



African Natural Capital Alliance (ANCA)

Overview

Nature is a cornerstone of Africa's growth

Africa is rich in natural capital and is dependent on it to sustain its economic and social growth

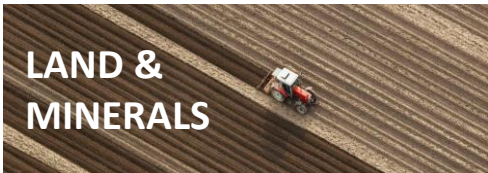


Africa has extensive natural capital

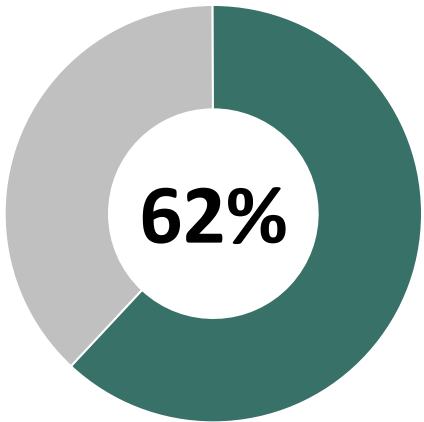
Africa's living **organisms comprise around a quarter of global biodiversity**, it supports the earth's biggest groupings of large mammals and is home to the world's second largest rain forest

Africa's natural capital is also crucial to the economic wellbeing of its people through activities ranging from agriculture and forestry, to fishing and mining

ENCORE's natural assets



Natural capital is critical to African economic and social growth



Estimated share of Africa's GDP highly or moderately dependent on nature

“ OUR ECONOMIES, LIVELIHOODS AND WELLBEING ALL DEPEND ON OUR MOST PRECIOUS ASSET: **NATURE** ”

Professor P. Dasgupta

Source: Adapted from ENCORE natural capital assets; UNEP; World Economic Forum: Nature Risk Rising report; WFF: Bending the biodiversity loss in Africa – The living planet index 2020; UNEP; The Economics of Biodiversity: The Dasgupta Review

Africa's natural capital is threatened as never before

Overexploitation, overpopulation, land-use changes and climate change are among the key drivers of nature loss in Africa causing great threats to economic stability and prosperity



Key threats to natural capital assets in Africa

USD 195BN

Estimated yearly
**loss of natural
capital** in Africa



Examples of nature loss in Africa



Overexploitation has caused the stock of mammals, fish, amphibians and reptiles to fall by ~65% between 1970 and 2016, for instance in the Congo Basin



Freshwater biodiversity has also declined 84% since 1970

Implications for the economy

Negative impacts and risks



Impact on real economy companies
e.g., disruption of activities or value chain, stranded assets, capital destruction



Resultant financial risk
e.g., credit, market leading to material systemic risk

Opportunities



e.g., voluntary carbon markets, sustainability linked finance, Nature-related policy design in insurance

Case study



Effects of coral reef and ocean ecosystem loss on tourism in Egypt

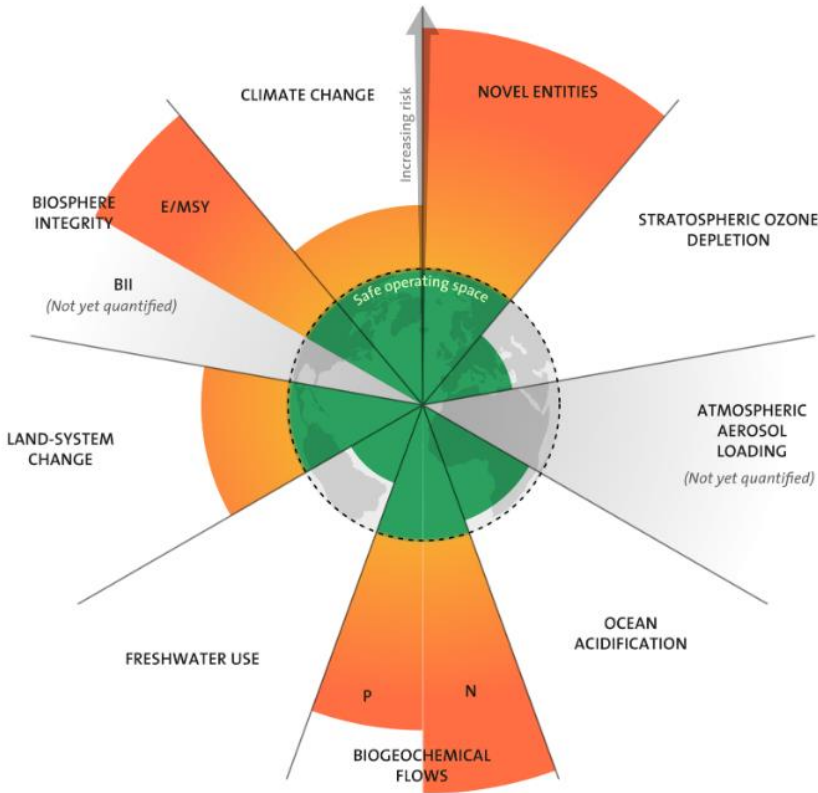
- Climate change and ocean acidification are expected to cause the destruction of 72% of coral reef habitats by 2100; and overfishing and pollution are further damaging the ocean ecosystems
- As a result, Egypt may lose up to 94% of coral reef tourism-related value

Nature and climate are distinct, and both are critical

Nature loss expands beyond climate change, a holistic view of nature-related risk is required

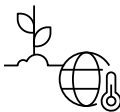


Climate is one of nine important planetary boundary, other nature planetary boundaries are also at risk



