



5 e 6 novembre 2014

The Natural Capital Declaration and Roadmap

Financial sector leadership on natural capital

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Secretariat:



UNEP Finance Initiative
Innovative financing for sustainability



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



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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



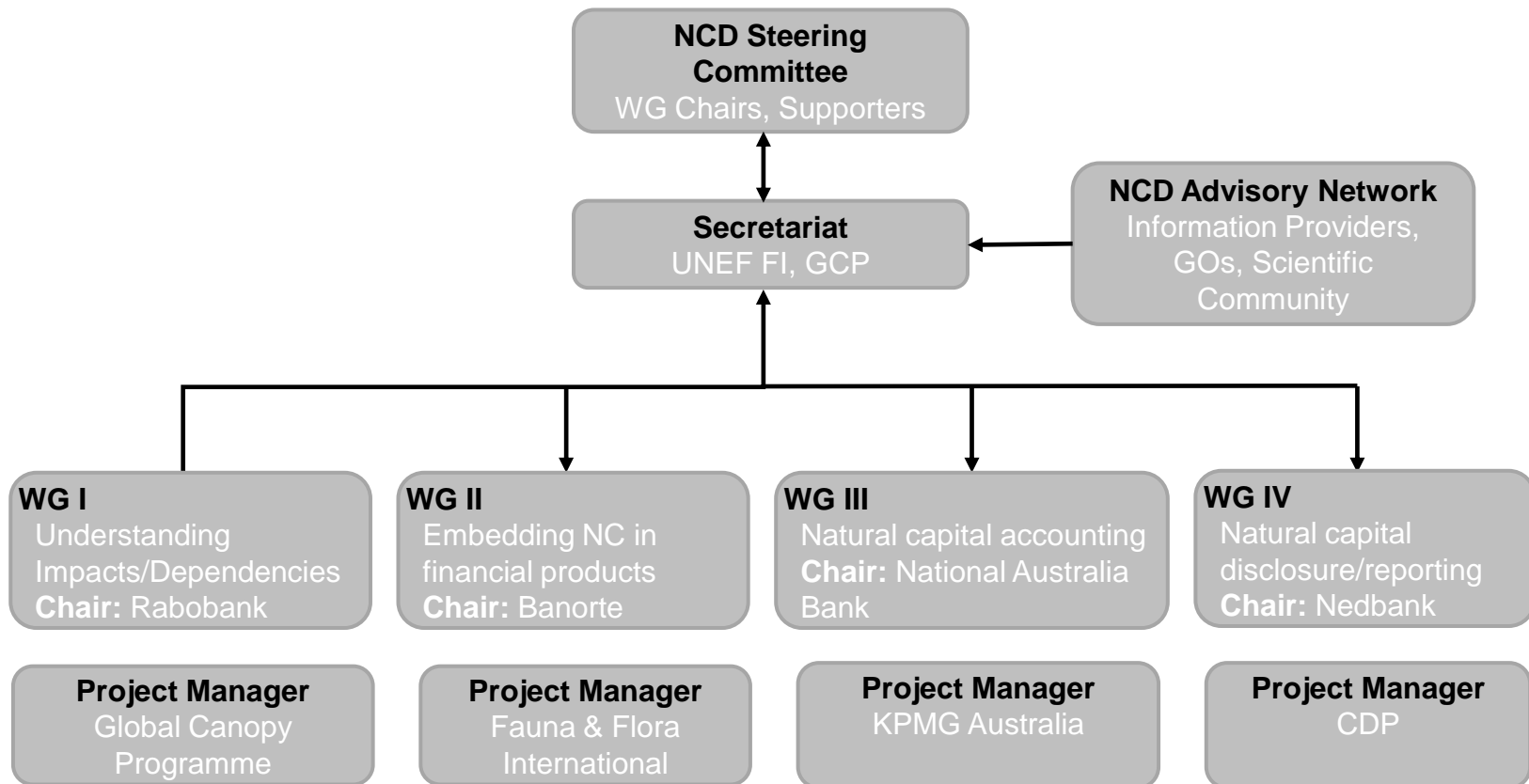
WGs to address NCD Commitments

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



Governance NCD

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



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.



Observers



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



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Landscape Natural Capital Initiatives

Initiative		Focus			
		Finance		Corporate	Government
Banking		Investment	Insurance		
<p>Natural Capital Declaration - UNEP FI and GCP (integrating ecosystem goods & services risks and opportunities into products and services, accounting and reporting at banks, asset owners, fund managers and insurers)</p>			<p>Natural Capital Coalition –accounting and valuation of ecosystem goods & services in business (focus on apparel, food)</p>		<p>System of Environmental Economic Accounts (UN SEEA)</p>
<p>Banking Environment Initiative, Cambridge Institute for Sustainable Leadership (soft commodities)</p>	<p>Principles for Responsible Investment (integrating environmental, social, governance – ESG – issues in fund management)</p>	<p>Principles for Sustainable Insurance, UNEP FI (Including ESG issues in insurance)</p>	<p>World Business Council for Sustainable Development (WBCSD)</p>	<p>The Economics of Ecosystems and Biodiversity (TEEB – UNEP)</p>	
<p>Equator Principles (environmental & social issues in mainly project finance)</p>			<p>Natural Capital Leaders Platform, CISL</p>	<p>WAVES Partnership (Wealth Accounting and the Valuation of Ecosystem Services)</p>	
			<p>Global Reporting Initiative (GRI)</p>	<p>Natural Capital Committee (UK Government)</p>	
			<p>Natural Capital Project, Universities of Stanford and Minnesota, WWF, and The Nature Conservancy</p>		



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Pipeline of pilot projects

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



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Pipeline of partnership pilot projects

No.	Title	WG	Institutions	Asset Class	Partner	Start	Funding
5	Tool to include water risk metrics in financial analysis of corporate bonds	2	Calvert, Pax World, Sarasin, UBS, RobecoSAM, Banorte	Corporate bonds	VfU, GIZ	August 2014	GIZ
6	Tool to assess water-related natural capital risks of mining companies for investors	2	TBC	Equities	Bloomberg, NCC	August 2014	Bloomberg
7	E-RISC Phase II: Towards Market Readiness. UNEP FI initiative to further develop and test methodology to assess materiality of natural resource indicators	2	S&P, Caisse des Depots, KfW, Colonial First State, EIB, Kempen Asset Management, HSBC	Sovereign bonds	Global Footprint Network, Cambridge Econometrics	June 2014	Participating financial institutions



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