The Natural Capital Declaration and Roadmap

*Financial sector leadership on natural capital*

Presented by Giorgio Capurri, UniCredit
Agenda

• Defining Natural Capital

• The NCD
  • What is it
  • Rationale
  • Approach
  • Process

• Signatories (FIs) and supporters (others)

• Vision: end goals

• Landscape natural capital initiatives

• Pipeline of pilot projects
What is natural capital?

• The stock of ecosystems that yields a renewable flow of goods and services that underpin the economy and provide inputs and benefits to businesses and society (e.g. food, fiber, water, energy, timber)

• One factor of environmental, social and governance (ESG) considerations that can be material to financial institutions, mainly through loans, investments or insurance
What is the NCD

- **Objective:** Finance-led, CEO-endorsed initiative to mainstream natural capital in loans, bonds, equities and insurance, as well as accounting & reporting

- **Focus:** Banks, institutional investors, fund managers, and insurance firms

- **Process:** *Signatory financial institutions* are working alongside *supporter organisations* guided by proposals in our NCD Roadmap paper and developed through 4 WGs

- **Conveners:** UNEP FI and Global Canopy Programme

- **Governance:** Steering Committee, 4 Working Groups, Advisory Network

- **Endorse:** Financial institutions: sign at CEO level. Supporters: sign at Director-level
Learning by doing

- Finance-led, CEO-endorsed to mainstream natural capital across loans, bonds, equities and insurance

- Visualize and integrate natural capital in financial accounts of companies, including finance institutions

- Work with relevant business teams to manage risk and stimulate innovation to develop new products

- Not a logo initiative: Focus on quality and having impact (not # of FIs)
What is the NCD: approach

• **Work beyond sustainability teams**: It is paramount to develop and test new methods that integrate natural capital in a range of financial products with credit risk analysts, loan offers, portfolio managers, etc

• **Focus on quality**: While the NCD continues to invite financial institutions to endorse it at CEO level, the focus is to develop and test tangible and practical methods with FIs

• **Annual contribution**: In order to ‘walk-the-talk’ and show real commitment, as of 2014 signatories are requested to contribute annually. Funds raised from signatories are leveraged from other sources (governments, foundations, etc)

• **Business focused**: All projects are aimed at being directly beneficial for signatories and the wider financial sector
## WG to address NCD Commitments

<table>
<thead>
<tr>
<th>Working Group</th>
<th>NCD commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Understand</td>
<td>Build an understanding of risks and opportunities linked to the natural capital impacts and dependencies of portfolio companies</td>
</tr>
<tr>
<td>2. Embed</td>
<td>Integrate natural capital factors into financial products and services - including loans, investments and insurance products</td>
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<tr>
<td>3. Account</td>
<td>Work towards a consensus on including natural capital in accounting and decision-making</td>
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<tr>
<td>4. Report</td>
<td>Work towards consensus on Integrated Reporting, including natural capital disclosure</td>
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Governance NCD

Seek multidisciplinary knowledge and expertise by inviting non-financial organizations to become supporters or join the advisory network.

NCD Steering Committee
WG Chairs, Supporters

Secretariat
UNEF FI, GCP

NCD Advisory Network
Information Providers, GOs, Scientific Community

WG I
Understanding Impacts/Dependencies
Chair: Rabobank
Project Manager: Global Canopy Programme

WG II
Embedding NC in financial products
Chair: Banorte
Project Manager: Fauna & Flora International

WG III
Natural capital accounting
Chair: National Australia Bank
Project Manager: KPMG Australia

WG IV
Natural capital disclosure/reporting
Chair: Nedbank
Project Manager: CDP

5 - 6 November 2014
NCD: What it does and doesn’t do

- The NCD **does not** aim to put a *price on nature*
- It **does not** aim to be the next PRI or UN GC (in terms of # FIs or companies)
- It **does** aim to put a *price on the (credit) risk* that banks are exposed to through loans, investments and insurance, and to **catalyze** the development of new products
- The NCD **does** focus on the **global financial sector**. Engagement with the wider private sector occurs through other platforms / organisations (WBCSD, NCC, CDP, CBD, etc)
- It **does** focus on tackling the **technical challenges** of *calculating business cases* and **developing metrics** for lenders, investors and insurers in order to embed natural capital
40+ NCD signatories

- 40+ institutions have endorsed the NCD at CEO level
- Most have contributed financially (annual contribution, project contribution)
  - A number of institutions have ‘observer status’
- Growing number interested and committed to actively participate in one or more pilot projects
- 5 FI representatives are part of the NCD Steering Committee

Financial institution members of NCD Working Groups
We would like to thank the following signatories for providing financial contributions.