E/MSY = extinctions per million per year. P = Phosphor. N = Nitrogen.
Source: Stockholm Resilience Centre (2022) - Planetary Boundaries Update, TNFD Beta Framework March 2022
1. A detailed explanation of the links between nature- and climate-related risks is available in the appendix

Link between nature and climate¹



Nature and climate are distinct, but related

Nature incorporates the world’s stock of natural assets. Climate refers to long-term temperature and weather patterns. Climate change is one of the five key drivers of nature change



Nature risks can amplify climate risks and vice versa

Example: Extensive nature loss reduces the ability of ecosystems to store carbon and releases carbon emissions, which amplifies the effects of climate change



Nature loss is typically a more localized process



Nature risks are more multifaceted than climate risks



Nature risk management can build on progress made with climate risk

The finance sector is a key part of the solution

The finance sector has a key role to play in reducing nature loss, and the Taskforce on Nature-related Financial Disclosures (TNFD) provides the framework to manage and disclose nature-related risks and opportunities



The role of the finance sector

A sustainable economy depends on our ability to conserve natural capital by using it responsibly, and to support a shift in global financial flows away from nature-negative outcomes and towards nature-positive outcomes

For financial institutions the first step on this journey is to understand their exposure to nature-related risks

The role of the TNFD



The TNFD was established in response to the growing appreciation of the need to factor nature in financial and business decisions



The TNFD is a global, **market-led initiative** with the mission to **develop and deliver a risk management and disclosure framework** for organizations to **report and act on evolving nature-related risks and opportunities**, with the ultimate aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.

The TNFD **follows** in the **footsteps of the work of the Task Force on Climate-related Financial Disclosures (TCFD)** on climate risk management and disclosures, but **focuses on ensuring that nature-related risks and opportunities are effectively understood and communicated** by corporates to the financial community.

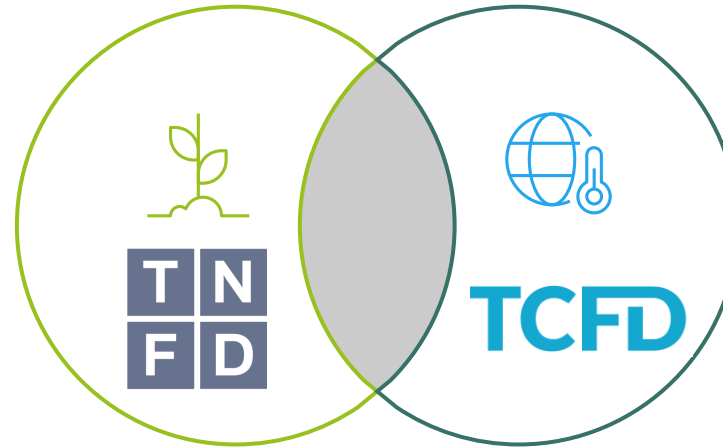


From the TNFD Beta Framework, March 2022



TNFD is TCFD aligned

The TNFD builds on the TCFD framework, but is significantly more complicated due to more interdependent risk drivers, the linkages between an organization's activities and nature, and less data and modelled pathways



Similarities

- Same four pillar framework:
 - Governance
 - Strategy
 - Risk Management
 - Metrics and Targets
- Similar basic risk taxonomy:
 - Physical
 - Transition
- Similar multi-sector taskforce approach to developing guidelines

VS

Differences

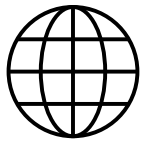
- Focus on location
- Concept of 'nature-related risks' posed by the linkages between an organization's activities and nature
- 'Broader set of issues and risk drivers for the TNFD (biodiversity, deforestation, pollution, water scarcity, land vs marine etc)
- Interdependencies and tensions between risks makes scenario analysis and risk management harder
- Open innovation approach for developing the TNFD framework, client focused and "learning by doing" at its heart, with a longer development timeline

The African finance sector must engage with the global nature agenda

An African voice is important to ensure future nature-related risk frameworks and standards are appropriate for Africa



Why the need for an African voice in the nature agenda



As there is **growing global interest** in the **development of nature-related risk** frameworks and standards, there is an urgent need to ensure **these emerging frameworks can be applied to local African contexts**



Awareness and capability-building support is required in Africa to **ensure successful implementation** of future nature-related risk frameworks and standards **across the continent**



The risks of creating additional **barriers to investment** in the African continent must be mitigated and **one-size fits all** approach for institutions in Africa must be avoided



To this end, FSD Africa has conceived the programme **‘Promoting an African Voice for TNFD and Nature-Related Risk Management’** to ensure that the needs and realities of Africa are considered

The programme is building an African Voice for TNFD and Nature-Related Risk Management



The programme will demonstrate the need for finance sector action, pilot and test the emerging TNFD framework and advocate for adoption of the TNFD and nature-related risk management

WORKSTREAM 1



JUSTIFYING THE NEED FOR TNFD

To demonstrate the **need for finance sector action on nature in Africa** by commissioning a first-of-its-kind analysis by Vivid Economics and McKinsey of the **impact of nature-related risks and opportunities** on the value of **African financial institution** portfolios, grounded in real-life FI **case studies**

WORKSTREAM 2

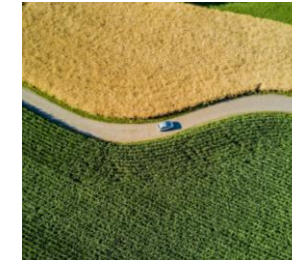


ENGAGING ON TNFD

To ensure that the TNFD framework will be especially applicable in an African context through:

- **Piloting TNFD approaches** with select financial institutions
- **Engaging the TNFD** with feedback from the financial institutions

