

THOUGHT PROVOKING IDEAS OF THE GLOBAL ESSAY COMPETITION 2023

Assessing business footprint on nature: How a public disclosure of nature-related impacts could be a mechanism to bend the curve on biodiversity loss

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Introduction:

It is undeniable that earlier generations have left us significant foundations in a wide range of areas, from economic development to education, social welfare, law and legislation, and others. On the other hand, one of the saddest legacies we inherit from our ancestors was the loss of biodiversity, estimated by a 69% reduction in wildlife population over the last 50 years (WWF, 2022), brought on by extensive human activity for economic gain.

Biodiversity, from WWF's definition, is described as the variety of life on Earth in all its forms. It covers the diversity of species, their genetic variation, and the

interactions between various life forms within complex ecologies. We are all aware of the values and advantages of biodiversity and cannot deny our dependence on the web of life for several essentials, such as food, water, safe shelters, a stable environment, and economic development.

When I was a child, I was taught that my country had "golden forest, silver sea", which is another way of saying that the country was blessed with abundant natural resources. Because of this perspective, people frequently make the mistake of thinking that nature is free and always available, which is why we regularly exploit it. This happens everywhere around the world.

Nature, in fact, is in trouble. Scientists have warned that one million species out of an estimated eight million are on the verge of extinction, with many of them going extinct within the next few decades (IPBES, 2019). There have been numerous efforts from international organisations, governments, and global businesses to preserve nature, but the results were not as expected due to lack of clear vision and thorough understanding of nature-related impacts. Therefore, I particularly support the development of an international framework with more precise and quantifiable criteria to assess the economic risks and repercussions related to nature and biodiversity. By doing this, organisations demonstrate their transparency and commitment to closing the information gap that prevents governments, investors, and financial institutions from taking informed decisions towards nature protection.

Business and biodiversity loss

The natural world contributes 50% of the global GDP (World Economic Forum and PwC, 2020). According to the United Nations Environment Programme (2018), 13 out of the 18 industries that make up the FTSE 100, with a market valuation of US\$1.6 trillion, are linked to manufacturing processes that have a high or very high material dependency on the environment while more than 1.6 billion people rely on forests for food, shelter, energy, medicines, and income (United Nations Department of Economic and Social Affairs, 2021). However, a miserable truth is that less than 5% of companies globally are addressing the nature issue (McKinsey & Company, 2022) and less than 1% know how much their activities depend on nature and the ecosystem (World Benchmarking Alliance, 2022).

For a long history, humans have been exploiting forest lands for rapid expansion in population and economic development. We deforest to make more rooms for urbanisation, support manufacturing activities and supply raw materials for production. The desire for meat could encourage deforestation; the rising demand of consumer goods could lead to the pollution caused by hazardous waste and chemicals, to name a few examples. However, the direct business impacts on biodiversity do not stop at habitat loss, erosion, reduction in number of species, or pollution. Businesses can also affect local communities by reducing access to natural resources or disrupting ecosystem services. Indirectly, biodiversity loss can be a consequence of the excessive product use by consumers. Unsustainable consumerism has recently been a global issue as businesses have aggressively promoted the consumption of goods and services, resulting in resource depletion, and problems with waste disposal.

Terribly, we have discharged about 2 billion tonnes of municipal solid waste to the environment annually, with at least 33 percent of that not managed in an environmentally safe manner (World Bank Group, 2018).

Ecosystem degradation and biodiversity loss, in return, also pose numerous threats to businesses on many levels. An increase in the likelihood of natural disasters, a decline in pollinator populations, or a collapse in fishing or agricultural yields could all cause significant risks to business. Biodiversity loss, as a result, is getting significant attention from business leaders worldwide, especially investors. The loss of biodiversity and climate change, according to experts, should be

addressed concurrently. Capital may soon be moved away from companies that directly or indirectly have a negative impact on biodiversity and toward those that are nature positive.

Current challenges

Nature conservation and the disclosure of environmental impacts are more prevalent in developed countries. However, companies which already report on their environmental performance focus more on transparency of their operations than on in-depth measurement and effect monitoring (Di Fonzo, M. & Hime, S., 2017). With the development and widespread adoption of ESG frameworks, businesses are becoming more aware of their roles and responsibilities in achieving sustainable growth while meeting ESG targets. However, the risks and consequences of nature loss have received less attention and discussion, even though nature is degrading at rates beyond human comprehension. While climate change is relatively well monitored, biodiversity is frequently undervalued in impact metrics. Traditional economic models have underestimated the importance of the environment and nature, resulting in systemic failure and overuse. Understanding how economic activity affects nature and vice versa is critical in attempting to solve this problem, given that biodiversity loss will be the third most significant global risk over the next ten years (World Economic Forum, 2022).

An early draft of a new reporting system was released in 2022 by the Taskforce on Nature-Related Financial Disclosures (TNFD), a business-backed initiative to safeguard biodiversity. It provides instructions for assessing the environmental risks that affect businesses, referencing the climate-risk

framework developed by the Task Force on Climate-Related Financial Disclosures (TCFD). Nevertheless, the biggest issue of the current draft of the TNFD is that it urges businesses to disclose opportunities and risks, such as information about any operations causing effects to ecological systems, yet it does not identify what data and appropriate elements related to biodiversity should be used to gauge businesses' progress.

