

Valuing Natural Capital in a Perfect World

A response to the UNEP FI
Natural Capital Declaration

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The Natural Capital Declaration is a commitment proposed by the United Nations Finance Initiative and its partners in late 2011.

The Declaration has been circulated to financial institutions to gain their signature and support with the aim of taking the Declaration to the Rio+20 conference in summer 2012. It constitutes:

"A declaration by the financial sector demonstrating our commitment at the Rio+ 20 Earth Summit to work towards integrating Natural Capital criteria into our financial products and services for the 21st century."

Commentary

Given the importance of this issue, and its fundamental role in supporting and supplying the basis of all economic value, it is obvious that any financial institution with an interest in long term survival should sign.

The Declaration conflates the two existing concepts of Natural Capital (natural systems and structures providing the capability for biological productivity and normal ecosystem functions) and Ecosystem Services (a number of service categories including provisioning, regulating, supporting, cultural) under the combined heading of Natural Capital.

It seeks to gain financial sector engagement in the most significant challenge of our time; the valuation and therefore prioritisation and preservation of natural systems and the services they provide to us. Given the importance of this issue, and its fundamental role in supporting and supplying the basis of all economic value, it appears obvious that any financial institution with an interest in long term survival should sign.

Any potential signatory should consider, however, that an adequate response to the Declaration's commitments is almost entirely outside the current practice of any financial institution and arguably the economic system as a whole. In addition, such approaches don't necessarily provide a good basis for change unless members demonstrate leadership.

Unless a signatory can provide evidence that the protection and enhancement of natural capital is a strategic business priority, or a natural by-product of its total activities (not just Environment, Social & Governance - ESG), then there is a potential reputational risk from accusations of hypocrisy.

Taking the commitment seriously will require fundamental changes in the intent and nature of investment activities in order to:

- ✦ **Understand risk** - recognise threats to Natural Capital as existential, systemic level risks, and;
- ✦ **Recognise value** - develop the means to undertake investment activities on the premise that natural systems provide the basis of all life and hence underpin all 'real' economic value.

"Self-preservation, nature's first great law, all the creatures, except man, doth awe."

Andrew Marvell

In a perfect world... an adequate response to the challenge

The cynical might suggest that many organisations will sign up and consider that their existing ESG activity adequately supports or responds to the issue or perhaps that marginally wider ESG activity is required. However, the opportunity exists to provide a deeper, broader response that better reflects the scale of the challenge. Signatories who recognise the value and primacy of Natural Capital and wish to develop an appropriate response should consider some key issues outlined below.

What does Natural Capital need?

To survive and thrive, Natural Capital needs to be *diverse, resilient* and *healthy*. Looking to the future, the current paradigm of minimising harm must be replaced by one where economic activities cultivate and enhance these *system conditions* as a matter of course.

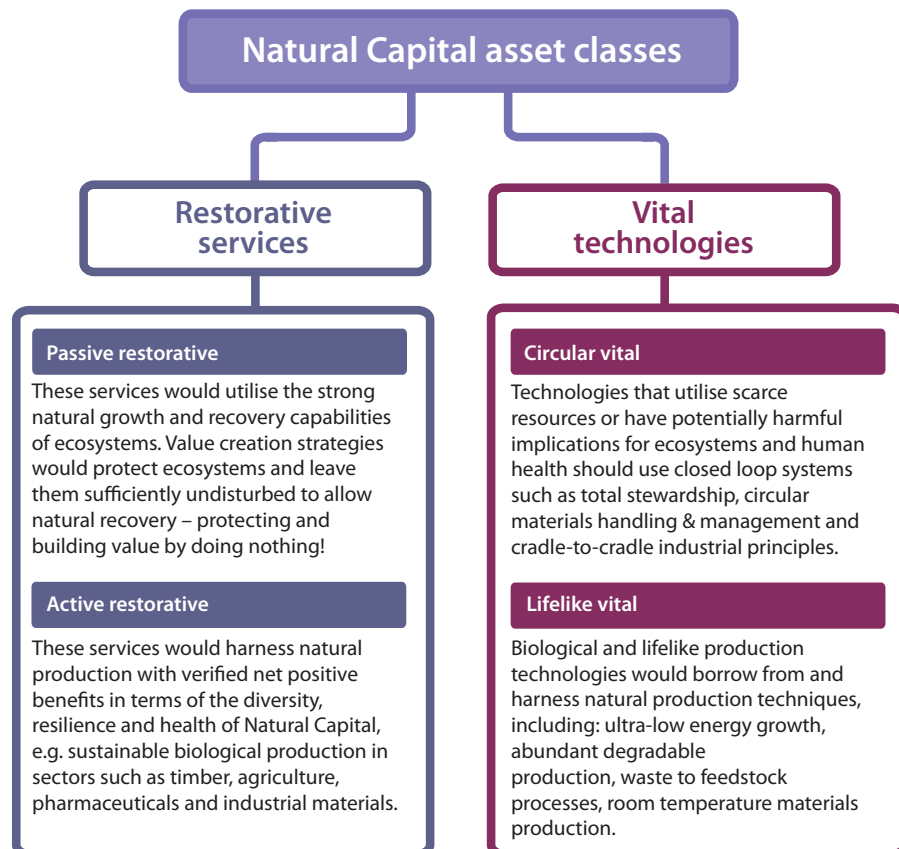
New Natural Capital Asset Classes

To achieve the right system conditions for Natural Capital, we need to consider 'new' asset classes for *restorative services* and *vital technologies* and to develop the means by which to price and value such assets.

Restorative services - refer to human activities (and inactivity) which support and foster the protection and development of diverse, resilient and healthy ecosystems.

Vital technologies - are those which either operate within the limits (carrying capacities) of healthy natural systems or which utilise and mimic the performance characteristics of natural production.

"We are called to be architects of the future, not its victims."
R. Buckminster Fuller



Summary

“Let us not look back in anger, nor forward in fear, but around in awareness.”

James Thurber

The Natural Capital Declaration contributes to a wider range of activities exploring the relationships between natural and economic value. It will only be successful if it is able to engender change of sufficient magnitude to match the scale of the challenge. Incremental responses are no longer adequate for achieving the task at hand – fundamental shifts are required in both what we value and how we value it.

Financial institutions serious about the longevity of their businesses should sign the Declaration.

However, it is vital for a signatory to provide a relevant and meaningful response. Many will be comfortable to sign the document but it may then be difficult to detect any change in their behaviour. However, the Declaration presents an opportunity for organisations wanting to develop a leadership position to identify and define new models for valuing and enhancing natural capacity and systems.

Towards 9 Billion

This paper contributes to a range of thinking from Terrafiniti’s sustainability R&D initiative - Towards 9 Billion. We believe that the time has come to build a world where we can welcome 9 billion people rather than fear their arrival.

A potential marketplace of 9 billion capable citizens in 2050 demands a range of social, technical, industrial and ecological prerequisites. Such citizens would be highly connected, well educated and economically capable. Markets would prioritise stability, personal and societal wellbeing and focus on the sustainable use of scarce materials, preservation of vital ecosystem services & functions and the utilisation of abundant & renewable resources.



Partners

Terrafiniti is seeking partners who share our passion for positive change towards a sustainable world. Partners may be companies, investors, philanthropists and visionaries who want to make a meaningful, compelling contribution towards making humanity fit for the planet and fit for the future.

To share in and benefit from our thinking contact Joss Tantram (Partner, Corporate Sustainability) +44 (0) 1483 531 766, info@terrafiniti.com