WORKSTREAM 3



APPLYING TNFD

To draw on the outputs of Workstream 1 and 2, and **engage African policymakers and regulators** to better integrate nature into their decision-making

Influential stakeholders are already teaming up to pursue the programme's objectives

We have put together a strong group of stakeholders to advance the cause of natural capital across Africa



Confirmed Champions



Core partners



Execution and knowledge partners



African Natural Capital Alliance in partnership with TNFD (ANCA)

Select financial institutions, policymakers and regulators, members of the civil society and other influential stakeholders

The African Natural Capital Alliance is the key advocacy group

ANCA is a public facing group that acts as the vehicle to drive advocacy for the TNFD and nature-related risk management in Africa



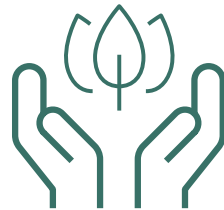
Purpose of ANCA

Become the Voice for Africa on the African nature agenda



Provide common and consistent messages on nature-related issues, in particular on the importance of Africa's natural capital and the management of nature-related risks and opportunities

Advocate for the TNFD in Africa



Promote the TNFD, and encourage policymakers, regulators, financial institutions and other companies to adhere to the TNFD and develop approaches to manage nature-related risks and opportunities

Ensure the applicability of the TNFD in Africa



Coordinate a forum to provide structured feedback and input to the TNFD regarding the appropriateness of its management and disclosure framework within an African context

Become thought leaders on nature in Africa



Collectively share information, learnings and knowledge on best practices around nature-related risks and opportunities

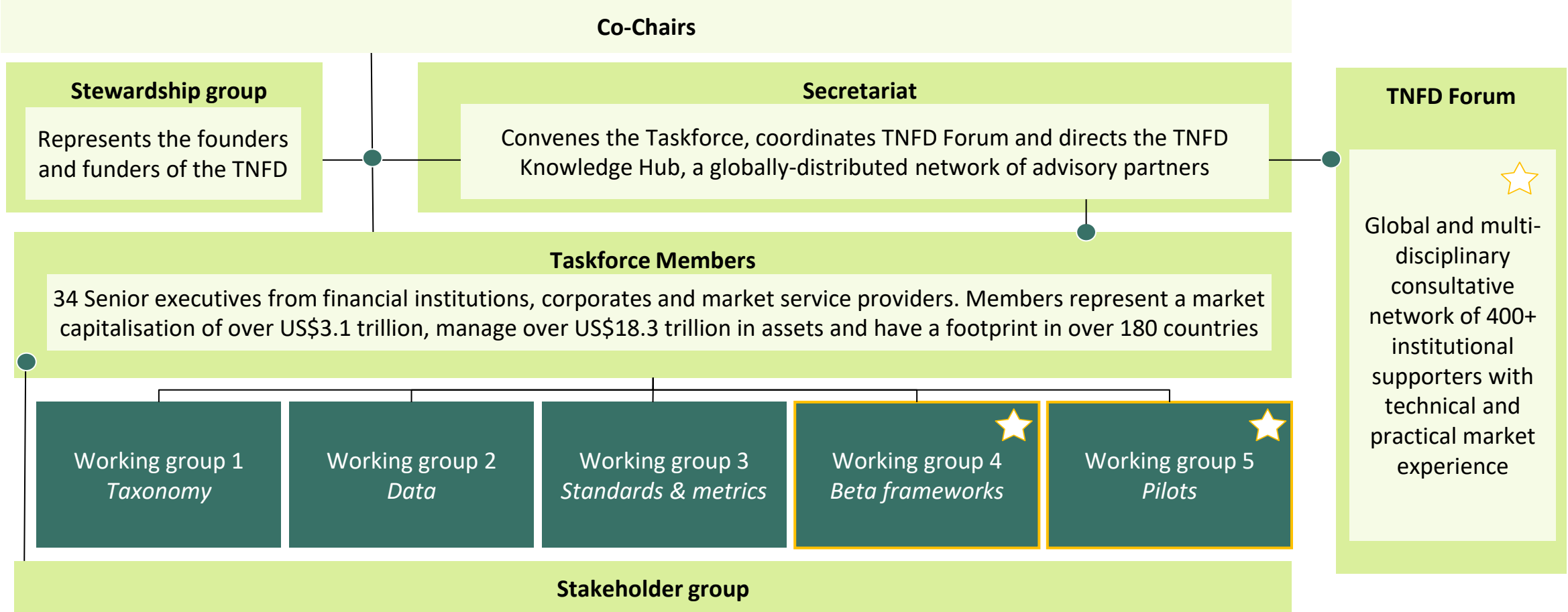
ANCA members will be able to provide feedback to the TNFD

ANCA will interface with the TNFD through its working groups and forum



★ Engagement channels

Overview of the proposed TNFD governance structure



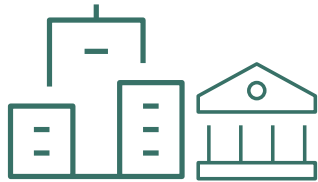
Source: Taskforce on Nature-Related Financial Disclosures 'Nature in Scope' Report

Organizations will benefit greatly from participating in ANCA

ANCA provides an opportunity for members to showcase early leadership, participate in the African voice on nature-related risk and shape the global nature agenda and frameworks



FOR FINANCIAL INSTITUTIONS AND OTHER COMPANIES



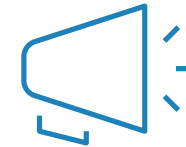
- **Be seen as a leader in the nature space** and play at **the forefront of change**
- **Represent the Voice for Africa in Nature** in global discussions and provide feedback to the TNFD
- Gain **ongoing access to best-in-class technical support and a network** to develop nature- and climate-related knowledge and capability

FOR POLICYMAKERS AND REGULATORS



- **Show early leadership** by engaging with emerging nature regulations and **provide feedback** to the TNFD
- Plan for a seamless transition to a more **nature and climate positive economy and society**
- Gain access to a **global forum and network** of peers to discuss implementation of nature- and climate-related regulations

FOR CIVIL SOCIETY ACTORS



- Leverage a **credible platform** to advocate the significance of natural capital in Africa and important solutions
- **Collaborate with other networks and initiative** to present a united narrative around the importance of natural capital
- Access a **wealth of information** such as case studies and testimonies on natural capital

While funding for the programme is secured, a moderate commitment of time and resources from ANCA members is required

Appendix

A1 – How does nature relate to climate?