Notably, another disadvantage of quantifying companies' influence on biodiversity is the absence of a straightforward, universally recognised objective. There is no worldwide aim and assessment for biodiversity, compared to the United Nation's net zero ambition of limiting global warming to 1.5 degrees Celsius over pre-industrial levels. While the Paris Agreement (2015) served as the foundation for the TCFD's recommendations, the TNFD lacks comparable international treaties to which it may tie its benchmark. Hence, there is a huge need for international agreements to get access to and gain better business information to channel capital to companies that could minimise the damage and risks to nature and biodiversity.

Strategy to adopt the disclosure of business impacts on biodiversity

Step 1: Align measurement metrics

The concept idea behind assessing business footprint on nature is to translate its financial performance with the resources it uses and the strain it puts on biodiversity into a single indicator with breakdown impacts across the value chain. Consumer goods firms, for example, may evaluate the risk and damage to nature to produce a single product unit by taking into account all the

variables affecting throughout the product life cycle, including land use, fresh water, ecotoxicity, human encroachment, carbon emissions, natural ecosystem disturbance, and so on.

Businesses, undoubtedly, require global data to standardise definitions and establish baselines for their actions. We have all heard of unsustainable exploitation of nature, but do we really understand what it means? Do we know what pristine nature was like before business got involved, or what a healthy natural habitat was like before humans interfered? Most likely, no. Therefore, to measure the impact to nature, it is required to set the standard for measurement and baseline performance, in which the very first step is to agree on the definition and measurement metrics of the impacts. As a result, global institutions such as the United Nations, World Wildlife Fund, etc. may be the pioneers to facilitate the data collection and analysis process to set a global standard practice before applying to performance tracking. However, unlike climate change, local characteristics need to be carefully considered for the evaluation. Furthermore, as different industries have different practices and expansion requirements, the standard could be classified by geography and industry. Such breakdowns are essential for biodiversity impact assessments (ABMB, 2019).

Step 2: Develop a global ambition

Lately, the phrase "net zero" and "nature-positive" was coined and used in political remarks at the G7 and G20 meetings and at COP26. This terminology emphasises how officials and climate change experts are beginning to recognise the significance of preserving and replenishing natural capital and its

relationship to climate change. However, awareness is just the very first step. It is an urgent call to establish a global ambition, which is divided in short, medium, and long-term goals to align the operations of countries and businesses.

The ambition not only is a statement of the global expectation and commitment but also reflects multiple dimensions to act as the blueprint for direction in developing means of implementation. Given that different countries are at different stages of development, it is recommended that developed countries take the lead in implementing the initiative and keeping the aspiration going forward by providing management tools, sharing resources and capability, and collaborating on technology with emerging nations. Moreover, financial institutions also play an important role to promote global nature-positive ambition as they are the direct investors managing the capital flow in a market. With the support of green investment in nature-based solutions, we could close the \$ 4.1 trillion financing gap for nature by 2050 (United Nations Environment Programme, 2021).

Step 3: Establish an incentive system

The global ambition target could not be met without the support of local governments. It is encouraged that governments involved in global initiatives should publish a scoring system and revised tax policy on businesses' environmental impacts. The system will base on the industry rating and organisational impacts to define eco-friendly scores for each business. As there are various types of businesses and industries, those that promote a more environmentally sustainable future should be rewarded with a better tax scheme, whereas organisations that

harm the environment and significantly contribute to biodiversity loss should be charged a significant tax so that the governments have more resources to recover nature loss. According to the World Economic Forum (2020), 86 percent of current investments in nature-based solutions come from public sources. Therefore, the only way to reduce the nature financing gap is either that the private sector actively contributes to the higher part of nature finance or that the government gains more access to capital through the new tax structure.

In another aspect, as public understanding rises, investors and consumers will make more accurate and informed judgements about their investment and consumption when businesses publish information on environmental implications. Companies that minimise their negative effects on Mother Earth, promote resilience throughout their value chains, and offer products that are in harmony with nature will reap the rewards of lower risks and growing market share.

Heading towards a nature-positive future

The environmental catastrophe is an exigency that demands immediate intervention. Despite current obstacles, understanding and evaluating biodiversity risk will rank among the top issues for the business world, and the disclosure of nature-related impacts will be essential to identify and mitigate this issue. With the goal to change the mentioned 'worst legacy' by pushing businesses to disclose nature-related risks and allowing financial investors to make more informed decisions, the initiative needs support from global institutions, governments, and all businesses. The disclosure will cover both the opportunities and hazards that nature presents to the operations of organisations as well as the possibilities and risks that organisations pose to nature. To demonstrate a well-rounded action plan to bend the biodiversity curve, the report framework for nature-related impacts should revolve around five major components including: (i) Governance, (ii) Nature-related impacts, (iii) Business strategy, (iv) Risks management, and (v) Targets and commitment. If we do not put any number in our assessment, we will hardly understand our influences on nature and there will be no concrete actions to tackle the situation for a nature-positive future.

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