

WHY VALUING NATURE CAN MAKE A DIFFERENCE

Written based on an interview with Mark Gough
CEO of the Capitals Coalition



Mark Gough is CEO of the Capitals Coalition, a global collaboration of business, governments and civil society that advance the capitals approach to decision-making. The Coalition unites the Natural Capital Coalition and the Social and Human Capital Coalition. Mark has worked extensively in the private sector, leading programs and strategy for the Crown Estate and Reed Elsevier (now RELX), as well as advising many other organizations. Among other board and advisory positions, Mark is on the Advisory Board for TEEB (The Economics of Ecosystems and Biodiversity), a member of the Steering Committee of the United Nations CEO Water Mandate, and an advisor on the High-Level Panel for a Sustainable Ocean Economy.

Until now largely neglected in traditional wealth measurement systems due to its “economic invisibility”, the value provided by natural capital nevertheless forms the basis of our economies and societies through its multiple ecosystem benefits, whose degradation imposes external costs on society and on future generations. A better understanding of our dependence on these services has thus become an essential challenge for organizations to integrate, in order to address the considerable global challenges we are facing today, such as climate change, biodiversity loss and rising global inequity. In this end, many initiatives have emerged, both from public organizations and from the private sector, with more or less significant efforts and progressing results. Nevertheless, the growing awareness of the interconnectedness of the challenges faced by our societies has added urgency to the need to invest in the various forms of capital – natural, social and human – to ensure their protection and continued value to our societies.

INTRODUCTION

The rising awareness of biodiversity loss in recent years by a growing number of actors – both public and private – has highlighted the role of nature and its various services as an essential foundation for the economy and human activities. According to the OECD,¹ the economic benefits of ecosystem services on the global scale can be estimated at between USD 125,000 and 140,000 billion per year. In the run-up to the 15th Conference of the Parties on Biological Diversity (initially scheduled for May 2020, then postponed several times until 2022), the preservation of biodiversity and its ecosystem services has become a priority issue on the international agenda, together with the fight against climate change. Some stakeholders have started to compile information about their natural capital impacts and dependencies. Yet a wider and more robust integration of natural capital accounting approaches could help to address biodiversity loss and guarantee a greener transition for our economies.

¹ OECD, *Biodiversity: Finance and the Economic and Business Case for Action*, May 2019.





NATURAL CAPITAL: A KEY APPROACH IN VALUING NATURE AND ITS BENEFITS FOR SOCIETY

DEFINING NATURAL CAPITAL

Capital has traditionally been thought of only as money, but capital describes any resource or asset that stores or provides value to people.

Natural capital works in much the same way as traditional capital – if we invest in it we can secure a flow of value for current and future generations. But, if we eat into the underlying capital stock, we reduce the ability of nature to provide the goods and services that we depend on for societal and economic prosperity. Recognising the ways in which they depend on natural capital can be a watershed moment for organizations, many of whom realize that issues they had considered to be immaterial in fact directly underpin their success. This new lens can catalyse a clear business case for the protection of and investment in the health and resilience of natural ecosystems which not only provides benefits for business, but also for other stakeholders, and for nature itself.

Natural capital can be defined as the stock of renewable and non-renewable natural resources on earth (e.g., plants, animals, air, water, soils, and minerals) that combine to yield a flow of benefits or “services” to people.² The most widely used definition of ecosystem services is from the Millennium Ecosystem Assessment – requested by the United Nations Secretary-General Kofi Annan in 2000,

launched in 2001 and then published in 2005 – defining ecosystem services as “the benefits people obtain from ecosystems” and grouping them into four categories:

- **Provisioning Services:** product obtained from ecosystems (e.g., food, raw materials, fresh water, and medicinal resources).
- **Regulating Services:** benefits obtained from regulation of ecosystem processes (e.g., mitigation of climate change through carbon sequestration, local climate and air quality, pollination, water filtration by wetlands, erosion control and protection from storm surges by vegetation).
- **Cultural Services:** non-material benefits obtained from ecosystems contributing to our spiritual welfare (e.g., aesthetic appreciation and inspiration for culture, art, and design).
- **Supporting (or Habitat) Services:** services necessary for the production of all other ecosystem services (photosynthesis, habitats for species, nutrient cycling, etc.).