How does nature relate to climate?

#	Key message	Examples
1	Nature and climate are distinct, but related	<ul style="list-style-type: none"> Nature incorporates the world's stock of natural assets including air, soil, water, minerals, plants and animals Nature risks arise from the consequences of nature loss and from responses to prevent nature loss Climate refers to long-term temperature and weather patterns, and climate change is the phenomenon of changes in those patterns Climate risks arise from the impacts of climate change and from efforts to reduce greenhouse gas emissions
2	Nature risks can amplify climate risks and vice versa	<ul style="list-style-type: none"> Loss of nature can accelerate climate change – for example, deforestation contributes to greenhouse gas emissions. It can also increase vulnerability to the impacts of climate change – for example, loss of mangroves and coral reefs increases vulnerability to coastal flood risks as sea levels rise Climate change can degrade natural assets – for example, by diminishing rivers and lakes, increasing the incidence of forest fires, and accelerating biodiversity loss. Responses to mitigating climate change can also have consequences for nature – for example, large scale cultivation of energy crops can adversely impact biodiversity Nature-based solutions may create win-win opportunities for climate and nature. For example, restoration of natural forests can enhance biodiversity and increase carbon sequestration
3	Nature loss is typically a more localized process	<ul style="list-style-type: none"> Climate change is a global phenomenon, although impacts and mitigation responses vary by country and region Nature loss typically occurs at a regional scale – for example, destruction of particular habitats, unsustainable water withdrawals or pollution. However, consequences may be felt more widely – for example, international markets may transmit the impacts of water scarcity in a key agricultural region to food consumers in other countries
4	Nature risks are more multifaceted than climate risks	<ul style="list-style-type: none"> The wide range of natural assets, each subject to different degradation patterns which generate different consequences, makes nature risk more multifaceted than climate risk Understanding exposure to nature-related risks requires a company to understand both its <i>impacts</i> on nature <i>and</i> its <i>dependencies</i> – for example, an agribusiness's farming methods may deplete the soils on which its crop production in turn depends
5	Nature risk management can build on progress made with climate risk	<ul style="list-style-type: none"> Companies and financial institutions looking to manage nature-related risks can build on the progress they have made implementing climate risk management approaches. This will also help them to capture interdependencies between the two

Appendix

A2 – Overview of the TNFD



Nature-Related Risks

More than half of the world's economic output is dependent on nature. As climate change occurs and natural resources are becoming depleted, an **increasing number of financial stability risks** are faced by corporates across the globe.



The role of the TNFD

The Taskforce for Nature-related Financial Disclosures (TNFD) aims to address this problem by **integrating nature-related risks and opportunities into strategic planning, risk management and asset allocation decisions.**



Risk Mitigation

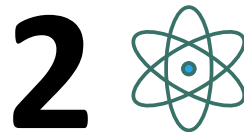
This will be done through the creation of a **risk management framework**, including disclosures, on how nature and biodiversity risks are **identified, managed and reported by corporates, investors and financial institutions.**

Proposed principles of the TNFD



Market Usability

Develop frameworks directly useful and valuable to market reporters and users, notably corporations and financial institutions, as well as policy and other actors



Science-based

Follow a scientifically anchored approach, incorporate well established and emerging scientific evidence and aim to incorporate other existing science-based initiatives.



Nature-related Risks

Address nature-related risks that include immediate, material financial risks as well as nature dependencies and impacts and related organisational and societal risks



Purpose-driven

Be purpose driven and actively target reducing risks and increasing nature-positive action by using the minimum required level of granularity to ensure achievement of the TNFD goal



Integrated and Adaptive

Build effective measurement and reporting frameworks that can be integrated into and enhance existing disclosures and standards. Account for and be adaptive to changes in national and international policy



Climate-Nature Nexus

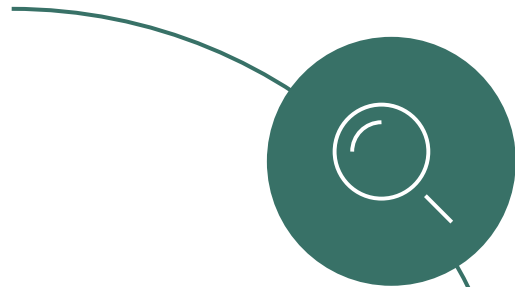
Employ an integrated approach to climate- and nature-related risks, scaling up finance for nature-based solutions



Globally Inclusive

Ensure the framework and approach is relevant, just, valuable, accessible and affordable worldwide, including emerging and developed markets

Overview of the TNFD's scope, workplan and governance



The scope

- The TNFD Scope is focused on living nature and elements relating to living nature such as air, soil and water
- It is not a new standard but **an aggregator of the best tools and materials to promote worldwide consistency for nature-related reporting**



