Why nature-loss is material for your financial institution

An introductory briefing on screening for nature-related impacts and dependencies

SUSTAIN | Strengthening Understanding and Strategies of Business to Assess and Integrate Nature

Contents

Executive summary

Our ability to thrive depends on a world rich in nature, which provides many services that are essential for our very existence. However, some financial institutions that are early on in their sustainability efforts are not prioritizing nature as a potentially material issue. As a result, nature loss goes unchecked in their financing and enabling activities, leaving them exposed to nature-related risks.

This briefing aims to **strengthen financial institutions' understanding of the need to screen for material nature-related issues**. These outcomes can then feed into deeper, more granular assessments and inform prioritization of strategic actions to halt and reverse nature loss.

The briefing **shares recommendations from relevant guidance and requirements, and signposts where tools can help**, including how the **ENCORE** (Exploring Natural Capital Opportunities, Risks and Exposure) tool can help breakdown the complexity of nature-related risks and opportunities.

The recommendations include

1. Screen all portfolio and transaction data to identify potentially material nature-related issues (impacts and dependencies), such as by identifying high-risk locations and sectors.
2. Take these insights further into deeper assessments for more granular data on transaction and portfolio-specific impacts and dependencies.
3. Create or refine existing strategies to address nature loss in financing and enabling activities, such as risk management frameworks and capital allocation policies.

This briefing is for non-nature experts in private financial institutions who:

- have not started or are at the very beginning of identifying nature-related issues
- understand that nature is likely to be material, but don't know how to get started
- have experimented with some tools like ENCORE but need more guidance on how to use them

Introduction

Why nature is relevant for your financial institution

Nature provides the building blocks for a functioning society and economy. Ecosystem services like clean air and water, pollination, climate regulation, food production and other essential but taken-for-granted ecosystem services are critical for human wellbeing as well as the economy. All organizations – financial institutions, businesses, governments and communities – depend on these services and could not operate without them. Yet our planet is experiencing record levels of human-driven nature loss, characterized by ongoing damage to ecosystem services and natural resources.

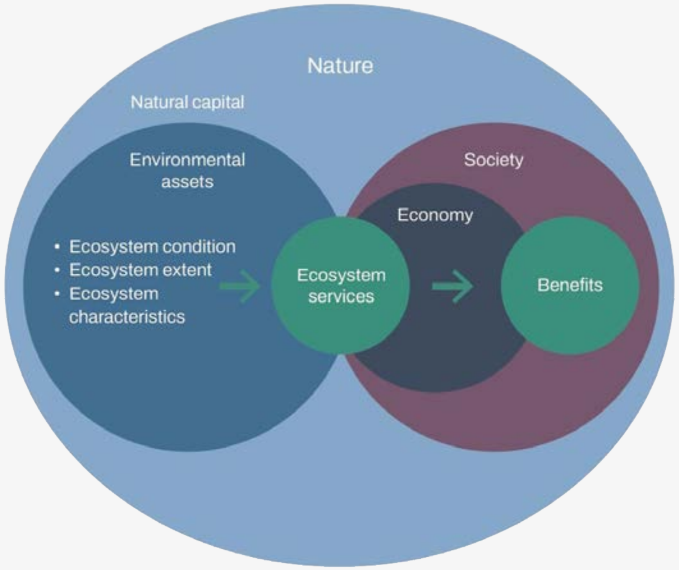
The climate crisis and nature loss are also inextricably linked – action on nature loss is essential for effective climate strategies. The loss of nature and unsustainable use and management of natural resources is a **major driver of carbon emissions and reduces our environment's resilience to climate change impacts**. Climate change is also a main driver of nature loss, for example through forest fires and floods. Restoring nature and protecting biodiversity is a mutually supporting goal to addressing the climate crisis.

The interconnections between nature, society and economy mean that **nature's degradation is a threat to the health of your financial institution**, including your assets and your clients' assets. It is in your institution's long-term interest to understand and mitigate the nature-related impacts, dependencies and associated risks linked to your financing and/or enabling activities.

Figure 1: Drivers of nature change

Source: TNFD, 2023

Figure 2: Nature, business and society



Source: TNFD, 2024. 'Why nature matters'

All organizations also affect nature, both positively and negatively. As a financial institution, your most significant contribution to nature loss and degradation is **via the companies and clients you provide finance and enabling services to**. They can have significant negative impacts or dependencies on natural resources and ecosystem services in their direct operations or value chains. These impacts and dependencies then create risks for your institution, including **physical**, **transition** and **systemic nature-related risks**, which translate to **financial risks**.

To address nature loss, your institution should first understand the potentially **material nature-related impacts and dependencies** associated with your financing and enabling activities. You can then develop relevant strategies and policies, including stewardship programmes to influence companies and clients, risk and opportunity management frameworks to limit and mitigate exposure, and relevant commitments and targets to steer action.

[1] Asset owners like pension funds may have incomplete information about how their assets are managed, such as the transactions or portfolios these assets are invested in. Asset owners can use this briefing to help guide a materiality screening of the investments they have data on, such as sector, location and amount of finance allocated. Asset owners can also use this briefing to set expectations of their asset managers around materiality screening and disclosure of identified nature-related risks to asset owners.

Key definitions

'Financial institutions' refers here to private institutions that provide finance directly to companies or clients, such as through equity or debt, and institutions that provide enabling functions such as insurance underwriting and capital markets facilitation. They include asset managers, asset owners,[1] banks and insurers.

'Transaction' refers to a provision of finance, insurance or enabling services to an individual entity. Transactions include, but are not limited to, individual equity investments, loans, bondholdings, and underwritten insurance products or insured projects. These transactions will have distinct nature-related impacts, dependencies and risks, even if within the same sector. A portfolio is a collection of transactions with varying impacts, dependencies and risks.

'Screening' refers to identifying priority transactions, portfolios and locations that have potentially material impacts and dependencies on nature for further analysis. Financial institutions sometime use this term to mean excluding from financing/enabling services – it is not used in this way in this briefing.