- Athelia Zoonshape
- ASN Bank
- Banco Pichinch
- Banco Mercantil del Norte
- Caixa das Índias
- Calvert Investments
- China Merchants Bank
- Financiera Rural
- FIBA-Banco de Mexico
- First Green Bank
- FMO
- IFC
- InfraPrep
- Kenya Commercial Bank
- Monegol Aegon
- MN Services
- National Australia Bank
- Nedbank
- Pan World Management Corp.
- Rabobank
- Robeco
- Sovereign
- Standard Chartered
- Sumitomo Mitsui Trust Holdings
- UniCredit
- Yes Bank
- BBVA
- Banco Multiva
- Caledonia Wealth Management
- CI Banco
- Earth Capital Partners
- Finastra
- Fundacion Social
- Monte dei Paschi di Siena
- Mutualista Pichinch
- SNS Asset Management
- Vision Banco
- Zervin Asset Management
30+ NCD supporters

• 30+ organizations support the NCD: crucial to create broader acknowledgement and support

• A number are part of (planned) pilot projects

• 2 representatives are part of the NCD Steering Committee
Vision: what are the end goals?

- FIs to become more aware of material natural capital risks in terms of loans, investments and insurance products.

- FIs to understand how key natural capital performance indicators translate into credit risk or affect financial metrics, such as the EBIT or discounted cash flows (DCF) of portfolio companies.

- Progress towards integrating natural capital in private sector accounting, through WG3, the NCC and other initiatives.

- Stimulate and use growing availability of data and analytics through disclosure to create integrated financial reporting.

- Catalyze financial innovation, allocating more (and cheaper) capital to businesses that fully account for natural capital.
<table>
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<th>Initiative</th>
<th>Focus</th>
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<tr>
<td><strong>Initiative</strong></td>
<td><strong>Focus</strong></td>
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<tr>
<td>Natural Capital Declaration - UNEP FI and GCP (integrating ecosystem goods &amp; services risks and opportunities into products and services, accounting and reporting at banks, asset owners, fund managers and insurers)</td>
<td>Finance</td>
</tr>
<tr>
<td>Natural Capital Coalition –accounting and valuation of ecosystem goods &amp; services in business (focus on apparel, food)</td>
<td>Insurance</td>
</tr>
<tr>
<td>Equator Principles (environmental &amp; social issues in mainly project finance)</td>
<td>Natural Capital Leaders Platform, CISL</td>
</tr>
<tr>
<td>Global Reporting Initiative (GRI)</td>
<td>Natural Capital Committee (UK Government)</td>
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<tr>
<td>Natural Capital Project, Universities of Stanford and Minnesota, WWF, and The Nature Conservancy</td>
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# Pipeline of pilot projects

<table>
<thead>
<tr>
<th>No.</th>
<th>Title</th>
<th>WG</th>
<th>Institutions</th>
<th>Asset Class</th>
<th>Partner</th>
<th>Start</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Framework to evaluate Bank and Investor Risk Policies for Soft Commodities to address deforestation risk</td>
<td>2</td>
<td>Rabobank, IFC, FMO, Banorte, Pax World, Calvert, MN Services, ASN Bank, Standard Chartered, Sumitomo Mitsui</td>
<td>Various</td>
<td>Sustainalytics, UN-REDD Programme</td>
<td>March 2014</td>
<td>UN-REDD Programme</td>
</tr>
<tr>
<td>2</td>
<td>Feasibility study: Understanding and integrating natural capital risks (first part of IFC-led demonstration project)</td>
<td>1, 2</td>
<td>IFC, Banorte, National Australia Bank, Unicredit, Caisse des Dépôts, Pax World, Calvert</td>
<td>Corporate finance; equities; corporate bonds; project finance</td>
<td>SocioVestix/ ICMA Centre/Henley Business School</td>
<td>May 2014</td>
<td>IFC</td>
</tr>
<tr>
<td>3</td>
<td>Advancing Natural Capital Accounting in externalities-heavy sectors for financial institutions</td>
<td>3</td>
<td>National Australia Bank, TBC</td>
<td>TBC/Sector dependent</td>
<td>UNEP TEEB, KPMG</td>
<td>August 2014</td>
<td>UNEP TEEB</td>
</tr>
<tr>
<td>4</td>
<td>Accounting for natural value to assist credit risk assessment in the agricultural sector</td>
<td>2</td>
<td>Agri-lending</td>
<td>NAB</td>
<td>TBD</td>
<td>NAB</td>
<td></td>
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## Pipeline of partnership pilot projects

<table>
<thead>
<tr>
<th>No.</th>
<th>Title</th>
<th>WG</th>
<th>Institutions</th>
<th>Asset Class</th>
<th>Partner</th>
<th>Start</th>
<th>Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Tool to include water risk metrics in financial analysis of corporate bonds</td>
<td>2</td>
<td>Calvert, Pax World, Sarasin, UBS, RobecoSAM, Banorte</td>
<td>Corporate bonds</td>
<td>VfU, GIZ</td>
<td>August 2014</td>
<td>GIZ</td>
</tr>
<tr>
<td>6</td>
<td>Tool to assess water-related natural capital risks of mining companies for investors</td>
<td>2</td>
<td>TBC</td>
<td>Equities</td>
<td>Bloomberg, NCC</td>
<td>August 2014</td>
<td>Bloomberg</td>
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Contacting the NCD Secretariat

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- www.naturalcapitaldeclaration.org