

Enable 'Financing for Change' in support CBD Aichi

Corporate sector support to maintain natural capital – through UNEP FI, NCD & ForCES



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**Natural
Capital
Declaration**
Financial sector leadership
on natural capital

Secretariat:



UNEP Finance Initiative
Innovative financing for sustainability



GCP
GLOBAL CANOPY PROGRAMME

“Under the CBD, governments have raised their commitment to involve the private sector in developing appropriate regulatory frameworks to harness the power of markets to create innovative solutions to tackle biodiversity loss.... (e.g. Aichi Target 4, 7, 20)

UNEP is supporting this a.o. through:

- 1.The Finance Initiative**
- 2.Natural Capital Declaration**
- 3.Projects such as ForCES forest certification**



This Talk:

- I. Habitat and species conservation - BAU**
- II. Natural capital & financing - why we need to change business practices for BD Conservation**
- III. UNEP Finance Initiative (FI)**
- IV. The Natural Capital Declaration (NCD)**
- V. ForCES – forest certification for ecosystems services**



(I) Now/BAU - Habitat and species conservation – *some observations*

1. We **conserve, set aside and enforce** – yet we are **less successful** → Because much of the world, government & corporate systems continue BAU!
2. Much BD, PA and restoration **funded as added or external processes** (government budget, donations) – yet not enough being **internalized or mainstreamed!**

Mitigation, restoration and conservation efforts by corporate superficial and once the damage already done.





3. **BD not in decision making corporate investments & licenses → that's a bad business case for all!**

- **Dependency of corporations, our societies & economies on natural resources**, renewables, BD etc not build in as BAU.
- **Conservation and mitigation remain seen as unnecessary 'added cost'** to e.g. plantations, mining, swamp reclamation, road development, etc.
- **Externalities** – e.g. costs of losing biodiversity and ecosystem services not in business models, decision making & accounts

RESULT e.g.: Global commodities such as soya, palm oil and beef – **key to countries' development path'**, led to 70% of global deforestation, **BUT have billions USD of hidden costs annually** (UNEP-TEEB studies)



FINDINGS: Financing for development in support of PA & species conservation or restoration:

- **Recognize the:** (i) hidden costs of development, (ii) dependencies of corporate and public sectors on natural resources & services, (iii) investing in natural capital being a condition to achieve Aichi targets as well as SD.
- **Need governments & businesses to decouple economic development** from e.g. deforestation, loss water resources → **need for Green Economy**
- This should be integral part of our lives, green government accounts & decision making, and corporate sustainability programs – **as benefit, services & sustainability to economy greater than its costs!**

(II) Defining natural capital (NC)

- ***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 such as forests, food, fiber, water, genetic resources, energy, timber, climate security].

Plus:

- ***Sub-set of environmental, social and governance (ESG) considerations*** that can be material to financial institutions through loans, investments or insurance contracts.



What NC are we loosing?

- 75% of fishing stocks fully / overexploited (MA)
- 20% of coral reefs destroyed (MA)
- USD 50 billion lost economic benefits fisheries (WB/FAO)
- 1 million hectares primary forests lost SE Asia p.a (NUS)
- USD 1.4 trillion p.a impacts & costs of invasive species
- USD\$ 45 billion “cost of policy inaction” to ecosystem degradation



