

thenaturalvalueinitiative

*linking shareholder and natural value*

*"Creating a toolkit to evaluate biodiversity and ecosystem services investment risks and opportunities"*

## An overview

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With thanks to the Dutch Ministry of Housing, Spatial Planning and the Environment

# The Initiative in brief



- A collaboration between international environmental NGO Fauna & flora International, Brazilian business school FGV, UNEP FI and UN PRI
- To create a toolkit for evaluating biodiversity and ecosystem services investment risk and opportunity
- Build a leadership group within the finance sector which pilots and support this toolkit
- Through this to:
  - Build expertise in the finance sector for evaluating risk and opportunities associated with this issue
  - Build awareness of the food, beverage and tobacco sector's dependence on biodiversity and ecosystem services
  - Stimulate improved performance in the food, beverage and tobacco sectors and reward good behaviour

# Why biodiversity?



© Jeremy Holden FFI

“Nearly 70% of the world’s fish stocks are now fully fished, over-fished, or depleted”

Food and Agriculture Organisation

- Biodiversity is the variability within and between species and habitats, Collectively these form ecosystems.
- Healthy functioning ecosystems give rise to a range of ecosystem services on which society – and business – depend
- 60% of ecosystem services – including fresh water provision, climate regulation and soil fertility - are being degraded or used up faster than they can be replenished
- Companies with an agricultural supply chain have a high degree of dependency on biodiversity/natural resources & systems and are exposed to business risk if natural systems fail or resources are lost
- In the medium to long term this can impact on shareholder value

# Links to the finance sector



Bloom or Bust? UNEP FI's CEO briefing on biodiversity and ecosystem services

The financial sector's role in facilitating others to damage biodiversity and ecosystem services is increasingly widely recognized. Equally, declining biodiversity and ecosystem services giving rise to a number of emerging opportunities and risks:

- [Opportunities for new product and market development](#)
- [Potential fluctuations in investment return](#)
- [Increasing costs from liabilities and compliance](#)
- [Impacts on reputation and brand value \(negative or positive\)](#)

Early movers are responding (signatories to the Equator Principles, some asset managers)

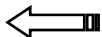
# Opportunities



“5-20% of freshwater use exceeds long-term sustainable supply”  
Stockholm International Water Institute

Financial products are emerging linking biodiversity and ecosystem services to the market, offering new financial instruments to price previously unvalued natural capital such as:

- **Wetland credits:** The total market value of wetland credits was estimated at nearly \$290 million as of April 30, 2005
- **Forestry carbon credits:** The World Bank estimates that deforested land in the tropics is worth US\$200-500 per hectare as pasture and could be worth from US\$1,500-10,000 if left intact and absorbing carbon dioxide
- **Species banking:** Individual endangered species such as the Red Cockaded Woodpecker in California can command individual credits ranging from US\$150,000 – 250,000

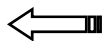


# Security of supply



Credit: Sarah Greenleaf

“Overall, 35% of the global food production from plants benefits from animal pollination. The value of all this ranges from \$112 billion to \$200 billion annually.”  
Millennium Ecosystem Assessment



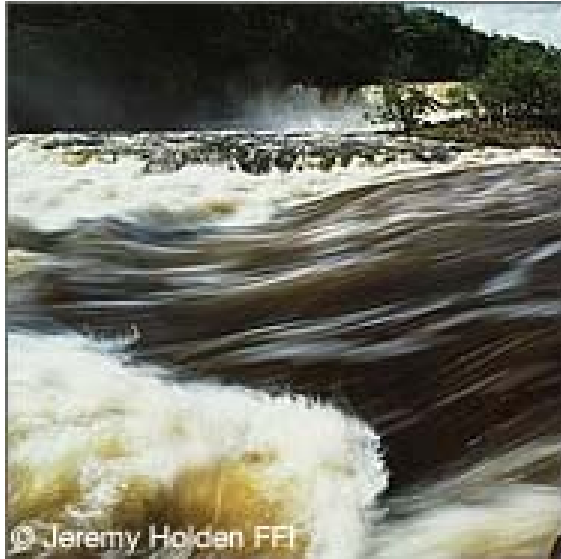
## Pollination and agriculture in the USA

In 2006 the US Congress estimated the monetary value of honey bees as commercial pollinators in the US was \$15 billion annually.

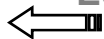
Declining numbers of natural pollinators and the spread of new diseases such as colony collapse disorder are causing grave concern in the USA. Without adequate pollination rates the risk is of reduced yield and potential crop failure.

Without a strong bee-keeping industry companies dependent on insect pollinated crops risk increased costs, decreased income and higher commodity prices overall. This may impact on share holder returns in the long term.