The workplan

- The TNFD Work Plan is presented as a means to put the **goal, principles and scope into action** over a two-year period (2021–2023)
- Includes how framework will be developed with the best available **scientific and technical input**, **piloted broadly** with institutions globally, **consulted on widely**, and eventually launched for **wide adoption** in the market from 2023



The governance

- Streamlined approach best suited to a **market-led initiative**, with appropriate **accountability and guardrails**
- **Two Co-Chairs** who represent both the **public** and **private** sector, global **North** and **South** plus **topic expertise in nature and finance**

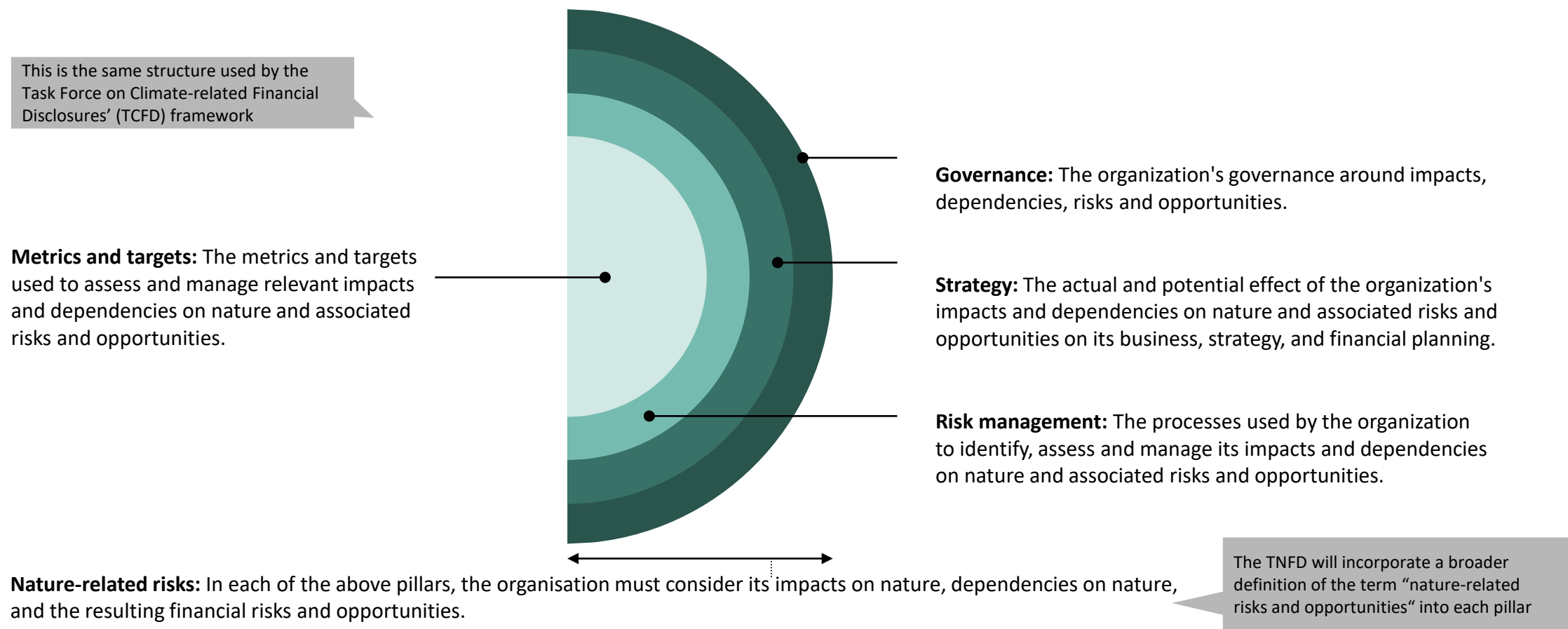
Source: Taskforce on Nature-Related Financial Disclosures 'Nature in Scope' Report

Summary of the TNFD's scope

The TNFD framework will adopt a four-pillar approach, structured around how organizations operate: governance, strategy, risk management, metrics and targets