US\$ 6.6 trillion in environmental costs externalized to society

Science on NC is sound, but financial argument is still weak

Natural capital and why we need to change business practices for BD Conservation

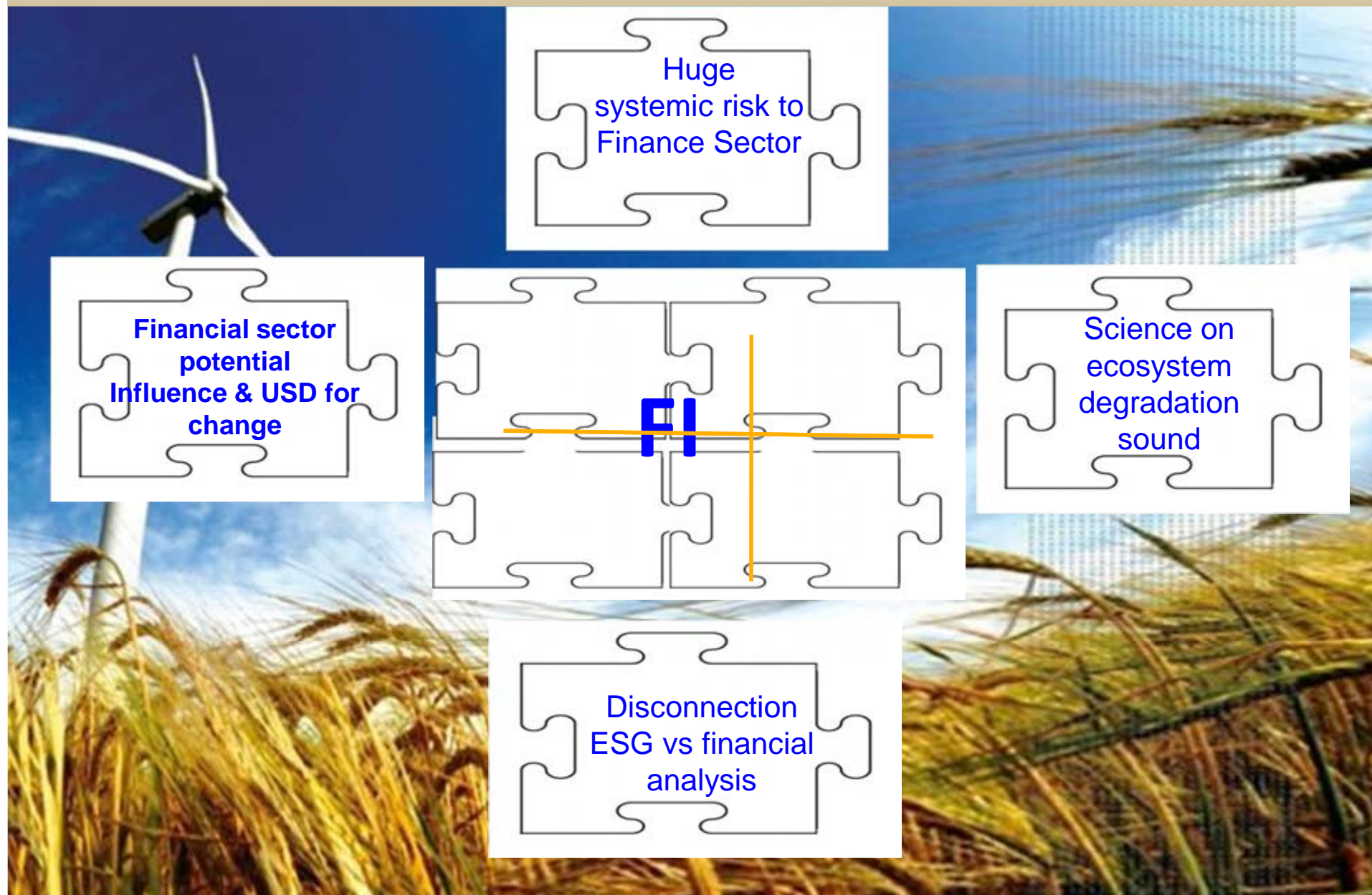


Natural capital and (credit) risks

1. Sovereign bonds most important asset held by investors around the world
2. Bond markets USD 95 trillion & about 10,000 times bigger than REDD+ funding
3. Growing group of investors & insurers with concern over the **increasing systemic risks** outside of the financial system, **notably environmental risk**, which can impact multiple financial markets.
4. Natural capital is critical to each nation's economy - yet **risks of such Environmental, Social and Governance (ESG) factors** – **are not well considered in 'sovereign credit risk assessments'**.
5. **Countries** that depend on levels of natural capital beyond what their own ecosystems can provide **may experience severe economic impacts as resources become more unreliable or costly!**

Key Message: Changing the financial system will (i) have huge benefit to forests, reefs, water resources, biodiversity etc, and (ii) has huge financial volumes available to do so; much more than government, GEF and other mechanisms can provide!

