

BANKTRACK

ON THE NATURAL CAPITAL DECLARATION

BankTrack, the global coalition of civil society organisations tracking the business activities and investments of private sector banks, has taken note of the official launch of the Natural Capital Declaration (Declaration), on Saturday, June 16 2012 at the Rio+20 Summit In Rio de Janeiro, Brazil.

BankTrack welcomes any initiative by the financial sector that univocally acknowledges the inherent value of nature, as well as the limits posed to their business activities by the environmental carrying capacity of the earth. We equally welcome any sufficiently ambitious, credible initiative of the sector to factor this fundamental recognition into their business and investment decisions.

BankTrack considers the Natural Capital Declaration *not* such an initiative, but a false and disturbing response of the financial sector to the profound ecological crises of today. It is based upon a fatally flawed understanding of the root causes of these crises (imperfect *valuation* of 'Natural Capital and Ecosystem Services') and proposes an equally flawed solution to them (proper *pricing*).

The Declaration claims the fundamental right of business, and the adopting institutions in particular, to enter every realm of nature and the environment and to identify, price and subsequently market whatever 'stock' and 'service' can be identified there, under the pretext that this *commodification* process will help end the ongoing plunder and exploitation of nature. As such, the Declaration is another attempt to promote the liberal, market based 'green economy' model sought by business as outcome of the Rio conference.

BankTrack believes that the manifold ecological crises need a wholly different response: instead of *expanding* the scope of markets to every domain of nature, creating a *true* green economy would start from the opposite; *reversing* the tide of commodification and financialisation, *reducing* the role of markets and the financial sector, acknowledging the limits of business versus other spheres of life, and recognising the collective responsibility of all people for, and strengthening the democratic control over the worlds' ecological commons. Rather than a Natural Capital Declaration we need more Nature without Capital.

Instead of launching a vaguely worded voluntary initiative with no immediate discernible impact on everyday investment decisions, we call upon the financial sector to withdraw itself from where it has no rightful place, to adopt strict no-go standards for all business activities that wreak havoc upon nature, climate, the environment and people, and to throw its full weight behind those sectors and initiatives that help preserve, protect and restore the life giving capacity of the earth.

Rio de Janeiro, Brazil
June 16th 2012

THE NATURAL CAPITAL DECLARATION

The Natural Capital Declaration¹ is a joint initiative of the United Nations Environment Programme Finance Initiative (UNEP FI), the Global Canopy Programme (GCP), and the Getulio Vargas Foundation. Amongst its initial endorsers it counts internationally operating banks as Nedbank, National Australia Bank, Standard Chartered, Rabobank, Unicredit as well as the International Finance Corporation and over two dozen other financial institutions.²

The Declaration is presented as a “far reaching commitment by financial institutions (lenders, investors, insurers and reinsurers) to work towards integrating natural capital considerations into their financial products and services”. ‘Natural Capital’ is understood here as comprising the “Earth’s natural assets (soil, air, water, flora and fauna), and the ecosystem services resulting from them”.

The Declaration states that “Ecosystem goods and services from Natural Capital are worth trillions of US dollars per year” but that “despite being fundamental to our wellbeing, their daily use remains almost undetected within our economic system”. According to the Declaration, this is because of the lack of proper pricing of the use of these services and stock, leading to an ‘unsustainable use’ of this ‘capital’

The aim of the Declaration then is to ensure that “endorsing institutions adequately value these services, as well as the stock of Natural Capital that provides them, when developing the financial products and services of the 21st century”. Doing so would help them understand ‘the risks and opportunities related to Natural Capital in their financial products and services (loans, investments and insurance products) and in their supply chains.’

The Declaration is both a call upon governments and a commitment of endorsing institutions:

Governments are called upon to create a framework regulating and incentivizing the private sector – including the financial sector– to operate responsibly regarding the sustainable use of ‘Natural Capital as part of the global commons’ This would require a correction on the thus far largely absent internalisation of external environmental costs.

Adopting institutions in turn ‘commit’ to build a wider understanding of the impacts and dependencies of Natural Capital for their business, support the development of methodologies that help integrate the concept in decision making for specific business lines, develop methodologies for proper impact reporting and aim to spread this approach within the financial sector.

The following pages provide more detailed comments on the text of the Declaration.

¹ <http://www.naturalcapitaldeclaration.org/the-declaration/>

² <http://www.naturalcapitaldeclaration.org/category/signatories/>

DETAILED COMMENTS ON THE NATURAL CAPITAL DECLARATION

Our comments to the full text of the Declaration are added in this font.

The Natural Capital Declaration³

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.

Neither the term "Natural Capital" nor "green economy" featured as a concept in the 27 Principles of the Rio End Declaration on Environment and Development.⁴ That Declaration, while certainly not perfect, was above all a recognition of the limits posed by nature to all human undertaking, the centrality of people and their right to development, the responsibility of states to ensure that right and the rights of future generations, all within the context of the limits posed by nature.

Incidentally, there is also no mentioning at all in the end declaration of the desired role of business in this undertaking.

Today, we the undersigned financial institutions wish to acknowledge and re-affirm the importance of Natural Capital in maintaining a sustainable global economy.

Nature is here reduced to being merely a source of resources at the service of the 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.