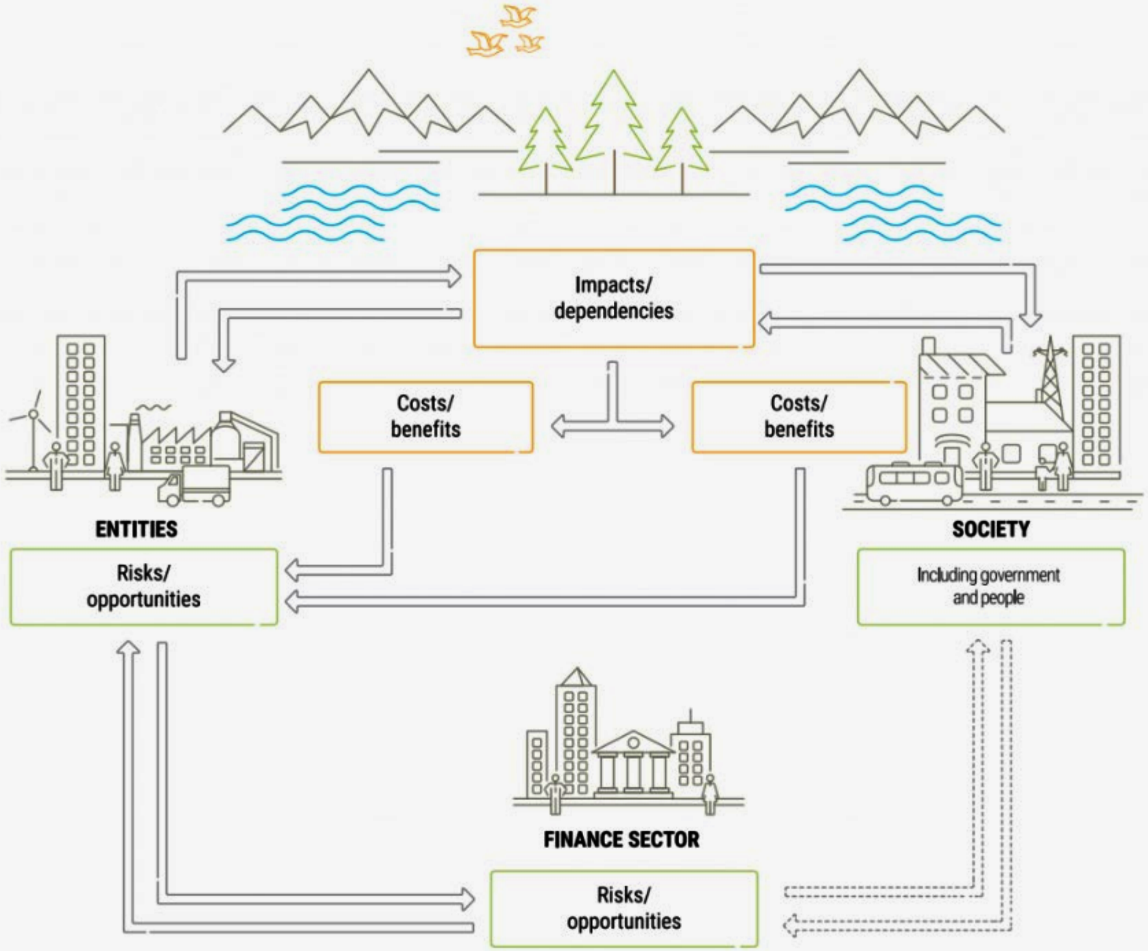
In this briefing, **'materiality'** refers to the significance of the potential nature-related dependencies and impacts identified for any given economic activity. It can be interpreted as 'significant' or 'important to consider' in the decision-making process. Understanding materiality levels of impacts and dependencies helps financial institutions identify their likely exposure to nature-related risks, helping them prioritize certain transactions and/or portfolios for deeper assessment, stewardship and capital allocation changes.

What are the risks to your institution from nature loss?

Financial institutions face risks from nature-related impacts and dependencies within their portfolios, including investments, loans, underwriting, and capital markets activities. These **risks stem from nature-related impacts and dependencies**. For example, if a company relies heavily on freshwater for manufacturing, regional water pollution from their own industry's sewage and effluent could lead to operational disruptions and financial losses, sparking a **feedback loop** and exposing the company and its financiers to physical and financial risks.

To manage these risks effectively, you should first identify the specific impacts and dependencies within your transactions and portfolios. These insights can then guide strategies to reduce or address nature-related risks. Failure to do so could result in financial losses for both your institution and your clients.

Figure 3: Impacts and dependencies on nature create potential risks and opportunities for business, finance and broader society



Source: Adapted from Capitals Coalition, 2018

Given the range of sectors that financial institutions support, you are likely to be exposed to various nature-related risks. These risks may include:[2]

- **Nature-related physical risks:** Financial institutions are exposed indirectly to physical risks from financing and enabling certain activities and companies, which can translate to financial losses for the financial institution. Companies may experience damage to physical assets due to their dependencies on natural capital and ecosystem services. Degradation of nature can therefore result in loss of resources or services that companies rely on – such as clean water or productive soils – leading to disruption, loss or damage to physical assets.
  - **Example:** An insurer may face financial losses as a result of damage or destruction to insured coastal properties, exacerbated by climate change and the loss of natural flood barriers and storm buffering ecosystems like wetlands, reefs or mangroves.
  - **Example:** An asset manager may face financial losses as a result of damage to a bridge being developed by an infrastructure company they invest in, caused by riverbank erosion resulting from removal of native vegetation for the bridge's construction.

- **Nature-related transition risks:** Financial institutions are likely to be exposed to a range of transition risks, including **regulatory, reputational, and legal risks** associated with nature loss, both directly to the institution and indirectly through their financing and enabling activities.
  - **Example:** Regulations and policy frameworks including the **EU Taxonomy**, **EU Sustainable Finance Disclosure Regulation (SFDR)** and **National Biodiversity Strategies and Action Plans (NBSAPs)** are already setting standards and requirements for financial institutions to adhere to. Forthcoming NBSAPs as countries align with the **Kunming-Montreal Global Biodiversity Framework (GBF)** are likely to set out expectations of financial institutions on nature action.
  - **Example:** Environmental disasters resulting from company activities, such as oil or chemical spills, create legal and reputational costs for the companies and therefore financial risks for their investors.

- **Nature-related systemic risks:** All organizations face systemic risks, which stem from the breakdown of entire systems rather than the failure of individual components, leading to cascading transition and physical risks. While the impacts of systemic risks can be more severe in specific locations, they often result in widespread degradation of nature's resilience. These effects can ripple across the globe due to the interconnected nature of international supply chains, such as those involved in the trade of crops or energy.
  - **Example:** Nature loss is anticipated to slow GDP growth between 6 and 12 percent in the UK alone in the 2030s.[3] Systemic consequences of nature loss, such as anti-microbial resistance pandemics and natural resource depletion, create significant risks of economic collapse with dire consequences for companies, financial institutions and society.

[2] There are not always clear boundaries between risk types, but rather they can combine or overlap. For example, transition risks may also result from physical risks, such new regulations that emerge as a result of physical damage to nature from industry activities. This is due to the cascading effects of nature loss and related risks.

[3] Green Finance Institute (April 2024). Assessing the Materiality of Nature-Related Financial Risks for the UK.

