independently certified also helps, because it's then not a subjective matter and, for example, that could be done under the emerging Science Based Targets for Nature (SBTN). Our investors and stakeholders are discerning people, so we take this very seriously within NextEnergy and this translates into on-the-ground expertise within the company's Investment Advisory team where we have ecologists working with our finance teams who have responsibility for our nature-related reporting. And I think that's an important future skill set; that's a requirement, a blending of science and finance to really tackle some of these challenges, risks and opportunities more effectively.

Where do you think ESG and sustainability - whether it's carbon or nature reporting - sits within a business?

Yes, that's a really important question. I think you have to ignore historic constructs; it just doesn't work. You have to have sustainability and finance working closely together, and the expert of the future will have a blended skill set. You can see courses that are emerging within universities that are now trying to create this kind of blended opportunity to learn across a number of disciplines, which might include finance, nature and climate.

Our own experience within NextEnergy of producing our latest sustainability report - where we committed as an early adopter to the ISSB standards - highlighted the need for this broader skill set, or collaboration of teams and skills. A key challenge we encountered was around how does the team involved work in a new and a different way? When you're producing a sustainability report, that discloses information through the financial materiality lens at a time when you're also releasing your organisation's annual report, then you've absolutely got to have your sustainability and finance people working closely together. The annual report and the sustainability report needed to have a blended cohort for production and, crucially, the related content needed to be cross-referenced between the two reports.

In practice, you just can't do a financial materiality assessment without talking to your auditors, and you have to understand the materiality threshold for annual reporting purposes. At the very least, you need to know what that threshold is and then when you're doing your financial materiality assessment for sustainability under Standard 1 and 2, that's the threshold you're applying.

Within our report we had two different types of materiality assessment: one financial and one sustainable. And so both parties needed to agree on the application of that financial materiality lens. That's not a legal decision, that's not a sustainability decision, that's a financial lens. I can't see any other way to produce reports that are ISSB compliant, without that sort of blended cohort approach.

So finally, looking forward. Are there any "skills for the future" that Boards should be considering now?

I think for Boards it's really important, because nature is such an in-depth area now and we're seeing ESG committees emerging. It's such a vast area to keep on top of and Boards really need to think about

how they do that and whether they have sufficient representation to be able to bring this kind of learning into their decision-making - helping to effectively risk assess and opportunity assess in this space.

Part of that exercise of fiduciary duty as a collective, I think, is to understand what are the skills that are required for Boards to be effective. And that might be external consultancy, in part, or thinking about the construct of the Board in a different way.

There is such a plethora of regulation, law and new frameworks in this area. It's a lot for traditional Boards to absorb into current roles and responsibilities, without thinking about how they change the Board construct to take all of that into consideration.

Looking for more insight into nature-related issues for businesses?

To receive more articles in this series and insight on related topics, [sign-up to our mailing list](#). We have more nature-related insights to share from interviews with other senior executives, so look out for the next article in the series. You can also read our earlier Q&As below:

- [Emma Toovey, Chief Ecology Officer at Environment Bank, shares perspectives on identifying and tackling nature-related threats in your business.](#)
- [Dr Samuel Sinclair, Co-founder and Director of Biodiversify, talks about how biodiversity is becoming more of a priority for businesses and shares insight into the challenges and opportunities for organisations as they evolve their approach.](#)
- [James Burton, a barrister practising from 39 Essex Chambers, discusses the duties for company directors to consider in relation to nature-related risks.](#)

Our [ESG team](#) is experienced in the full breadth of legal issues relating to ESG, including nature and biodiversity and will be closely monitoring the key discussion points at COP16. Look out for more insight and content via our [LoupedIn blog](#).

To talk further on any of the issues discussed in this series, please contact [Ben Stansfield](#).

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Josephine Bush is a non-executive director (NED) on the NextEnergy Solar Fund PLC Board (FTSE250) (NESF), where she Chairs the ESG committee. She is also a NED on other listed Boards and sits on the Gresham House Investment and Valuations committee for the British Sustainable Infrastructure Fund. She advises organisations on the development of their sustainability strategies through her own consultancy Sustineri Strategy Ltd, as well as hosting a podcast on sustainability issues, called Sustainability & You.