# Regulatory compliance



*“Cultivated land covers one quarter of the world’s land - this has resulted in loss or degradation of natural habitats such as forests and wetlands”” Millennium Ecosystem Assessment*



## Payments for watershed management in France

Perrier Vittel, now Nestle Waters, has been involved in innovative payments for Ecosystem Services to farmers upstream of its water extraction plants to help them change farming practices and introduce new technology to protect the watershed. The aim being to prevent increased levels of nitrates in the water to comply with EU regulations

## Payment for environmental services in Indonesia

Authorities in West Lombok recently announced the imposition of a local bylaw which requires fees for individuals and companies benefiting from the environment, in an effort to conserve its natural resources and empower communities living near protected forests.

# Reputational risk



## The orangutan and palm oil

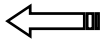
Palm oil is a key ingredient for the food and beverage sector and increasingly used as a biofuel. The industry has come under fire from NGOs for clearance of high conservation value forest to make way for palm oil plantation.

Increasingly food retailers, other brand owners and fuel companies are seeking palm oil from sources certified against criteria set out by the Roundtable on Sustainable Palm Oil (RSPO).

Companies sourcing or producing palm oil that cannot demonstrate compliance with RSPO criteria may face limited market opportunities in the future.

Investors investing in such companies are exposed to reputational risks and potentially reduced investment returns.

“An estimated 98% of Indonesia’s rainforest is expected to be lost by 2022 as a result of illegal logging and palm oil development”  
UNEP FI CEO briefing Bloom or Bust



# Why this Initiative?



**“A further 10-20% of grassland and forest are projected to be converted to agriculture between 2000 and 2050.”**  
**Millennium Ecosystem Assessment**

- No tools exist to allow finance sector to evaluate company performance
- Co-dependence on biodiversity = unaccounted for risks
- Companies have few opportunities to showcase their investment in longer term resource management
- The Natural Value Initiative (NVI) bridges this gap by working with the finance sector to develop a toolkit to evaluate biodiversity and ecosystem services investment risk and opportunity

# What is the NVI?



*“Cultivated land covers one quarter of the world’s land - this has resulted in loss or degradation of natural habitats such as forests and wetlands”*

*Millennium Ecosystem Assessment*

Collaborative project between UNEP FI, PRI, FFI, FGV which aims to:

- To develop a toolkit for evaluating financial risk arising from companies’ dependence and impacts on biodiversity and ecosystem services
- Focus on food, beverages and tobacco sectors, using the toolkit to evaluate and engage with a range of companies with operations in Brazil and Europe
- Test through piloting with financial institutions (F&C Asset Management, Insight Investment, Pax World and VicSuper) with holdings in the evaluated companies
- Input from wide range of stakeholders: Bunge, Sainsbury, IUCN, WWF, GRI, KPMG, the Convention on Biological Diversity, Agribusiness Responsavel Brasil (ARES), Aliança da Terra, Banco do Brasil, Business for Social Responsibility, Strathclyde University

# NVI Project Process



“Investors are not asking the right questions about biodiversity. If they were, we wouldn’t be able to answer them.”

A retailer

## 2007

- Consultation with companies & stakeholders in UK and Brazil to scope need and unique offer
- Agreement on what ‘tool’ should look like:
  - focus on sustainable land management/agriculture
  - modular approach for different levels of value chain
  - limited set of ‘proxy’ indicators
  - limited role for questionnaires
- Identify current good practice / leadership and confirm scope of work
- Draft toolkit and gain feedback from a range of institutions
- Secure pilot institutions to test the tool (F&C, Insight Investment, Pax World, VicSuper)

# The process for 2008

April 2008

1. Agree draft methodology with pilot institutions



Draft methodology document circulated for comment

May 2008

2. Initiate engagement with companies in the FBT sector (defined by our pilot investment holdings)



Letter endorsed by investors to FBT companies encouraging response

June 2008

3. Seek stakeholder input into methodology and finalise



Draft methodology finalised and in the public domain

June - Aug 2008

4. Desk based research into each company against toolkit research framework

July-Oct 2008

5. Direct engagement with companies being evaluated

Nov 2008

6. Review and consolidation of results

Dec 2008 – Mar 2009

7. Reporting and refinement of tool



1) Short results report to FBT companies (tailored), 2) Public report and 3) Methodology finalised

An ongoing process of engagement to track performance improvement...

# Methodology overview



## Scope

- Focus on biodiversity and ecosystem services issues associated with the management and harvesting of raw materials
- Does not consider all sustainability issues (social/ community), industrial footprint or impact of supermarket sites on biodiversity

## Structure

- Three levels of supply chain
  - Primary producers and commodity processors
  - Manufacturers and retailers
  - Farm level performance
- Series of targeted questions based on established risk management practice
  - Governance
  - Policy and strategy
  - Management and implementation
  - Reporting
  - Competitive advantage

# Methodology overview

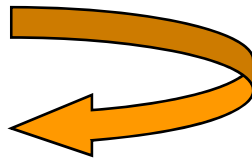


## Examples drawn from the draft methodology

**These are indicative only and do not represent  
a conclusive analysis of any companies  
mentioned**

# Example: Governance

Activity	Output
Risk Assessment	Key areas of dependency and impact on ecosystem services identified: risk profile linked to nature and type of products sold