Box 1: Nature-related opportunities

By identifying nature-related impacts and dependencies in financing and enabling activities, your institution can also uncover opportunities to finance the nature transition, such as **green bonds or loans** tied to positive nature outcomes. This can facilitate changes within companies or clients you already finance or to which you provide enabling services.

Your institution can also engage in **public-private partnerships** or **financing of innovative solutions** for targeted and high-impact nature recovery. This proactive approach will not only attract and retain environmentally conscious asset owner clients. It will also strengthen your institution's preparedness for emerging policy and market expectations.

More information on nature-related opportunities for investors can be found in the **Little Book for Investing in Nature**.

How a materiality screening should inform the right actions on nature

Screening for potentially material impacts and dependencies is essential to identify priority nature-related issues for your institution. This process helps pinpoint which transactions—such as loans, equity investments, or fixed income holdings—and portfolios are financing or enabling sectors or activities that may harm nature or rely heavily on its services. This then exposes your institution to associated risks.

This process will provide the insights you need to understand how nature loss is material for your institution from both an impact and financial perspective (‘**double materiality**’). By demonstrating this, you can gain support from key decision-makers to allocate resources for addressing relevant impacts, dependencies, risks and opportunities.

Guidance for financial institutions from Finance for Biodiversity Foundation, Partnership for Biodiversity Accounting Financials (PBAF), and the Taskforce on Nature-related Financial Disclosures (TNFD) LEAP Approach all recommend initial screening. This is also emphasized in the ACT-D high-level actions on nature for businesses (*Figure 4*). The information in this briefing complements and provides additional information for carrying out the TNFD LEAP Locate steps, particularly L2: Dependency and impact screening, L3: Interface with nature and L4: Interface with sensitive locations.

Assess:

Measure, value and prioritize your impacts and dependencies on nature to ensure you are acting on the most material ones.

Commit:

Set transparent, time-bound, specific, science-informed/based targets to put your company on the right track towards operating within the Earth’s limits.

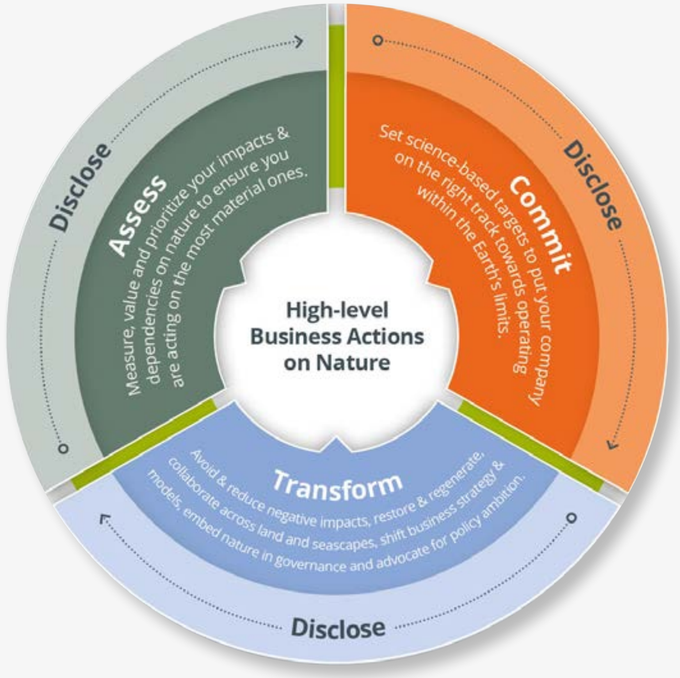
Transform:

Avoid and reduce negative impacts, restore and regenerate, collaborate across land and seascapes, shift business strategy and models, and advocate for policy ambition.

Disclose:

Track performance and prepare to publicly report material nature-related information throughout your journey.

Figure 4: High-level business actions on nature



Source: Business for Nature et.al., 2023

Box 2: Taking action before and during assessment

Nature action is not always a standardized or linear process. Assessing your institution’s nature-related impacts, dependencies and risk exposure is key to ensuring decisions address the most material issues. However, **you can and should still take action before and during assessment**, especially as this process is highly iterative. For example, throughout the assessment process, your institution can engage with companies that are known to be high-risk based on their sector or high-profile nature controversies, such as production of hazardous pesticides or links to illegal deforestation. You should periodically review actions to ensure they remain aligned with the material issues that are being identified through the assessment process.

Recommendations for understanding and acting on nature-related issues

Recommendation 1: Screen for potential impacts and dependencies on nature

Why

Screening for material nature-related issues is at the heart of an impactful nature journey.

Screening for these potential issues can help you to:

- **Identify potentially high-risk portfolios and transactions** for further assessment, allowing for workload and resource management by prioritizing transactions and portfolios with potentially significant nature-related impacts and dependencies.
- **Flag prospective high-risk transactions** that require further investigation and the development of specific financing conditions before proceeding.
- **Prioritize companies or clients to engage with** regarding their management of nature-related impacts and dependencies, such as though risk mitigation strategies and target-setting efforts.
- **Gather essential insights** to begin developing a credible nature strategy, including stewardship and capital allocation policies to address and prevent nature-related risks your institution is likely exposed to.

How

Your financial institution is likely to already have data on the sectors and economic activities that it finances or enables across asset classes.[4] Once you have gathered this information, you can get started.

- **Standardize categorizations:** If using **ENCORE**,[5] use the crosswalk tables to translate your economic activity categorizations to the International Standard Industrial Classification of All Economic Activities **(ISIC) Rev. 4 system**. ENCORE provides crosswalk tables within the **downloadable knowledge base** between EXIOBASE, GICS, NACE and ISIC classifications.
- **Identify potential impacts and dependencies:** Using this data on the sectors you finance, use ENCORE to identify potential nature-related impacts and dependencies of these sectors and their materiality ratings (this is provided for all dependencies and pressures (which lead to impacts) on a scale from Very Low to Very High).[6] This will point to the portfolios or transactions that are most likely to have moderate, high or very high potential material impacts and dependencies, which you should prioritize for further assessment.
- **Combine results with portfolio data:** Once you have done this, you can combine dependency and impact materiality ratings data with portfolio data on investment or finance allocation, such as the amount or percentage of finance provided or enabled per sector. This will allow you to create a 'weighted' heatmap of exposure to understand how much finance you allocate to transactions with potentially moderate, high and very high dependency or impact on nature, and their associated economic activities and sectors.

