

# The Natural Capital Declaration

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

## The Roadmap to a Green Economy

Twenty years ago the first Earth Summit in Rio de Janeiro focused on the importance of the natural environment and the services it provides (collectively, Earth's "Natural Capital") in sustaining human existence. As we approach the twentieth anniversary of this great event, the international community looks to the forthcoming United Nations Conference on Sustainable Development in 2012 (also called "Rio +20") to make headway on key issues including – the green economy and an institutional framework for sustainable development.

Today, we the undersigned financial institutions wish to acknowledge and re-affirm the importance of Natural Capital in maintaining a sustainable global economy. This declaration calls upon the private and public sectors to work together to create the conditions necessary to maintain and enhance Natural Capital as a critical economic, ecological and social asset. We present this declaration to the world community at Rio +20, as a private sector finance response to the conference theme of working towards a green economy'. This declaration has been developed based on an extensive consultation process with the financial community over the course of 2010 and 2011, including meetings in London, Nagoya, Hong Kong, Munich, Washington D.C. and São Paulo.

## The Importance of Natural Capital

Natural Capital<sup>1</sup> comprises Earth's natural assets (soil, air, water, flora and fauna), and the ecosystem services resulting from them, which make human life possible. Ecosystem goods and services from Natural Capital are worth trillions of US dollars per year and constitute food, fiber, water, health, energy, climate security and other essential services for everyone. Neither these services, nor the stock of Natural Capital that provides them, are adequately valued compared to social and financial capital. Despite being fundamental to our wellbeing, their daily use remains almost undetected within our economic system. Using Natural Capital this way is not sustainable. The private sector, governments, all of us, must increasingly understand and account for our use of Natural Capital and recognize the true cost of economic growth and sustaining human wellbeing today and into the future.

## Leadership from the Financial Sector

Financial institutions are an integral part of the economy and society. As the engine of global economic growth, the financial sector can provide some of the tools required to support a transition to sustainable development and eradicating poverty by providing loans, equity, insurance and other financial products and services needed by companies, governments, organizations and individuals. Since virtually every

1. *Natural Capital*: The term 'capital' has been borrowed from the financial sector to describe the value of the resources and ability of ecosystems to provide flows of goods and services such as water, medicines and food. Flows of goods and services that benefit people are called 'ecosystem services'. Much as an investor will use financial capital to generate profits, a stock of forest or fish will provide a future flow of timber or food, which if used sustainably will provide long-term benefits to people. For the purpose of this Declaration, Natural Capital is referred to as the stock of ecosystems that yields a renewable flow of goods and services.

economic activity can have an impact on natural capital either directly or indirectly, through a supply chain, financial institutions have considerable indirect ecological footprints through their customers and directly through their purchasing decisions. These impacts can lead to material financial risks, but also to relevant business opportunities. At present many financial institutions do not sufficiently understand, account for and therefore value, the risks and opportunities related to Natural Capital in their financial products and services (loans, investments and insurance products) and in their supply chains. Building this knowledge, as well as appropriate valuation and risk management tools to take Natural Capital into account within financial decision-making, are important early steps to be undertaken by the financial sector.

As members of the financial sector, we consider ourselves key stakeholders in future discussions about valuing and protecting Natural Capital and we recognize that we have a key role to play in the reforms needed to create a financial system that reports on and ultimately accounts for the use, maintenance, and restoration of Natural Capital in the global economy. However, we must do this in consultation with government and supported by appropriate legislation and regulation.

### **Why Government Action is Essential Now**

Because Natural Capital is a part of the 'global commons' and is treated largely as a free 'good', governments must act to create a framework regulating and incentivizing the private sector – including the financial sector – to operate responsibly regarding its sustainable use. We therefore call upon governments to develop clear, credible, and long-term policy frameworks that support and incentivize organizations – including financial institutions – to value and report on their use of Natural Capital and thereby working towards internalizing environmental costs. This can be done by:

- a. Requiring companies to disclose the nature of their dependence and impact on Natural Capital through transparent qualitative and quantitative reporting,
- b. Using enforceable fiscal measures to discourage business from eroding Natural Capital, while at the same time offering incentives to companies that integrate, value and account for Natural Capital in their business model;
- c. Endorsing and implementing international agreements, including but not limited to, those agreed through the Convention on Biological Diversity;
- d. Setting an example through requiring public spending and procurement to report and eventually account for its use of Natural Capital;

We welcome the World Bank's Wealth Accounting and Valuation of Ecosystem Services (WAVES) initiative and encourage governments to participate.

### **Our Commitment at the Rio +20 Earth Summit**

Anticipating that such a framework will emerge, and noting that no methodology yet exists to adequately report or account for Natural Capital in the global financial system, we the endorsing financial institutions wish to demonstrate leadership by undertaking to collaborate globally through working groups and engagement with our customers, investee companies, suppliers, civil society, and other stakeholders as appropriate to:

1. Build an understanding of the impacts and dependencies of Natural Capital relevant to our operations, risk profiles, customer portfolios, supply chains and business opportunities;
2. Support the development of methodologies that can integrate Natural Capital considerations into the decision making process of all financial products and services – including in loans, investments and insurance policies. We recognize that given the diversity of the financial sector, embedding Natural Capital considerations will differ across asset classes and types of financial institutions. We therefore aim to build on work undertaken through other initiatives, such as the UN-backed Principles for Responsible Investment, the Equator Principles, the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Sustainable Insurance, and The Economics of Ecosystems and Biodiversity (TEEB), so that we can develop methodologies to:
  - a. Apply a holistic approach to evaluating bonds and equities through the integration of Natural Capital considerations in environmental, social and governance (ESG) risk analysis in short, medium and long-term growth forecasts of investee companies;
  - b. Systematically consider and value Natural Capital in the credit policies of specific sectors, including commodities, that may have a major impact on Natural Capital either directly or through the supply chain;
  - c. Systematically consider and value Natural Capital in core insurance business strategies and operations including risk management, risk underwriting, product and service development, claims management, sales and marketing, and investment management;
3. Collaborate, when appropriate, with the International Integrated Reporting Committee and other stakeholders to build a global consensus around the development of Integrated Reporting, which includes Natural Capital as part of the wider definition of resources and relationships key to an organization's success.
4. Work towards building a global consensus for the integration of Natural Capital into private sector accounting and decision-making; supporting, when appropriate, the related work of the TEEB for Business Coalition, and other stakeholders.

By endorsement of this declaration, we wish to demonstrate our commitment to the eventual integration of Natural Capital considerations into private sector reporting, accounting and decision-making, with appropriate and adequate standardization of measurement and disclosure of Natural Capital use by the private sector.