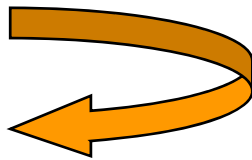
## Example: BAT

- Business case for action focused on: security of supply of raw materials, reputational damage, access to land and access to finance
- Risk evaluation on a country level to focus effort
- Risk and opportunity toolkit to evaluate risk on a site level

- **Level 1:** Lack of formal risk assessment process to identify priority products/ crops/ species for action
- **Level 2:** Identification of priority crops and species tracked through a limited number of product lines or on an ad hoc basis as a result of external pressures e.g. NGO campaigns
- **Level 3:** Evaluation of product lines conducted and those of greatest value or risk to the organisation identified against relevant risk factors
- **Level 4:** Full risk assessment of all commodities/ products against all relevant risk factors. Results integrated into a fuller risk assessment and associated action plan.

# Example: Policy & Strategy

Activity	Output
Policy and strategy framework	<p><b>Statement of objectives relating to sustainable production and harvesting:</b> provides a consistent framework for driving improvement and managing risk and opportunity</p>



## Example: BAT

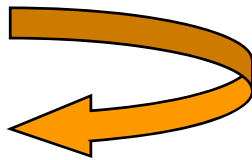
### **Biodiversity policy statement:**

makes commitment to undertaking risk assessment to understand impacts on ecosystem services and taking steps to avoid, minimise and offset them

- **Level 1:** No specific policy statement
- **Level 2:** Issues covered in general terms as part of overall environment / sustainable development strategy or broad-brush policy provides framework for action; lacks specific standards or commitment to set targets
- **Level 3:** Commodity / species specific policies set out including commitments to understand and minimise impacts on ecosystem services/ efficient use of resource / farm mgmt standards, external assessment process, goals and targets, ongoing review
- **Level 4:** In addition to the former, an action plan is devised to implement the policy/ strategy

# Example: Management & Implementation

Activity	Output
Supplier Engagement & Capacity Building	Driving improvements through <b>supply chain</b> : tools and mechanisms in place to drive improvement through the supply chain



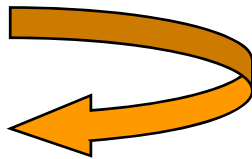
## Example: BAT

- Uses a road map for performance which includes biodiversity and ecosystem services
- Suppliers self score, but audits are conducted on poor performers

- **Level 1:** Suppliers expected to take corrective action where necessary: no systematic follow-up
- **Level 2:** Compliance with policy built into contractual obligations. Suppliers required to self-assess and to produce improvement plans; in-house systems & resource limited
- **Level 3:** Suppliers required to demonstrate progress against improvement plan: in-house systems & resource in place to assess & respond
- **Level 4:** Active monitoring of supplier progress against improvement plans..

# Example: Reporting

Activity	Output
Performance	<b>Improvement in practice:</b> information available to track improvement in the supply chain



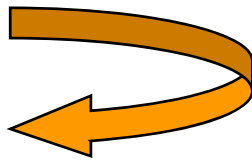
## Example: M&S

- Tracking pesticide residue and GM in supply chain
- Certified products: Fairtrade, FSC, MSC
- Limited farm level data, but commitments in place

- **Level 1:** Information is not available to track performance improvement down the supply chain
- **Level 2:** Internal systems in place to track performance. Overall trends suggest no or limited improvement or data not yet available
- **Level 3:** Internal systems in place to track performance. Trends suggest improvement in some areas
- **Level 4:** Internal systems in place to track performance. Trends indicate progress in priority areas.

# Example: Competitive advantage

Activity	Output
Creating Long Term Added Value	Action to overcome barriers to sustainable production: focus on issues that require collaboration or address root causes of overexploitation



## Example: M&S

- Supporting WWF and MSC in their work to develop certified fisheries
- Engagement with the Roundtable on Sustainable Palm Oil
- Partnership with Shell Foundation to remove barriers to sustainability and provide access to markets in small traders

- **Level 1:** No activities in place
- **Level 2:** Activities in place but engagement is ad hoc and issues driven rather than linked to strategy
- **Level 3:** Clear understanding of issues surrounding long term dependence on ecosystem services and action plan in place to address
- **Level 4:** Series of activities in place to address priority issues which create barriers to sustainable sourcing e.g. long term NGO partnerships, collaboration with industry associations/ governments, participation in multi stakeholder process

# Key outputs

- **Company specific analysis of strengths and weaknesses:** A concise summary of results provided to investors and FBT companies showing strengths and weaknesses of their approach to biodiversity and ecosystem services risk and dependencies and identifying three key areas for improvement
- **Consolidated report:** outlining key findings from the analysis and ranking those companies benchmarked to show leading and lagging practice
- **Business case document:** document outlining the business case for managing biodiversity and ecosystem services dependencies and impacts
- **Biodiversity and ecosystem services dependency and impact assessment toolkit:** and promoted to investors for uptake and repeat analysis