[4] Data on the sectors linked to your institution's financing activities can vary by transaction. Data on companies financed through equity, bonds, or loans typically indicates the sector of the company. In contrast, project-specific data for loans or underwriting may provide more detailed information, such as specific economic activities or locations. Therefore, when you only have general sector data for a transaction, you can use ENCORE to identify the value chains or economic activities likely associated with these sectors.
[5] See Annex 1 for more guidance on using ENCORE.
[6] You can also prioritise inputting sectors already known to have significant negative impacts on biodiversity. See Finance for Biodiversity's publication on top 10 biodiversity-impact ranking of company industries and Ceres Field Guide to Eight Key Sectors

Box 3: Screening for exposure to sensitive locations

Your institution may also have some information on the locations of investees' or clients' activities or assets.[7] Even if limited, use this information to screen for potential exposure to ecologically sensitive locations.

- Using geospatial tools (see below), identify ecologically sensitive locations that the sectors and commodities you finance are likely to be associated with.
- For transactions with more granular location data, compare this location data against ecologically sensitive locations.

Sensitive locations include:

- Areas important for biodiversity;
- Areas of high ecosystem integrity;
- Areas of rapid decline in ecosystem integrity;
- Areas of high physical water risks;
- Areas of importance for ecosystem service provision, including benefits to Indigenous Peoples, Local Communities and stakeholders.

Guidance on identifying ecologically sensitive locations can be found in the L3 and L4 steps of the **TNFD LEAP guidance**.

The following publicly available data tools can be used to screen for exposure to sensitive locations:

- **Forest IQ**: A platform for monitoring and analyzing forest cover change, deforestation, and degradation globally associated with major corporations
- **Integrated Biodiversity Assessment Tool (IBAT)**: A web-based tool that provides access to global biodiversity data, including the International Union for Conservation of Nature (IUCN) Red List of Threatened Species, the World Database on Protected Areas, and the World Database of Key Biodiversity Areas
- **WWF Water Risk and Biodiversity Risk Filters**: Online tools that enable companies and financial institutions to identify global biodiversity and water risks

Sensitive locations can continue to be identified during deeper assessments, using footprinting tools or by requesting location-level data from investees and clients (see Recommendation 2).

Outputs[8]

- A heatmap of transactions and their material impacts and dependencies, which can be created based on the data collected from ENCORE[9]
- List or map of ecologically sensitive locations that are likely to be in your clients' or investees' value chains and their corresponding transactions and portfolios
- A list of priority transactions from the above for further assessment

[7] Location-level data may be available at a granular level for project-specific financing, which may include details of specific locations or assets that are being financed. For investments at the company or entity level, you may only be able to identify the geographic locations at a relatively high level, such as by country.

[8] The outputs suggested in this briefing include key resources, data and planning materials that will support a progressing nature journey. However, these outputs may vary depending on the institution's specific needs and circumstances, and may not encompass all potential or necessary actions for every individual institution.

[9] For an example of a heatmap see TNFD Guidance on the identification and assessment of nature related issues: The LEAP approach (2023), page 45.

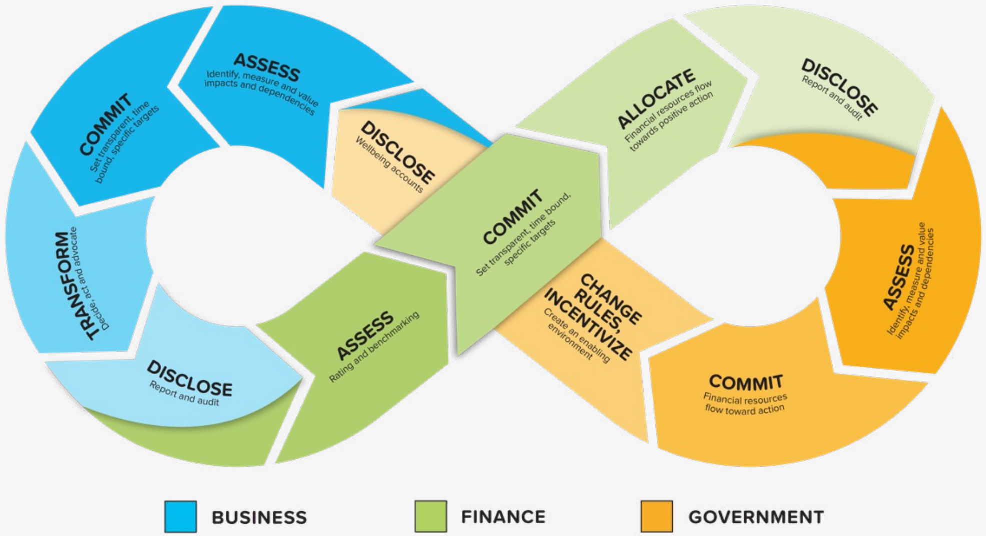
Box 4: Strengthening insights and action through engagement with government, businesses and affected communities

Both during and following the screening process, your institution can start to identify stakeholders and rights-holders who can support you and hold you to account in your nature approach.[10] This will ensure a whole-of-society approach is taken to address nature loss and that your institution receives the support and further insights you need to take effective action.

Engagement can ensure:

- Your institution helps to create an economic and regulatory environment that allows the finance sector to better address nature loss.
- Nature-related disclosures improve in both quality and quantity, including from corporates which can facilitate your assessment process, and from your own institution once you have clear signals from regulators on what is expected.
- All stakeholder groups understand what is expected of them and are held accountable for their role in addressing nature loss, sparking action and change across systems.
- The experiences and knowledge of civil society groups are integrated across the finance sector's efforts on nature, including through the construction of effective systems for collaboration, consultation, and grievance redress.

Figure 5: Infinity loop for business, finance and government stakeholders



Source: Capitals Coalition, 2024. Beta Framework for Integrated Decision-making

The **Infinity Loop**, developed by the Capitals Coalition, illustrates the importance of multistakeholder action on nature loss: business, finance and government must work with each other to feed into, encourage, and inform action from all parties. Major changes within these three groups of stakeholders is essential for addressing nature loss.

However, nature loss cannot be effectively addressed without engagement and collaboration with communities most significantly affected, including Indigenous Peoples and local communities.

See **Annex 2** for recommendations on engagement with key stakeholder and rights-holder groups.

[10] This includes Indigenous Peoples and local communities, affected communities, individuals whose human rights are being put at risk, company employees, value chain workers, and consumers and end users. See page 18 of the TNFD Guidance on Engagement with Indigenous Peoples, Local Communities and Affected Stakeholders for definitions of these groups.

Recommendation 2: Deepen the assessment to evaluate and prioritize your material dependencies, impacts, risks and opportunities

Why

Now that you have initial insights from a materiality screening, your institution should build on this with subsequent assessments drawing on company-specific and more granular secondary data. This will give you more accurate data on impacts and dependencies. This information can be further analysed using **footprinting tools or other methodologies** to estimate or assess impacts or dependencies of a portfolio, asset class, project or transaction at a more granular level using various metrics. This will help you identify corresponding risks and opportunities you may be exposed to.