(III) UNEP Finance Initiative



Mission: “To bring about systemic change in finance to support a sustainable world”

Motto: “Changing finance to finance change”:

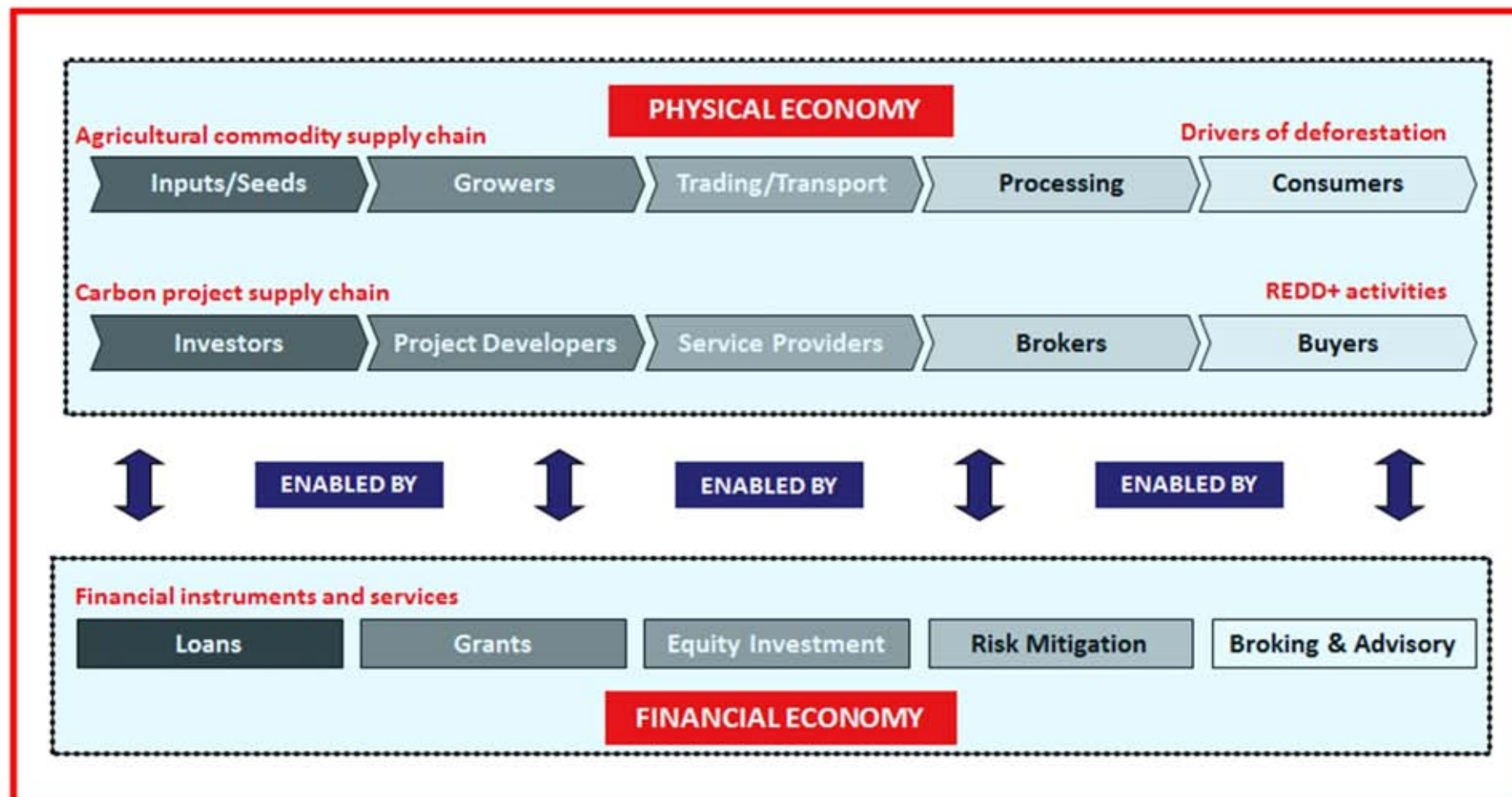
- **Changing finance:** promoting the integration of sustainability concerns into mainstream financial system, and financial institutions’ operations, products and decisions in all markets.
- **Financing for change:** mobilizing finance to foster a more sustainable economy.

Why: Banking, insurance and investment – the three main sectors of finance, have profound influence on sectors such as renewable energy, forestry, mining, .. **and indirectly on conservation, biodiversity & ecosystem services**



UNEP Finance Initiative
Changing finance, financing change

WHY: the Relationship between ... 'Physical' and 'Financial' Economy



Founded in 1992 and now having over 200 members:

- Banks, investors, insurance companies etc
- Well balanced between developed and developing world
- Signatory by signing the 'UNEP Statement of Commitment by Financial Institutions on Sustainable Development'.
- They recognize sustainability as part of a collective responsibility and support approaches to anticipate and prevent potential negative impacts on the environment and society.