While nature underpins all aspects of our society and economy, traditional measures of progress such as GDP have failed so far to identify and measure the value that those ecosystem services provide to our economic systems. In fact, the destruction of ecosystems often leads to an increase in GDP, while the value that is lost through these activities is economically invisible and externalized. A natural capital approach empowers decision-makers to recognize the value of leaving nature standing, rather than the current paradigm of valuing nature only when we cut it down and process it.

² Natural Capital Coalition, *Natural Capital Protocol Principles and Framework*.



A GROWING AWARENESS OF THE CONCEPT

Although the concept of natural capital is not yet mainstreamed, the concept has made a lot of progress over the past twelve months in the public debate. 2021 has seen a major acceleration in the recognition of the value of natural capital in decision-making among some of the world's most powerful governments and intergovernmental bodies.

Building on the G7 Climate & Environment Ministers Communiqué,³ the official statement of G7 Finance Ministers committed G7 countries to “embed climate change and biodiversity loss considerations into economic and financial decision-making”.

In the new Nature Compact, part of the final 2021 G7 Communiqué⁴, the Group of Seven wrote that: “Nature, and the biodiversity that underpins it, ultimately sustains our economies, livelihoods and well-being – our decisions must take into account the true value of the goods and services we derive from it”, as they committed to “halt and reverse biodiversity loss by 2030”. This commitment was echoed in the new Atlantic Charter signed by the U.S. President and the British Prime Minister, in the UK Treasury’s Dasgupta Review on the economics of biodiversity, and is a central milestone in the UN Convention on Biological Diversity’s draft for a Post-2020 Global Biodiversity Framework.

While the awareness of the concept is consistently growing, we have to acknowledge that implementation remains slower to achieve. Although 25% of Global 500 companies are now familiar with the concept, less than 5% of them have actually conducted an assessment of their impacts and dependencies on natural capital and even less have actively applied this information to inform their decision-making.

THE NECESSARY STANDARDIZATION OF NATURAL CAPITAL APPROACHES

In the current context of biodiversity loss and the rapid degradation of ecosystems, it has become essential to provide public and private decision-makers with tools that allow them to measure, evaluate, manage, and disclose their impacts and dependencies on natural systems.

PUBLIC VS. PRIVATE SECTOR: DIFFERENT LEVELS OF MATURITY

Over the past few years, the public sector has made significant progress in terms of standardization, notably with the System of Environmental Economic Accounting (SEEA). The SEEA is an international statistical system that brings together environmental and economic information into one common framework. The recent adoption in March 2021 by the United Nations Statistical Commission

of the SEEA Ecosystem Accounting (SEEA EA) represents a major step forward in recognizing the value of nature and a new “beyond GDP” tool for countries to incorporate environmental and social aspects. The SEEA EA offers an accounting framework to measure the contribution of ecosystems to our society, their condition (health) and the services they provide to our economies. According to the 2020 Global Assessment of Environmental-Economic Accounting and Supporting Statistics 2020 (UN-CEEA), this accounting framework has already been applied by 89 countries worldwide to guide their policies. For instance, Australia has used natural capital accounts to tackle the impacts of drought as well as better manage the Great Barrier Reef. Nevertheless, despite the fact that ecosystem accounting has taken off over recent years, too few countries are currently applying these approaches, leaving room for progress on implementation.

The situation is very different when it comes to the private sector: while implementation of natural capital approaches is more developed, organizations are using a large variety of methodologies and tools.

There are different ways to illuminate the value we receive from natural capital, and this value can be provided in quantitative, qualitative or monetary metrics depending on the needs of the organization and the decisions they want to inform.