How

Your materiality screening has identified your high-risk transactions – those associated with moderate, high or very high material nature-related impacts and dependencies. Now you can undertake more granular assessments using various **datasets, data tools and surveys of investees or clients** to understand specific areas where they operate, their activities and practices, their own measured impacts and dependencies, and any actions they are taking to address impacts and dependencies. There is ample guidance for financial institutions on undertaking these more granular assessments, with a diverse range of methods, tools and strategies. See the **Additional Resources** section for this guidance.

Assessing portfolios and transactions for nature-related impacts and dependencies is a complex and time-intensive process. As a result, your institution will likely be continuously assessing portfolios and transactions, resulting is a progressively clearer picture of your impacts, dependencies and risks over time. To ensure you get decision-useful information out of granular assessments, your institution should:

- Prioritize high risk transactions for assessment
- Assess prospective transactions and portfolios to inform decisions about new investments
- Periodically reassess transactions and portfolios to capture new insights, such as portfolios with new shareholdings or companies with new disclosures
- Continue to expand your methods and tools for understanding nature-related data
- Work collaboratively with peers and expert groups to share and accelerate good assessment practice

Key definitions

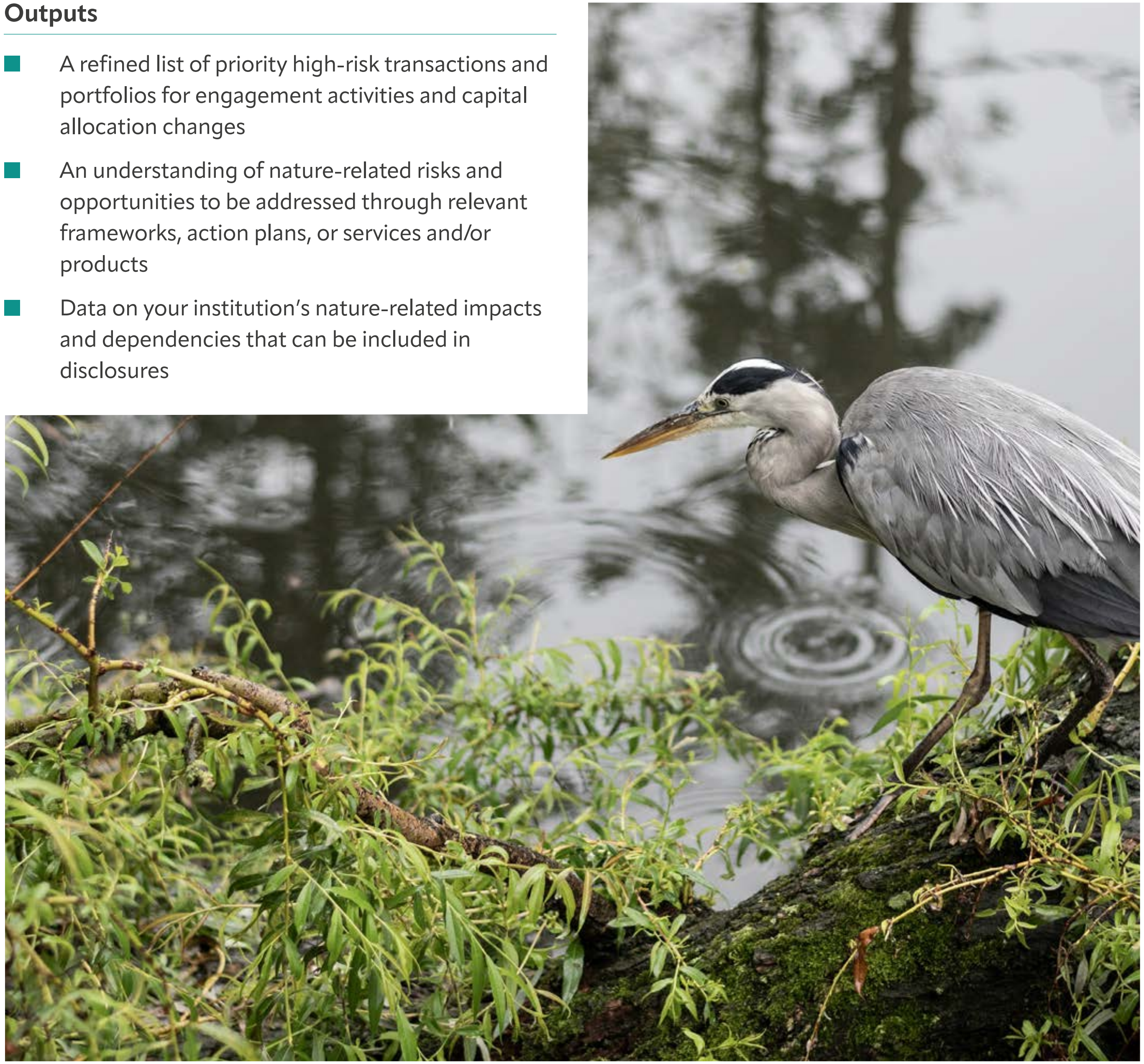
'Secondary data' might include proxy or modelled data from databases, such as on sectors, countries, or commodities. In general, financial institutions should only use this data temporarily until primary data can be acquired from companies. See page 67 of the **TNFD Recommendations** for further guidance on using secondary data. Relevant nature-related data tools can be found in the **TNFD Tools Catalogue**.

Box 5: Nature loss is location specific

The effects of nature loss are location specific. Deforestation, for instance, has the most severe consequences for the local areas and people directly affected. The severity of impact also depends on the **pressure** and the **state of nature** at that location. During further assessment, financial institutions should collect **site-specific impact and dependency information** to understand the likely place-based risks and impacts of certain economic activities.

Outputs

- A refined list of priority high-risk transactions and portfolios for engagement activities and capital allocation changes
- An understanding of nature-related risks and opportunities to be addressed through relevant frameworks, action plans, or services and/or products
- Data on your institution's nature-related impacts and dependencies that can be included in disclosures



Additional Resources

Frameworks, standards and guidance on assessment of impacts and dependencies:

- TNFD: **Guidance on the identification and assessment of nature-related issues: The LEAP Approach**
- PBAF: **PBAF Standard v2023 – Assessment of Dependencies on ecosystem services**
- PBAF: **PBAF Standard v 2022 Biodiversity impact assessment – Overview of approaches**
- Finance for Biodiversity: **Guide on biodiversity measurement approaches**

Tools and footprinting:[11]

- PBAF: **PBAF Standard v 2022 Biodiversity impact assessment – Footprinting**
- TNFD: **Discussion paper on Biodiversity footprinting approaches for financial institutions**
- Finance for Biodiversity: **Guide on biodiversity measurement approaches**

[11] While footprinting is a good first step to conducting deeper assessments on transactions, these tools have limitations: they are not able to indicate how well risks are being managed by companies or consider company-specific performance on nature. They can only estimate impacts and therefore support high-level capital allocation and engagement decisions. Your institution should prioritise the use of on-the-ground impact and dependency data from companies (i.e., how companies actually affect nature, rather than just estimates). Footprinting can be done in tandem with continuing to request that investees and clients assess and disclose specific impacts and dependencies on nature within their value chains.