See: <http://www.unepfi.org>

Three selected core activities of FI

A. Banking - Finding innovative ways of addressing sustainability issues in the banking sector.

- **Understanding the Intersection between Banking, Society & the Environment (ESG)** –three core areas: climate change, natural capital, and social equity issues.
- **Capacity-building** – 3000+ professionals trained since 2005 (= global reference for banking practitioner training on fundamentals of E&S risk management)
- **Promoting “green finance”** – addressing the lack in financing instruments adapted to new “green” markets that are still perceived as risky- e.g. Global Climate Fund, REDD+ & Energy Efficiency.

B. Investment - Exploring how material, social, environmental and governance considerations can best be incorporated into investment practice (**e.g. disclosure on carbon intensity; environmental metrics; integrating sustainability into corporate board practices**)

C. Biodiversity and Ecosystem Services

Objectives:

- Raise awareness on the business implications of loss or degradation of ecosystem services
- Strengthen the business case for action and provide information & analysis tools for adequate management of ecosystem services
- Open dialogue between financial institutions (both public and private) and policy makers – how business operations can be better aligned with ecosystems stewardship

Some BD & ES programs:

- 1. Environmental Risk in Sovereign Credit assessment: E-RISC.** To assess the financial type & value of ecological risks in the context of sovereign investments and in sovereign credit risk models of credit rating agencies, asset owners, and investment managers.



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2. **The Natural Value Initiative** - toolkits enabling investors to evaluate their impacts and dependencies on biodiversity and ecosystem services .
3. **The Economics of Ecosystems and Biodiversity (TEEB)**. FI contributed extensively to various reviews and reports
4. **Forest Footprint Disclosure project (FFD)** - to help investors identify how an organization's activities and supply chains contribute to tropical deforestation, and link this 'forest footprint' to their value.
5. **Biodiversity offsets** - UNEP FI and the Business and Biodiversity Offsets Programme (BBOP) are helping to more systematically analyze current practice in the financial sector with respect to biodiversity offsets.



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6. Stimulating private sector investment in REDD+ and sustainable land use

Objectives:

- Enhance the awareness and understanding among private sector finance institutions about the opportunities and risks of REDD+ activities.
- Mobilize private sector REDD+ finance
- Support consultations between governments and private sector actors, including financial institutions.

7. Natural Capital Declaration (NCD) – see below



(IV) Natural Capital Declaration (NCD)

Objective: ‘to **mainstream** natural capital in loans, bonds, equities and insurance, as well as accounting & reporting.

- The NCD **does not** aim to put a **price on nature**.
- It **does** aim to put a **price on the (credit) risk from natural resources or natural capital** that banks are exposed to through loans, investments and insurance obligations.
- The NCD **does** focus on the **global financial sector**. Engagement with wider private sector is through other platforms / organizations (WBCSD, CDP, CBD, etc).



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42 NCD signatories

www.naturalcapitaldeclaration.org



Working groups for 4 commitments by 2020

Working Group	NCD commitment
1. Understand	Financial risks and opportunities linked to natural capital impacts and dependencies of company operations and supply chains.
2. Embed	Integrate natural capital factors into financial products and services.
3. Account	Work towards accounting for natural capital.
4. Report	Natural capital information disclosure and reporting using an integrated approach.