Core elements of recommended nature-related financial disclosures



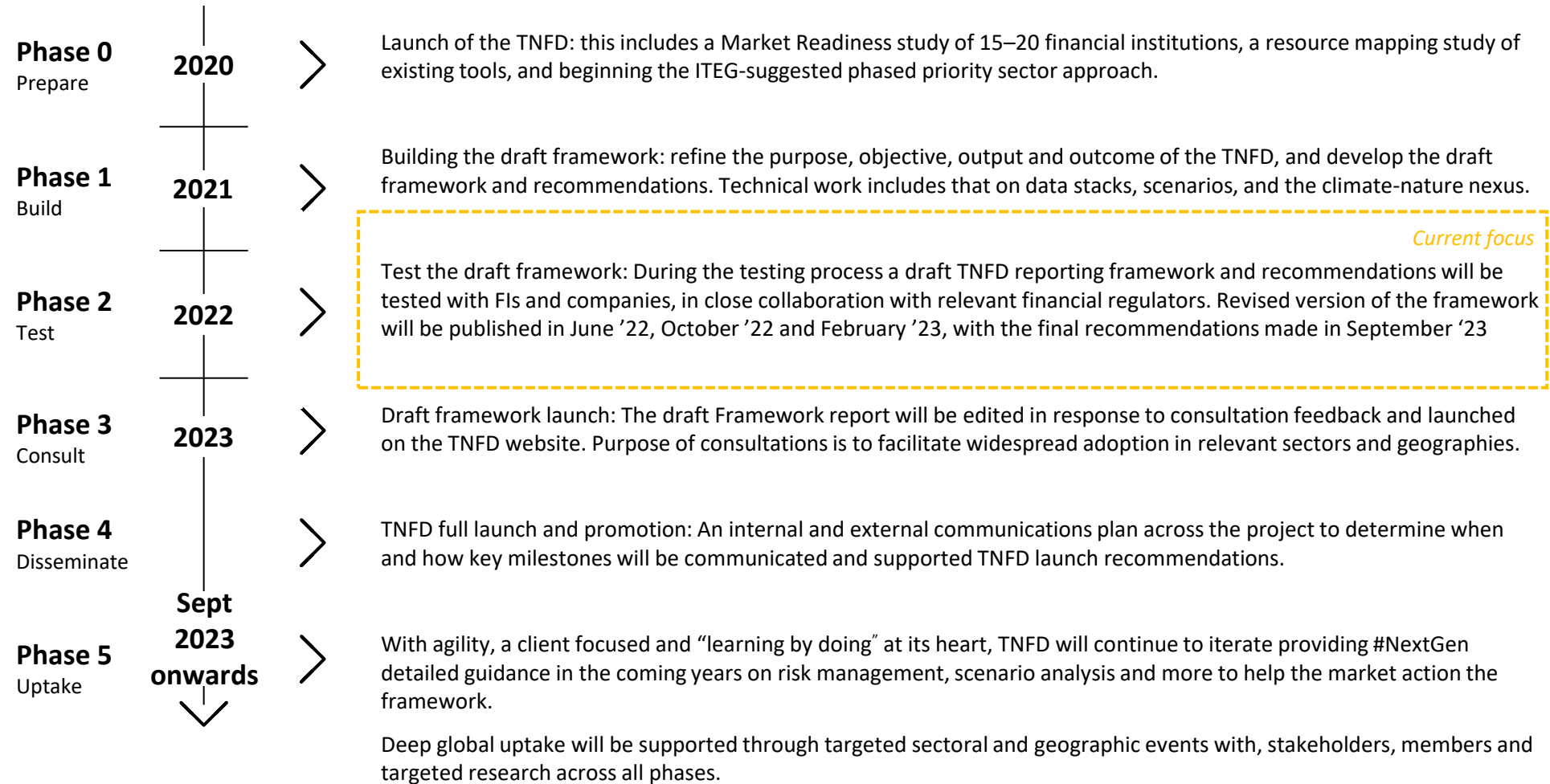
Source: Taskforce on Nature-Related Financial Disclosures 'Nature in Scope' Report



TNFD’s workplan



TNFD is currently in Phase 2, testing the first beta version of the framework working towards releasing a second version in June 2022



Current focus

Source: Taskforce on Nature-Related Financial Disclosures ‘Nature in Scope’ Report

Who benefits from TNFD's work?

Investors

Informed and robust capital allocation decisions based on clarity, confidence and trust in natural capital and environmental opportunities and risks disclosed by a company, alongside climate change

Analysts

Better equipped to utilise environmental and natural capital-related information in determining impacts on future cash flow and ultimately company valuations, alongside climate change

Companies

Incorporate environmental and natural capital-related information in financial reports alongside data on climate, assisting companies in achieving a holistic view of how climate change and natural capital can affect their performance and the necessary actions they could take

Regulators

Framework that can be immediately adopted or referenced as a method of compliance in regulation/guidance, informing business decision-making related to the use of natural resources, land and sustainable behavior

Stock exchanges

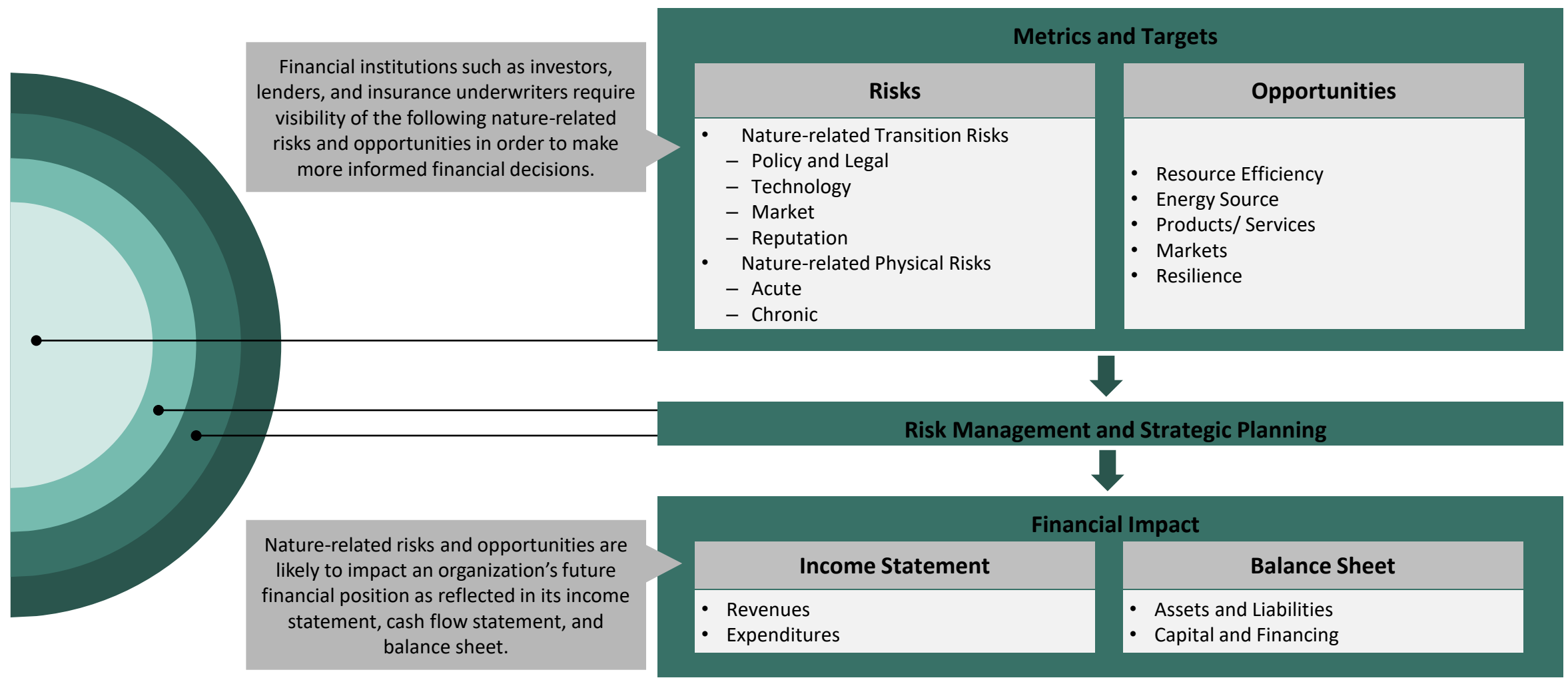
New voluntary and mandatory listing requirements linked to material environmental and natural capital-related risks and opportunities alongside climate change