Recommendation 3: Use the results to inform your strategy

Why

Through screening and in-depth assessments, you will have identified the most critical nature-related issues that your institution must address. Financing and enabling activities should proactively address these issues and reduce risk exposure. This requires a shift in your institution's policies and strategies to guide better decision making.

For example, material issues should be addressed in your institution's **capital allocation policy**. Such a policy should define the economic activities or locations known to have potential material nature-related impacts, dependencies and risks and aim to restrict, withdraw or add conditions to these transactions. For instance, a capital allocation policy should outline restrictions and/or engagement requirements for financing companies or clients implicated in illegal deforestation. This will prepare your institution for making nature-informed financing and enabling decisions and, in doing so, mitigating nature-related risks associated with these activities.

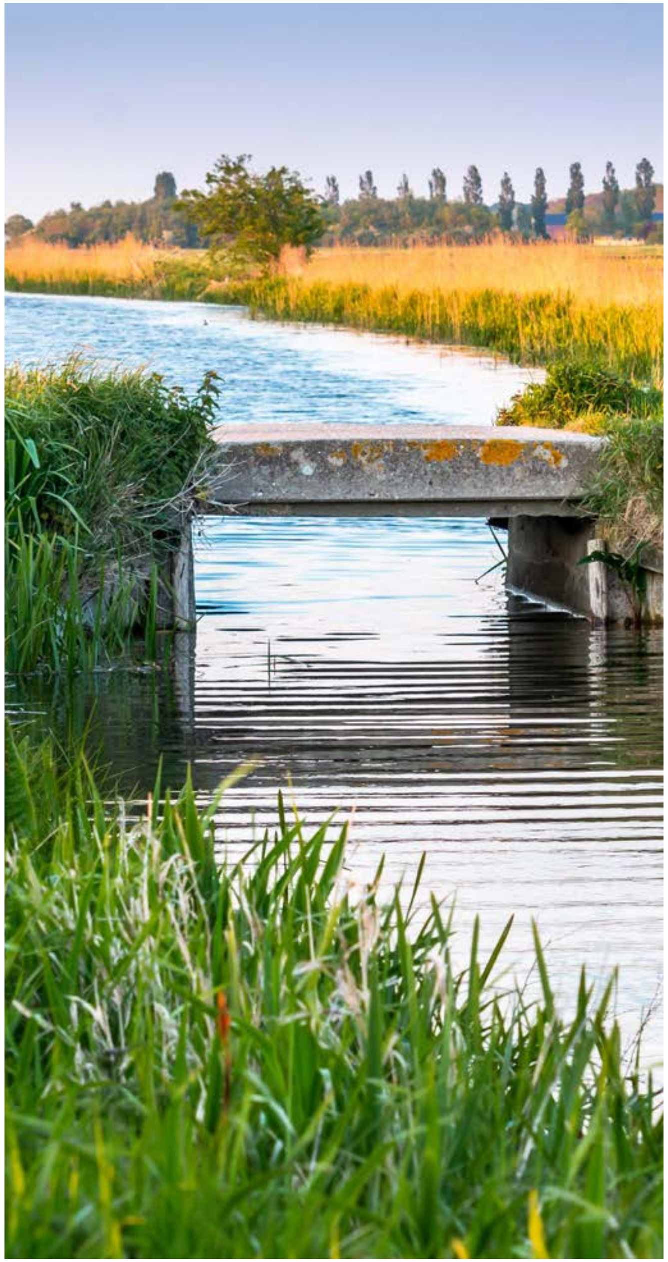
How

Integrating nature into your institution's policies and strategies to encompass all impacts, dependencies and risks you are exposed to is not an overnight process. These approaches should continue to evolve amid new insights and improvements in your understanding of nature-related issues. A **phased and pragmatic approach** is recommended, starting with defining internal processes for policy changes, target setting, and capital allocation adjustments.

There are several key actions you can take now to start the process:

- **Share insights** from the assessment process within your team and across the institution to mainstream nature within the organization and build capacity for making nature-related policy and strategy changes.
- **Revisit current policies**, such as risk management frameworks or capital allocation policies, to identify their limitations for addressing nature-related issues.
- **Identify key issues** that emerged during the assessment process that should be addressed in existing or new institutional policies and strategies.
- **Understand timelines** for creating or updating institutional policies and strategies.

There is a great deal of guidance for financial institutions on developing or refining many core elements of a nature strategy. Please see the **Additional Resources** section for this guidance.



Outputs

- Nature-related risk and opportunity frameworks (or integration of nature into existing frameworks) to reduce exposure to nature-related risks and capitalize on product or service opportunities that can have a positive effect on nature
- Policies to avoid and reduce negative impacts including strategy, stewardship, and capital allocation policies that set guidelines for addressing and reducing your institution's contribution to nature loss
- Existing institutional frameworks or policies, such as on governance, disclosures, and public policy engagement, that integrate and aim to address nature loss and nature-related risks
- Nature-related policies that include civil society, Indigenous Peoples, rights-holders, and local or affected communities including policies designed to allow groups affected by your institution's activities to address grievances

Additional Resources

Nature-related commitments and targets

- Finance for Biodiversity Foundation: **Nature target setting framework for asset managers and asset owners**
- UNEP FI: **Principles for Responsible Banking Nature Target Setting Guidance** (for banks)

Stewardship

- Finance for Biodiversity Foundation: **Guide on engagement with companies**
- ShareAction: **Responsible Investment Standards & Expectations (RISE) Paper 2 - Introducing a standardised framework for escalating engagement with companies**
- Ceres: **Exploring Nature Impacts and Dependencies: A Field Guide to Eight Key Sectors** (see sector-specific engagement questions)

Disclosures

- UNEP FI: **Accountability for Nature: Comparison of Nature-related Assessment and Disclosure Frameworks and Standards**
- TNFD: **Additional guidance for financial institutions**