(V) UNEP/GEF ForCES Project



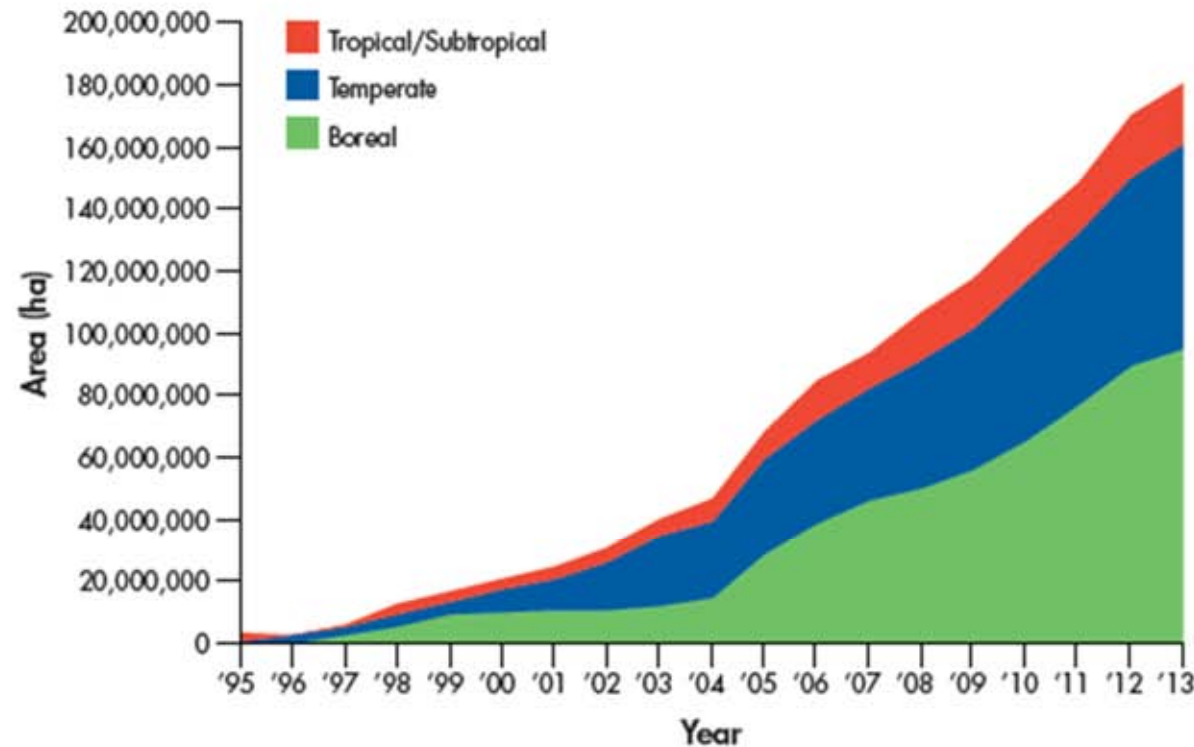
Forest Certification for Ecosystem Services

A pathbreaking project to expand FSC
forest certification & build the business
case

FSC & Aichi Target 7: Areas under Sustainable Management



The area of FSC certified forest has increased from 3.24 million hectares in 1995 to 180.44 million hectares as of July 2013, with an annual growth rate of around 10 million hectares per year.



Total FSC certified forest area (ha)

Source: FSC, 2013

Why is it so important to address forest ecosystem services?

GOODS:

Timber	560 \$
Fuelwood	60 \$
Non-timber	40-70 \$

SERVICES:

Climate regulation	800 – 2,200 \$
Flood regulation	25 \$
Water supply	1,000 \$
Pollination	50 \$



Values per hectare and year
estimated for various tropical forests

Because the (hidden)
socio-economic value
of services exceeds
that of goods many
times over !!

Doesn't FSC cover all of this already?

Principles & Criteria, Preamble:

"The FSC Principles and Criteria cover the production of wood and non-timber forest products, conservation, protection, **ecosystem services** and other uses.

YES...

Principle 6: Environmental Values and Impacts

The Organization shall maintain, conserve and/or restore **ecosystem services** and environmental values of the Management Unit, and shall avoid, repair or mitigate negative environmental impacts.

BUT...

FSC does currently not provide...

- ES specific management guidelines
- Evidence-base certification is beneficial to ES
- A methodology for quantifying ecosystem services
- A market-based reward mechanism for ES





What UNEP/GEF ForCES aims at

Contribute towards global efforts to preserve the world's forests by valorizing the many services that intact ecosystems provide (*'demand side'*)

and

thereby support or enable forest owners, managers and communities to commit to responsible forest management which benefits ES (*'supply side'*)

Project components

1. STANDARDS

Generic indicators for ES certification

2. METHODOLOGIES

to assess **ES supply, and management impacts**
(*'evidence base' that certification helps maintaining ES*)

3. BUSINESS MODEL & PLATFORM

to reward stewardship and supply of ES (*monetary & non-monetary*)