Accounting firms

More comprehensive assurance of companies reporting on environmental and natural capital-related performance



Considerations of Nature-Related Risks for Financial institutions



Source: Taskforce on Nature-Related Financial Disclosures 'Proposed Technical Scope' Report and 'Recommendations of the TCFD' Report

Benefits of TNFD for financial institutions



1

Inform and complement financial statements

TNFD-aligned reporting can be used by financial institutions to

- Understand their exposure to financial risks through the impacts and dependencies on investments, insurance products and loans
- Conduct valuations of companies and assess credit risk, market risk and business risk
- Communicate financial information externally to investors
- Determine the appropriate cost of capital for investees or borrowers

2

Determine impacts and dependencies on nature

TNFD guidelines can be used by financial institutions to

- Understand the environmental, social and governance (ESG) impacts of their financing for use in external reporting, portfolio management, strategy development, and to inform their investment process
- Integrate ESG factors into their governance and stewardship (including shareholder voting, corporate engagement and public policy engagement)

Application of The TNFD Guidelines for financial Institutions



1	Nature-Related Risks and Opportunities	<ul style="list-style-type: none">• Considerations of dependencies and full value chain impacts• Considerations of all financial risks and opportunities (physical and transition) associated with those impacts and dependencies• Considerations of systemic risk
2	Nature	<ul style="list-style-type: none">• Identification of priority types of nature-related risks in priority industries associated with living nature, water, soil, air and mineral depletion
3	Climate	<ul style="list-style-type: none">• Adjustments of interactions and transition pathways• <i>Considerations will be provided by the TNFD for how financial institutions and reporting entities should tackle interactions between climate and nature, and how the TNFD process and TNFD-aligned reporting will interact with the TCFD</i>
4	Finance	<ul style="list-style-type: none">• Consideration of all aspects of private finance, including project finance and SMEs, associated with priority types of nature-related risk in priority industries• Considerations of public finance insofar as it impacts flows of private finance, associated with priority types of nature-related risk in priority industries
5	Metrics and Data	<ul style="list-style-type: none">• Access data from corporate disclosure as well as third party data sources on state of nature, pressure to nature, and response to nature, for priority types of nature-related risk in priority industries• Assessment of data quality

Source: Taskforce on Nature-Related Financial Disclosures 'Proposed Technical Scope' Report

Nature-related risks and opportunities for African financial institutions



Agriculture, forestry, and fishing, a reasonable proxy for the nature-related industry, comprise 17.5% of the total GDP of Sub-Saharan Africa



Natural capital may not be funded heavily or directly by FIs

While activities in agriculture, forestry and fishing comprise 17.5% of the total GDP across Sub-Saharan Africa, the nature-related industry is typically not heavily funded by banks and financial institutions in proportion to its contribution to economic output in Africa despite the industry supporting the livelihoods of the most vulnerable and many MSMEs across the continent



Africa contains 65% of the world's arable land, indicating a level of systemic risk in the financial system



Exposure to nature-related risks will be high for every African country and institution

Since the portfolios of financial institutions are not always comprised of large proportions of nature-related investments or financing, such institutions may perceive their exposure to nature-related financial risks to be low. However, due to the systemic nature of these risks there remains significant risk for financial institutions



Africa has 30% of the world's minerals, offering large natural capital opportunities



Natural capital opportunities present significant upside

As an example, Africa has an abundance of arable land and minerals amongst other natural resources. Financial institutions should consider using the TNFD's guidelines to capitalize on opportunities and increase their capital allocation to nature-related sectors across Africa to support a shift in global financial flows away from nature-negative outcomes and towards nature-positive outcomes

Appendix

A3 – TCFD adoption recap

Overview of the TCFD adoption



Overview of adoption

Key facts and figures

2600+
TCFD Supporters
Globally

120+
Regulators and
Governmental Entities

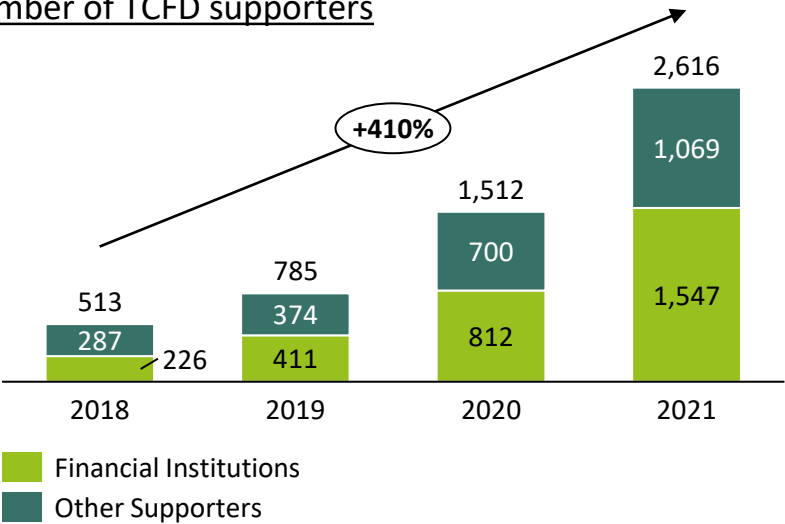
\$25 TN
Combined Company
Market Capitalization