Biodiversity strategy or policy

- Principles for Responsible Investment: **Developing a biodiversity policy: A technical guide for asset owners and investment managers**
- Finance for Biodiversity: **Act now! The why and how of biodiversity integration by financial institutions**

Risk and opportunity management

- *There are a few publicly available tools that aim to quantify or assign scores to nature-related risks. These can be consulted in the process of assigning values to risks. These include the* **WWF Biodiversity Risk Filter**, **WWF Water Risk Filter**, *and* **World Resources Institute Aqueduct Water Risk Atlas**.
- TNFD: **Guidance on the identification and assessment of nature related issues**
- TNFD: **Additional Guidance for financial institutions**
- Global Canopy: **Little book for investing in nature**
- UNEP FI: **Risk Centre**
- World Bank: **Mobilising private finance for nature** (On opportunities: page 41; On both risks and opportunities: page 88)

Topic-specific guidance

- UN Environment Programme World Conservation Monitoring Centre (UNEP-WCMC) and ShareAction: **Risk Management in Protected Areas**

Public policy engagement

- ShareAction: **The time is now: Three ways the financial sector can take action to address biodiversity loss today**

How ENCORE can help you break down the complexity of nature

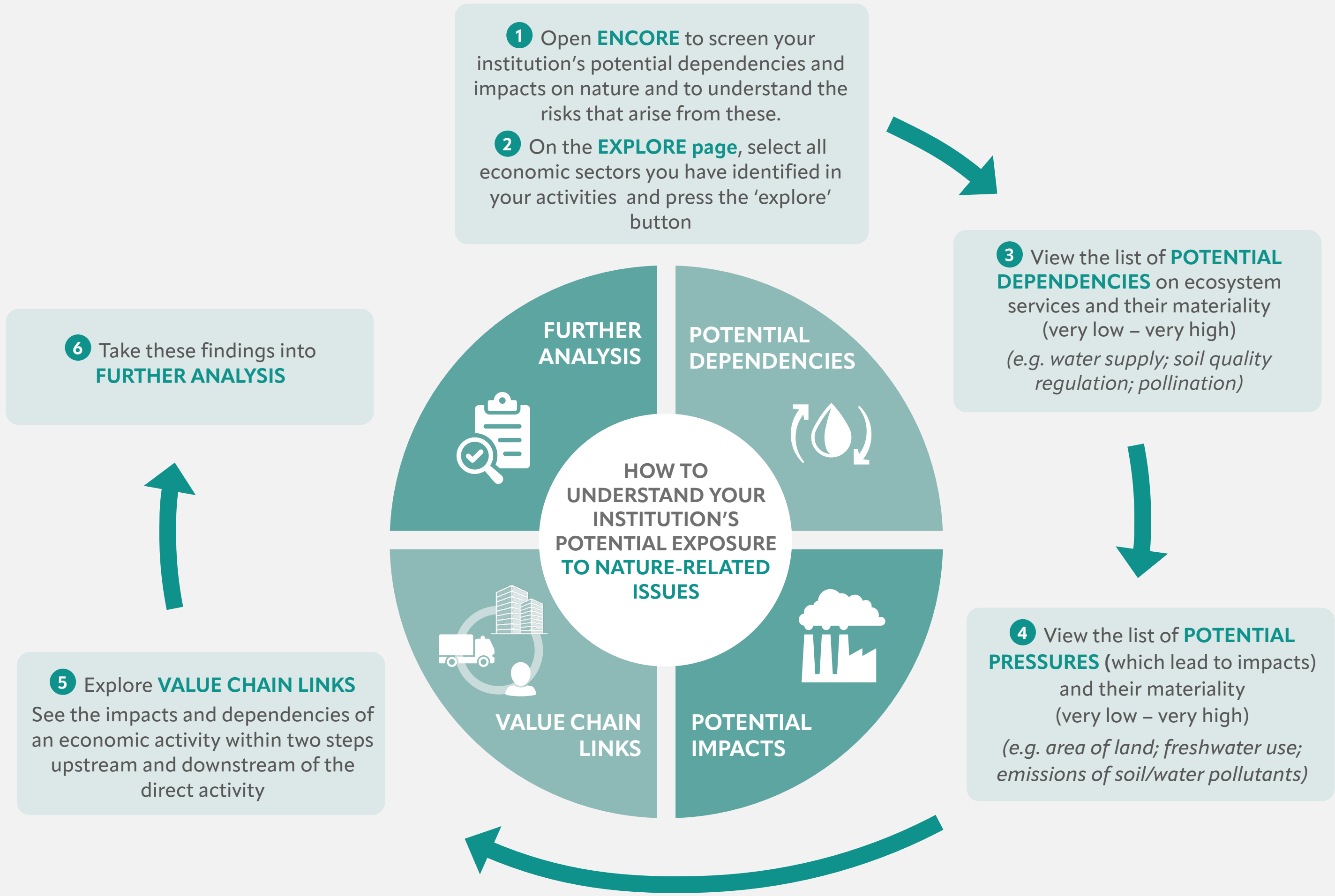
Many leading nature-related recommendations for financial institutions, including TNFD, Finance for Biodiversity Foundation and PBAF, call for an initial high-level screening of potential nature-related impacts and dependencies. This screening helps institutions filter and prioritize which impacts and dependencies they should measure and analyze as part of their assessments.

ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure), developed by Global Canopy, UNEP FI, and UNEP-WCMC, is a key tool for this initial screening. It is a key tool for the TNFD's LEAP approach to identify and assess nature-related issues, and provides the basis for the **Science Based Targets Network's Materiality Screening Tool** and other similar tools.

Following a **major upgrade** during 2024 as part of the **SUSTAIN** project, the ENCORE tool now offers:

- A more granular mapping of potential impacts and dependencies of different sectors and economic activities, covering 271 economic activities at ISIC Level 3 (Group) and ISIC Level 4 (Class)
- Updated materiality ratings to enable comparison and draw on quantitative indicators where possible
- Information on key value chain links

Figure 6: Using the ENCORE tool for materiality screening



Box 6: What are the limitations of ENCORE?

ENCORE uses academic research and grey literature to identify likely nature-related impacts and dependencies associated with economic activities. For this reason, it provides businesses and financial institutions with an overview of *potential* dependencies and impact they *might* be exposed to, but does not provide the following:

- An assessment of the materiality of the actual nature-related impacts and dependencies that a given company is experiencing in a given location
- A full picture of the risks and opportunities that may result from these issues

For this reason, the initial screening using ENCORE should be followed by a more detailed assessment, such as by requesting data disclosures from clients and investees, using more granular data tools and employing footprinting methods.

What can you do next?