There is nothing to 'reaffirm' about the importance of Natural Capital in relation to the outcome of the initial Rio conference. Again, 'nature' is reduced to being a 'asset', reflecting a one dimensional utilitarian view..

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 Sao Paulo.

³ See <http://www.naturalcapitaldeclaration.org/the-declaration/>

⁴ http://en.wikipedia.org/wiki/Rio_Declaration_on_Environment_and_Development

The Importance of Natural Capital

Natural Capital 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.

This sentence, more than anything else in the Declaration reflects the essentially monetary mindset with which the initiative looks upon nature and the planet.

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.

The logical assumption here is that, if natural capital is not properly valued and for this reason leads to unsustainable use of it, a proper valuation will lead to a sustainable use of natural resources. So far, so good. However, 'valuation' is then understood as 'proper pricing of use of natural capital and services', based upon to be developed methodologies that will 'adequately' translate value into price.

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.

Presenting the financial sector anno 2012 as 'the engine of global economic growth' must be considered a form of sheer reckless self congratulation, posing serious questions about how much the adopting institutions consider themselves responsible for the devastating impact of the financial crisis on the lives of millions of impoverished people.

Since virtually every 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.

The crucial issue is not whether the environmental impact of business activities of customers can lead to material risk for the financial institution but how to ensure that investment decisions of financial institutions do not pose a material risk to the environment.

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.

The primary concern here seems to be a potential lack of understanding by the financial institution of the importance of proper valuing of the use of 'natural capital' and 'ecosystem services', which may then effect the assessment they undertake to determine the risk of a business undertaking to themselves. Again, that is not the central risk to address from the perspective of the need to protect nature.

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.

The financial sector has indeed a key role to play in its own rightful sphere of society and the economy, but this role should be constrained to being a provider of well defined financial services, rather than expanded into every realm of nature

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.

Such a framework presents no guarantee against the ongoing plunder of nature and the global commons, as it de facto would legitimise unrestrained access and use of the commons by business, albeit 'properly valued'. It is precisely the access and appropriation of the commons by business, the financialisation of nature, that is the root cause of the ongoing plunder.

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;

This list does not address the key question of who is supposed to be in control of the commons, and whose valuation of the services provided by the commons will prevail.

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 consider it part of every financial institutions' core competency to be able to adequately assess all factors impacting upon its business and facture them into their decisionmaking processes. As such we find it hardly a commitment of the adopting institutions to aim to strengthen this ability.

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;

see previous comment

- 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;

idem

- 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;

idem

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.

idem

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 standardization of measurement and disclosure of Natural Capital use by the private sector.

The commitment made here falls far far short of what is required to adequately deal with the challenge of the ongoing plunder of the commons by business.

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Benefits of signing the NCD

The website of the Natural Capital Declaration lists⁵ a number of benefits for adopting organisations that we wish to comment upon:

- **Show leadership at the Rio+20 Earth Summit.** The UN Conference on Sustainable Development – better known as Rio+20 – presents a unique opportunity for financial institutions to show commitment towards the green economy and the establishment of a framework for sustainable development.

This first argument raises deep suspicion on the good faith of all adopting institutions, emphasising the opportunity it presents to appear committed to sustainable development, rather than the positive impact signing onto the Declaration is supposed to have on the planet.

- **Guidance to implement commitments.** Following the Natural Capital Declaration's launch at Rio+20, a working group comprising of all institutions that endorsed the Declaration will be formed. Your institution can receive guidance, should it wish to, on how to implement the commitments stated in the Declaration. This includes access to UNEP FI and UN system expertise and resources on ESG issues, policymaking and science.

This argument seems to hint at the benefits for institutions of having access to the UN system. It also implies that a commitment to the Declaration can be made without having any prior institutional capacity or allocated resources for the implementation in place; a mere signature will do. This has also been one of the key mistakes of other voluntary initiatives as the Equator Principles and the initial UNEP FI statements.

- **Risk management.** It is becoming ever clearer that natural capital can have an impact on both specific financial products, as well as on long-term growth. Endorsement of the Declaration

⁵ See: <http://www.naturalcapitaldeclaration.org/benefits-of-signing-the-ncd/>

represents an opportunity to understand how natural capital, as part of a range of other material ESG issues, can affect your institution's bottom line.

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- **Reputation.** By endorsing the Declaration financial institutions can show to their employees, clients, and third parties what they stand for. The result is a reduction of reputational risk exposure, and even reputational gains.

Presenting this benefit strengthens the perception that 'reputation', more than anything else, will convince financial institutions to adopt the Declaration.

- **Complementary to other initiatives.** The Natural Capital Declaration complements existing initiatives such as the Principles for Responsible Investment and the Principles for Sustainable Insurance by contextualizing how ESG factors can be systematically embedded in business principles, strategies, and operations in the context of natural capital. The Natural Capital Declaration, therefore, does not require from endorsers to report or disclose additional information.

It is testimony to the lack of commitment to transparency that 'not having to disclose additional information' is used here as a reassuring positive argument to sign the Declaration

- **Differentiate from competitors.** First movers that endorse the Natural Capital Declaration have an opportunity to differentiate themselves from their competitors by taking responsibility and managing an emerging type of risk.

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FURTHER ENQUIRIES AND COMMENTS:

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