Examples of African FI TCFD Supporters

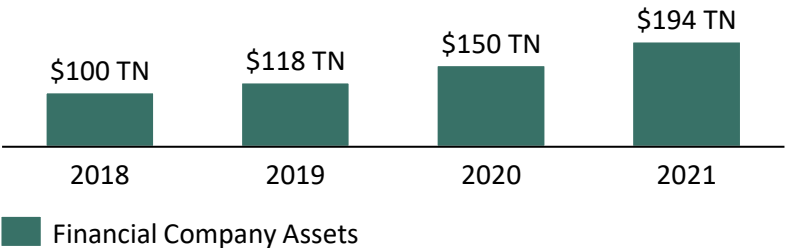


Support for TCFD recommendations continues to grow

Number of TCFD supporters

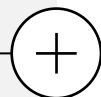
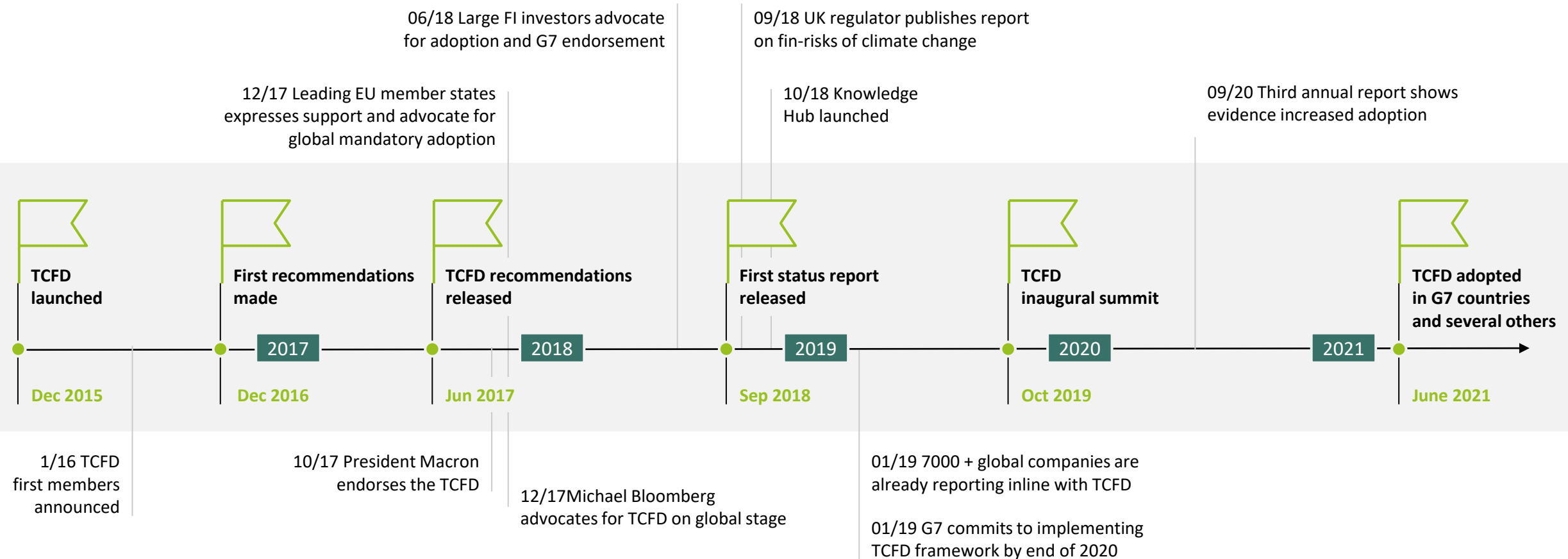


Asset under management of TCFD supporters



Source: Task Force on Climate-related Financial Disclosures October 2021 Status Report

TCFD: Review of key events and growth in adoption



	2018	2019	2020	2021
Supporters	513	785	1,512	2,616
AUM	\$100 TN	\$118 TN	\$150 TN	\$194 TN

Source: TCFD annual reports

TCFD: Key lessons learned for successful adoption



Key lessons learned

-  **1 Plug into current business processes and thinking**
Create a framework that aligns to current business operations to avoid creating a standalone process
-  **2 Test and gather feedback**
Test emerging frameworks with financial institutions and policymakers and regulators to gather feedback on their appropriateness
-  **3 Advocate for the mission and why it matters**
Leverage public and private sectors locally and globally to advocate for adoption, including using large events/forums as a platform
-  **4 Data drives better decision making**
Provide guidelines and principles for using existing data sources and provide industry/ external data to supplement analysis
-  **5 Maintain a long-term and holistic view**
Highlight the systemic nature or nature-related risks and the implications on long-term sustainability
-  **6 Remain market led**
Grow support from the market and private sector to aid and provide leverage with policymakers and regulators engagements
-  **7 Provide hands-on support**
Work with financial institutions and policymakers and regulators to create implementation and adoption strategies