Developed by the IUCN, Birdlife International, Conservation International and the UNEP-WCMC, the Integrated Biodiversity Assessment Tool (IBAT) can be used to map the areas of ecological concern around the places where companies operate. Used by several companies such as Allianz and General Motors, the interactive map integrated into the tool makes it possible to visualize the perimeter of protected areas or areas of high ecological interest in relation to the geographical limits of companies’ sites or future projects.

There are also environmental performance measurement tools such as the Environmental Profit & Loss account (EP&L), developed by French luxury group Kering, which consists of evaluating and publishing an organization’s environmental externalities throughout its value chain. Several criteria are taken into account: air pollution, GHG emissions, land use changes, waste generation, and water consumption and pollution. These impacts are then converted into monetary values in order to quantify the value provided to the organization by nature. In particular, it shows that 66% of Kering’s impacts are related to the supply of raw materials. It constitutes an effective communication tool to make a company’s impacts easy to understand. Stakeholders such as investors and customers, who are increasingly demanding information and transparency, are given access to the tool.

Traditional measures of progress such as GDP have failed so far to identify and measure the value of ecosystem services to our economy

³ G7 Climate and Environment: Ministers’ Communiqué, London, May 2021.

⁴ G7 2030 Nature Compact, June 2021.


















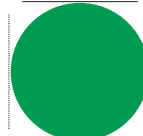





















ZOOM ON KERING'S ENVIRONMENTAL PROFIT & LOSS (2020)⁵

Kering's 2020 Group environmental Profit and Loss (EP&L) is estimated to be €516M. It quantifies the value of impact resulting from six impact driver categories: air emissions, greenhouse gases, land use, waste, water consumption and water pollution, across all the tiers of Kering's supply chain, from raw material production to the product's use and end of life.

Different valuation techniques are used to assess the value of impacts. For example, in the case of greenhouse gases, the Social Cost of Carbon approach is used, which reflects the full global cost of the damages caused by GHG emissions over their lifetime in the atmosphere.

The EP&L account helps Kering designing their responsible sourcing policies and industrial processes and management. Besides, it allows them to tracking progress towards their sustainability targets. As for 2020, most of the impact (56%) are concentrated on the raw material production tier. Land use (31%) and GHGs (35%) are the first impact areas.

	End of life	Use phase	TIER 0 Stores, warehouses, offices	TIER 1 Assembly	TIER 2 Manufacturing	TIER 3 Raw material processing	TIER 4 Raw material production	TOTAL IN MILLIONS
AIR EMISSIONS 								10% €50,2
GHGs 								35% €183,7
LAND USE 								31% €160,3
WASTE 								7% €34,2
WATER CONSUMPTION 								7% €33,8
WATER POLLUTION 								10% €53,7
TOTAL IN MILLIONS	0,2% €0,9	12% €61,3	10% €52,5	5% €28,0	8% €43,5	9% €44,0	56% €285,7	100% €515,9

⁵ Kering, Environmental Profit & Loss (EP&L). 2020 Group Results.



ZOOM ON OLAM'S LEADERSHIP ON TAKING NATURE INTO ACCOUNT TO ITS BUSINESS

Olam International Ltd. is a leading Singaporean food and agri-business company specialized in trading agricultural raw materials and food ingredients. The company delivers 47 different products (such as cocoa, coffee, cotton, nuts, or spices) to more than 16,200 customers in 70 destination markets and employs around 81,000 people worldwide.

Recognizing that the food and agri-sector is among the biggest contributors to GHG emissions and one of the biggest drivers of terrestrial biodiversity loss, in 2017 Olam launched a new purpose-driven strategy, Re-imagine Global Agriculture and Food Systems, and began to report on six different non-financial capitals (social, human, manufactured, natural, intangible, and intellectual) to help demonstrate how they contribute to the creation of long-term value for the group as well

as create value for its stakeholders. The company then developed different initiatives, such as the Olam Living Landscapes Policy (OLLP), which supports a Net-Positive approach to agricultural supply chains and landscape management, and tools such as the Integrated Impact Statement (IIS), a decision-making tool covering three Capitals (natural, social, and human) and made up of three elements: Profit and Loss, Balance Sheet, and Risk and Opportunity Statement.

