Natural Capital Finance Alliance
Finance sector leadership on natural capital

Secretariat:

UNEP FINANCE INITIATIVE

GCP GLOBAL CANOPY PROGRAMME

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

NCFA Project:
Advancing Environmental Risk Management

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Background

The increasing pressure being placed on the environment by growing populations and rising consumption levels threatens its ability to provide goods and services which ultimately underpin all economic activities. Businesses depend on the environment to provide direct inputs such as water and materials, but they also depend on it more indirectly for various inputs that facilitate or enable their production processes. Examples of these indirect dependencies include use of energy generated from water or biomass, environmental hazards protection (e.g from floods or landslides), and the role of nature in maintaining the well-being of workers and customers. The lost revenues or added costs to businesses that could follow may represent a risk to the financial institutions that provide finance or risk cover to them.

While this risk is increasingly recognized, it is often difficult to describe and quantify precisely. The ways in which the environment responds to pressures are often complex and, in some cases, poorly understood. Additionally, existing information is fragmented and only rarely considers consequences for businesses that may be impacted.

It is with these considerations in mind that The Natural Capital Finance Alliance (NCFA) is undertaking the Advancing Environmental Risk Management project, which aims to help financial institutions to understand and integrate the risks they face because of environmental degradation in their risk assessment methods and decision-making tools.

Project objectives

The first activities of the project will focus on reviewing the current body of knowledge and information on natural capital risk in order to compile the relevant information and make it available in a simple and structured way to users in the financial sector.

The analysis of the information collected in this first phase will support the provision of tools and insights for financial institutions that will help them understand, quantify and integrate natural capital risk in their operations.

Finally, the pilot studies that will be carried out in at least three countries will enable to refine and prove the usefulness of the information by applying it to risk analysis to different issues, timescales and geographies.

Project structure and outputs

To meet the objectives set out above, the project will run for two years from January 2017 to December 2018.

The first phase will take place in 2017 and will focus on producing a systematic description of the natural capital risks that businesses are exposed to and collecting data needed to qualify and quantify this risk exposure on a location-specific basis. This stock-taking exercise will also highlight the current gaps in knowledge that require further research before more precise risk analysis can be undertaken.

Outputs: Database of environmental impacts and dependencies per sector, risk assessment of disruption for key dependencies, list of relevant data sources.

The second phase of work taking place between late 2017 and mid-2018 will focus on analyzing the data collected and producing a variety of insights and visualizations of the information. This may include a network analysis to highlight supply chain risks, as well as natural capital heat maps with sector and region information. This activity phase will determine the best way(s) to present the information to various audiences, including policy makers and regulators. It will also produce a number of reports or graphic visualizations of the information, at a minimum for Colombia, Indonesia, Peru and South Africa. The exact number and types of visualizations will be determined during the project phase, in consultation with the lead global financial institutions and the Secretariat.

Outputs: Heat maps, network analysis, country-specific visualizations.

In parallel to this second phase of activities, the project will conduct three pilot studies between late 2017 and late 2018 to apply the data and analysis on environmental risk to financial risk/performance applications. It is anticipated that one pilot will be undertaken with partnering financial institutions in each of Colombia, Peru and South Africa.

Output: One completed pilot in each of Colombia, Peru and South Africa.

Outcomes

The project aims to promote the understanding, measurement and integration of environmental risks by financial institutions by providing a comprehensive knowledge base, along with tools and insights based on this knowledge as well as conducting case studies to demonstrate how to apply this knowledge in practical settings. The recognition of the existence and materiality of these risks will serve as a first step towards their reduction and an enhanced acknowledgement of the benefits we all receive from nature.
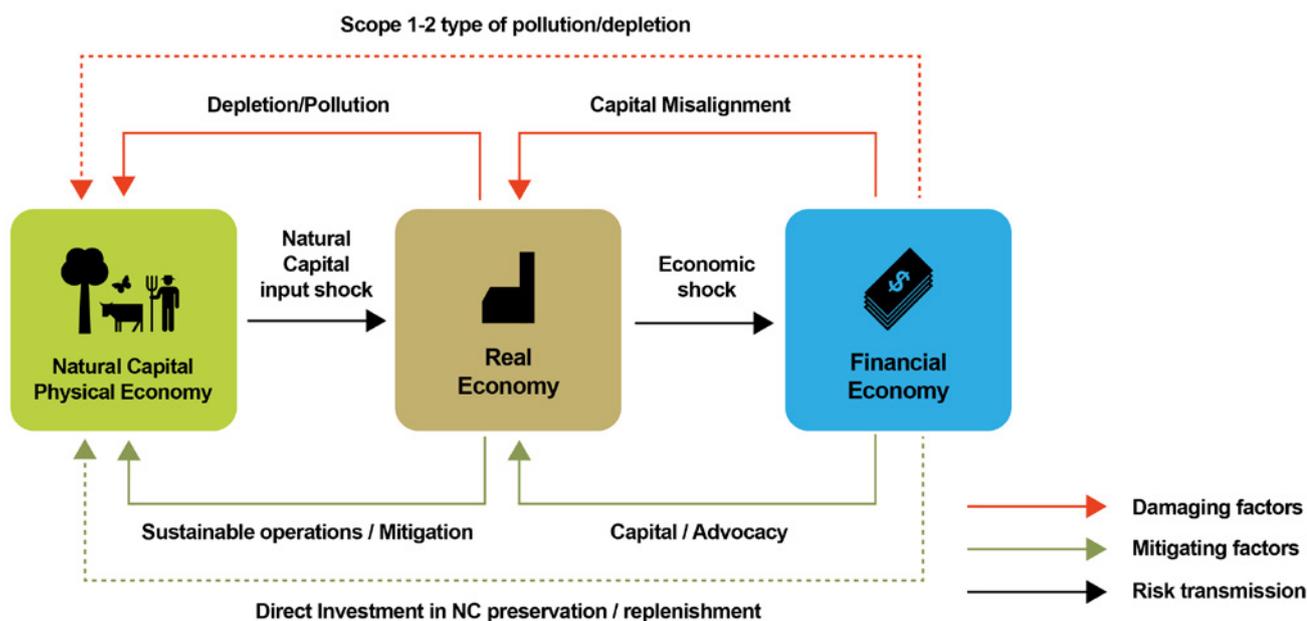
Contacts

Advancing Environmental Risk Management is a project of the Natural Capital Finance Alliance (NCFA).

The NCFA was launched at the UN Conference on Sustainable Development (Rio+ 20 Earth Summit) in 2012 by UNEP FI and the UK-based non-governmental organisation, Global Canopy Programme (GCP). It is a worldwide finance led initiative to integrate natural capital considerations into financial products and services, and to work towards their inclusion in financial accounting, disclosure and reporting. Signatory financial institutions are working towards implementing the commitments in the Declaration through NCFA projects. These are overseen by a steering committee of signatories and supporters and supported by a secretariat formed of the UNEP FI and GCP.

For more information, please contact:
Anders Nordheim at anders.nordheim@unep.org or Danielle Carreira at d.carreira@globalcanopy.org