4. PILOT TESTING


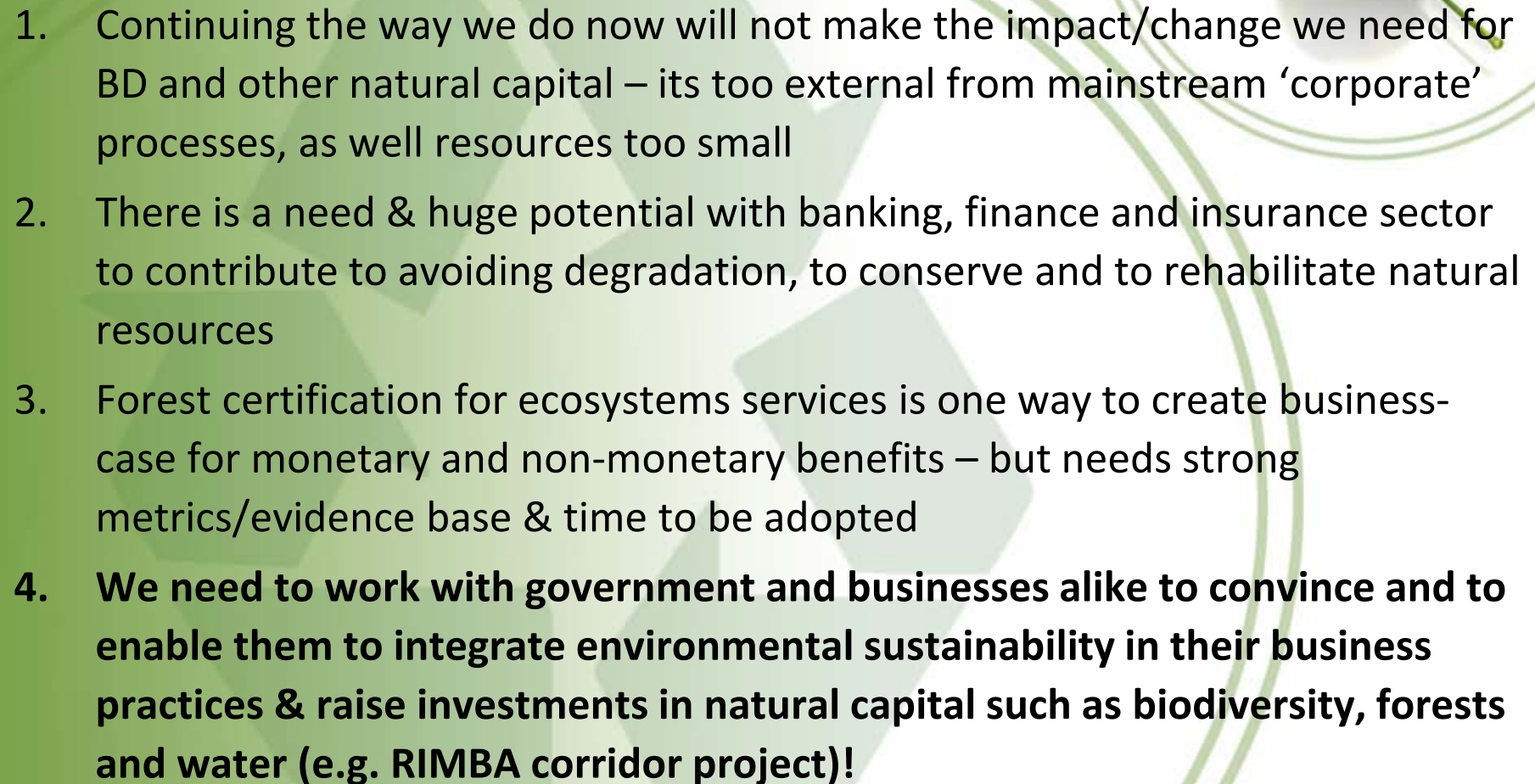
- 10 sites in Indonesia, Vietnam, Nepal and Chile
- Different 'packages' of ES: BD, water, Carbon, soil functions, recreational – with or without commodity

5. DISSEMINATION – for market sensitization

6. CAPACITY BUILDING



Take home points

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1. Continuing the way we do now will not make the impact/change we need for BD and other natural capital – its too external from mainstream ‘corporate’ processes, as well resources too small
 2. There is a need & huge potential with banking, finance and insurance sector to contribute to avoiding degradation, to conserve and to rehabilitate natural resources
 3. Forest certification for ecosystems services is one way to create business-case for monetary and non-monetary benefits – but needs strong metrics/evidence base & time to be adopted
 4. **We need to work with government and businesses alike to convince and to enable them to integrate environmental sustainability in their business practices & raise investments in natural capital such as biodiversity, forests and water (e.g. RIMBA corridor project)!**