Today recognized as one of the leading companies on linking sustainability and finance, Olam was recently awarded the BusinessGreen Leaders Award in the Nature Based Project of the Year category for the work carried out by its subsidiary Olam Food Ingredients with smallholders to tackle deforestation in the cocoa supply chain.

The Taskforce on Nature-related Financial Disclosures (TNFD) – in the same spirit as the Taskforce on Climate-related Financial Disclosures – launched in June 2021 by a dozen financial institutions including AXA, BNP Paribas and the World Bank alongside the British and Swiss governments is another noteworthy framework dedicated to financial stakeholders. Coordinated by Global Canopy, the UNDP and the WWF, the initiative aims to build an international benchmark of analysis and reporting by 2023 for financial institutions on their impacts and risks related to biodiversity loss.

THE NEED FOR STANDARDIZATION

However, the different approaches developed by those actors have resulted in an increasing number of procedures and individual accounts, leading to a lack of comparability and standardization of different methods. The Capitals Coalition has thus tried to harmonize existing best practices and produce a standardized and generally accepted global approach with the Natural Capital Protocol, a decision-making framework that enables organizations – mostly businesses – to identify, measure and value their direct and indirect impacts and dependencies on natural capital.⁶ The Natural Capital Protocol methodology is divided into four phases, then subdivided into nine sub-steps that address more specific issues.

This co-built framework enables actors to choose the right tool depending on their objectives and can be applied to all sectors of activity and companies of all sizes and is suitable for use at multiple levels in the organization (for example,

at the product, project, or whole organization level) and in all geographical regions where they operate.

FROM SINGLE TO INTEGRATED CAPITAL ASSESSMENTS: TOWARD A MORE HOLISTIC APPROACH

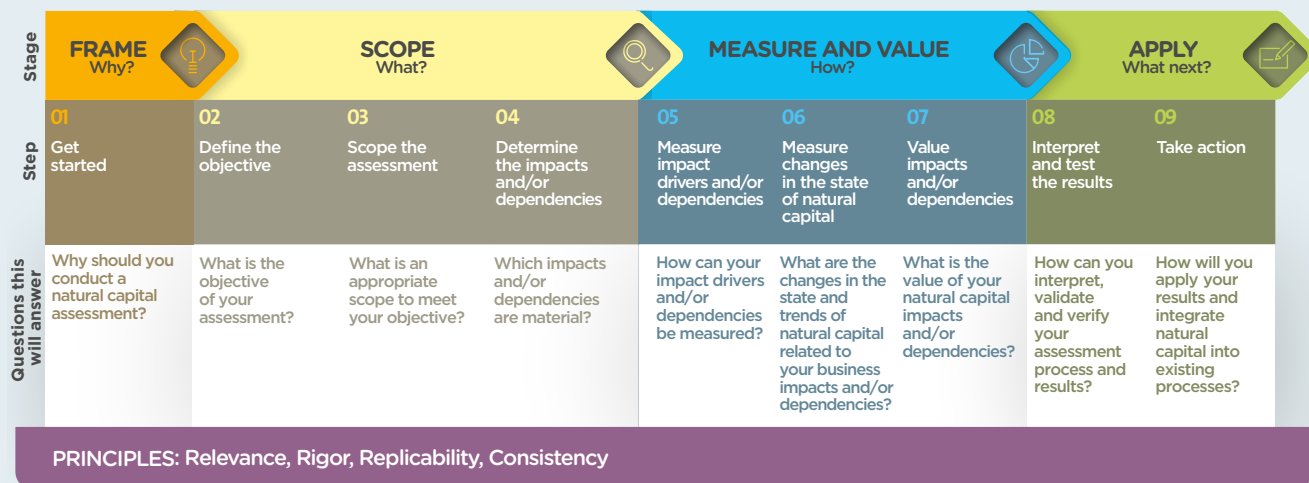
The growing popularity of the natural capital concept and availability of numerous tools for businesses, financial institutions and governments represent an encouraging signal for nature conservation. Nevertheless, many areas for progress remain: a skills and knowledge gap on the topic, the difficulty of convincing company boards or CEOs internally, gaps in the understanding of the concrete benefits for the organization in terms of business model, etc. Moving this voluntary approach to a mandatory approach by 2030 thus constitutes a key milestone.