By this stage, you will have greater insight into how loss of nature is a critical risk for your financial institution. Starting with a materiality screening can help you break down the complexity of nature and identify priority impacts and dependencies for your financial institution. Deeper assessment and action based on insights can be an iterative process, continuously reflecting new findings and outcomes from engagement with relevant stakeholders and rights-holders.

As you kickstart the process of assessing nature-related impacts and dependencies for your institution, you can:

- Initiate internal conversations around nature-related risks, including with portfolio managers, risk management teams, stewardship teams, and climate or sustainability teams.
- Foster discussions with finance sector peers bilaterally or through networks and with potential allies in civil society to advance your approach according to best practices.
- Share your experiences and disclose your progress to help trigger collective action to halt and reverse nature loss.

Appendix and acknowledgements

Annex 1: How to use ENCORE[12]

Using the ENCORE tool to screen your institution's potential nature-related dependencies and impacts

Using the Explore page

Identifying impacts and dependencies

On the Explore page, select the sector and economic activity in which you are interested

- → View the list of **potential dependencies** on ecosystem services *(e.g. biomass provisioning service; water supply; soil quality regulation; flood mitigation services; pollination services, etc.)* linked to the economic activity.
  - The associated dependency materiality ratings[13] (ranging from Very Low to Very High) indicate the typical level of reliance of a company engaged in the given economic activity and reflect global averages.[14] You can also view the list of ecosystem components that support the ecosystem services on which the economic activity may depend.
- → View list of **potential pressures** *(e.g. area of land use; area of freshwater use; emissions of GHGs; emissions of soil and water pollutants; also referred to as "**impact drivers**")* linked to the economic activity.
  - The associated pressure materiality ratings (ranging from Very Low to Very High) indicate the significance of the pressure typically exerted by a company engaged in the given economic activity and reflect global averages. You can also view the list of ecosystem components that are likely to be affected by the pressures.
- → **Using the Natural Capital Module**
  - After Logging in (Registration and Log in is free) you can access additional features. On the Dashboard page, select the Natural Capital Module to visualize links between the economy and nature, summarizing potential impacts and dependencies.
  - When you select the sector and economic activity in which you are interested, you can view its potential dependencies or impacts in a flow diagram, showing the connections all the way to different ecosystem components.
  - You can also view summary statistics, highlighting the most material potential dependencies and impacts.

Using the downloadable ENCORE knowledge base

- The knowledge base behind the ENCORE tool is available for download in a .csv format from the **Methodology & Downloads** page.
- Institutions with internal risk management systems or nature-risk assessment processes can use the downloadable .csv files to integrate the ENCORE knowledge base directly within their existing systems.

[12] ENCORE is jointly developed by Global Canopy, UNEP FI and UNEP-WCMC
[13] Explanation of methodology how materiality ratings have been evaluated, see here.
[14] ENCORE materiality ratings are based on global averages: the materiality of an impact or dependency resulting from the same economic activity will vary based on location.

How to interpret the data from ENCORE?

- The information on potential dependencies and impacts of different economic activities provided by ENCORE is based on global averages of environmental indicators and qualitative synthesis of latest scientific and grey literature. It is designed to provide a long list of potential dependencies and impacts for a typical economic activity anywhere in the world.
- After obtaining the results from ENCORE, you should have a good understanding and ideally a list of: 1) economic activities associated with your financing or enabling activities, both directly and through value chain links; 2) their potential associated pressures (and associated impacts) and dependencies; 3) the materiality ratings of these potential pressures and dependencies. This will give you a sense of your most material potential impacts and dependencies. You can then add in your own financial data to understand which most significant potential exposures receive the most financing (see section above on materiality screening).
- Users are recommended to conduct deeper assessments based on these insights, taking into consideration the specific context of the transaction or portfolio, including activities and geographical locations.

Annex 2: Recommendations for engagement with key stakeholder and rights-holder groups

Engaging with business	Engaging with businesses that receive financing from your institution is an important way to push for change where you have the most lever-age. Through engagement, your institutions can steward its financing activities, such as share or bondholdings, to call for investees or clients to improve their performance on nature. Your institution can: • Ask investees and clients to disclose essential information on nature-related issues to improve your understanding of nature-related issues you are financing or enabling. • Set expectations and/or requirements on nature performance for high-risk investees and clients, including on strategy, commit-ments, governance policies, capital expenditure, transition plans and disclosures. • Explore potential opportunities for providing nature-related financing opportunities such as sustainability linked loans or inclusion in thematic funds. • Consider withholding, limiting or withdrawing financing and/or enabling activities from investees or clients that fail to meet na-ture-related engagement objectives. • File and vote on resolutions that protect nature and vote on Standing Items such as against directors. • Join nature-related investor collaborative engagements to engage collectively with companies.[16]
Engaging with government	Your institution can engage with regulators to drive policy changes[14] that meet the needs of the finance sector as you endeavour to address nature loss. You should identify where further support, guidance and standards are needed from regulators to enable you to create or update institutional policies to address these issues. Your institution can: • Join nature-related finance sector working groups that consult with policymakers in your jurisdiction and beyond (such as Finance for Biodiversity Foundation's **public policy advocacy group**). • Encourage policymakers to stimulate nature action in the finance sector and set standards/definitions (via taxonomies), create blended finance opportunities, or provide clarity on relevant sustainable finance or responsible investment regulation • Identify opportunities to develop or participate in financial mechanisms contributing to the Kunming-Montréal Global Biodiversity Framework Targets and development of National Biodiversity Strategies and Action Plans.

[15] See opportunities from Nature Action 100, Principles for Responsible Investment (PRI) Spring, ShareAction Pesticides Working Group, World Benchmarking Alliance (WBA) Nature Collective Impact Coalition (CIC), FAIRR collaborative investor engagements
[16] For example, policies outlining expectations for nature-related risk mitigation, reporting requirements, double materiality considerations, or criteria for green funds.

Engaging with civil society, including Indigenous Peoples and local communities (IPLCs)	Your institution should engage with civil society actors, including IPLCs, to ensure your financing activities and strategies for addressing nature loss respect and uphold human rights. This collaboration will also help your institution gain a more comprehensive understanding of nature-related issues, manage them more effectively, and build trust through transparency and mutual respect. Your institution can: • Consult civil society, including affected communities and rights-holders, on their nature-related concerns and priorities throughout the life of financing or enabling activities that may put certain communities at risk. • Use monitoring, management, and remediation systems to engage with civil society in addressing human rights issues linked to nature loss resulting from financing or enabling activities. • Invite civil society to provide input on your institution's nature-related policies. You can find further recommendations on engaging with civil society, affected communities and affected communitiesin the TNFD **Guidance on engagement with Indigenous Peoples, local communities and affected stakeholders**.

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Design:

deborahripley.com

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