In order to address the three interconnected global crises of climate change, nature loss, and rising global inequity, the next major challenge for businesses, financial institutions and governments is to move from single capital assessments to integrated capitals assessments (the Capitals Coalition recognizes four main categories of capital: natural capital, social capital, human capital, and produced capital) to improve their decision-making by overcoming their silo mentality with a more holistic understanding of the system in which they operate. By considering all capitals at once, all environmental, social, and economic externalities become visible in an inter-connected planet: for instance, marine pollution by a business can affect the quality of natural capital, which can then affect the human and social capital of

⁶ Natural Capital Coalition, *Natural Capital Protocol Principles and Framework*.



The Natural Capital Protocol methodology⁷



7 Natural Capital Coalition, *Natural Capital Protocol Principles and Framework*.

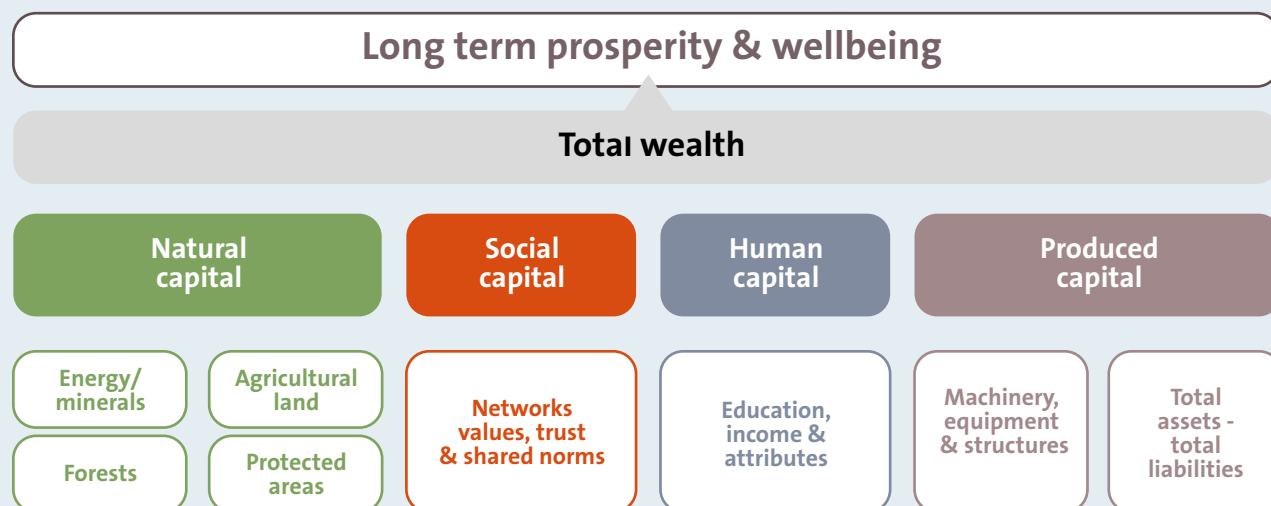
Figure 1

communities that rely on the fish for their food supply or fishing business. To tackle the challenge of understanding the interconnections, trade-offs and synergies between all forms of capital, the Capitals Coalition has drawn up the Principles of Integrated Capitals Assessments⁸ to provide

guidance on how to apply a consistent capitals approach through integrated thinking. This holistic approach to the concept of capitals could be a game-changer to ensure a green and fair transition in the upcoming years.

8 Capitals Coalition, *Principles of Integrated Capitals Assessments*, January 2021.

Beyond GDP: a framework of comprehensive wealth accounting⁹



9 Capitals Coalition, "Beyond GDP – United Nations Adopts New SEEA Ecosystem Accounting Standard", June 2021.

Figure 2

