

The Natural Capital Declaration and Roadmap

*Financial sector leadership
on natural capital*

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Pipeline of pilot projects

No.	Title	Institutions	Asset Class	Partner
1	Framework to evaluate Bank and Investor Risk Policies for Soft Commodities to address deforestation risk	Rabobank, IFC, FMO, Banorte, Pax World, Calvert, MN Services, ASN Bank, Standard Chartered, Sumitomo Mitsui	Various	Sustainalytics, UN-REDD Programme
2	Advancing Natural Capital Accounting in externalities heavy sectors for financial institutions	National Australia Bank, TBC	TBC/Sector dependent	UNEP TEEB, KPMG



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Pipeline of pilot projects

No.	Title	Institutions	Asset Class	Partner
3	Accounting for natural value to assist credit risk assessment in the agri sector		Agri-lending	NAB
4	Tool to assess water-related natural capital risks of mining companies for investors	TBC	Equities	Bloomberg, NCC



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Pipeline of partnership pilot projects

No.	Title	Institutions	Asset Class	Partner
5	Tool to include water risk metrics in financial analysis of corporate bonds	Calvert, Pax World, Sarasin, TBC	Corporate bonds	VfU, GIZ
6	Understanding and integrating natural capital risks into credit risk assessments	IFC, Banorte, National Australia Bank, Unicredit, Caisse des Dépôts, Pax World, Calvert	Corporate finance; equities, corporate bonds, project finance	TBC (IFC Feasibility Study)



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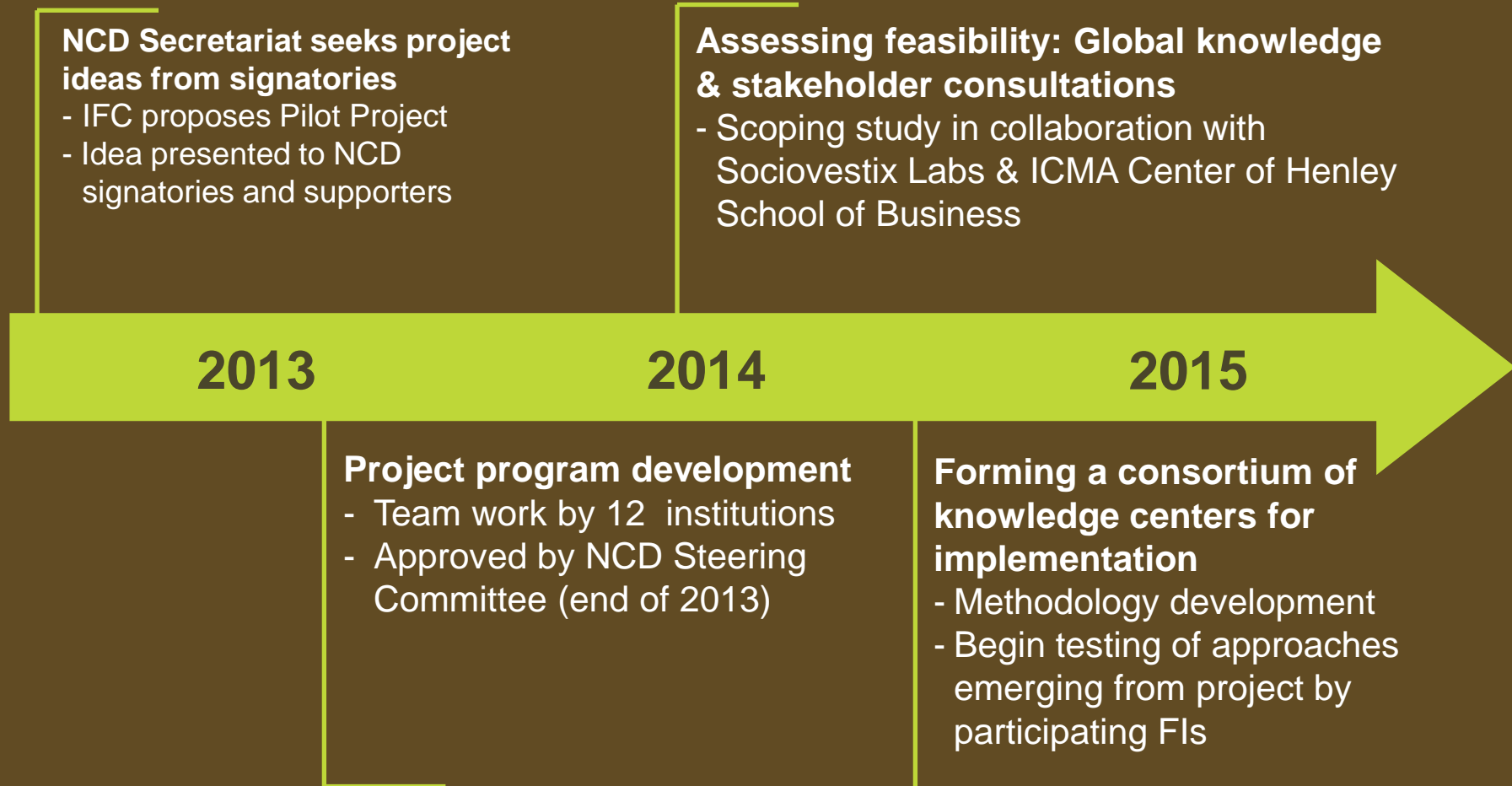
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Understanding natural capital risks and embedding them in credit risk assessments

Project objectives

- (1) Develop evidence-supported **business case** for natural capital as a material risk for financial institutions
- (2) Identify methodologies for **mapping natural capital risks** across the portfolios of financial institutions
- (3) Develop approaches to **integrate natural capital considerations into credit risk assessment** + potentially suggest practical ways to create risk-adjusted premiums/cost of capital

Timeline and background



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Project structure

Phase 1

Developing and testing a methodology for mapping of impacts and dependencies across FIs' portfolios

Phase 2

Developing a methodology/ guidance for embedding natural capital considerations into credit risk assessment

Work stream 1:
Commercial banks and development FIs

Partners:

Unicredit,
Banorte,
National Australia Bank,
IFC (WBG)

Work stream 2:
Institutional Investors

Partners:

Pax World,
Calvert, Caisse des Depots



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Component 1: Scoping study

- ICMA Centre of the Henley Business School and Socioinvestix Labs commissioned to prepare:
 - (1) Business case report on the relevance of risks related to natural capital depletion for FIs as a credit risk factor*
 - (2) Assessment of global knowledge to evaluate the current state of relevant approaches, challenges, and gaps*
- Survey to FIs to gauge interest and current practices in including NC factors into portfolio risk analysis (34 responses)
- Reached out to ESG data providers and knowledge centres to assess their interest and capacity



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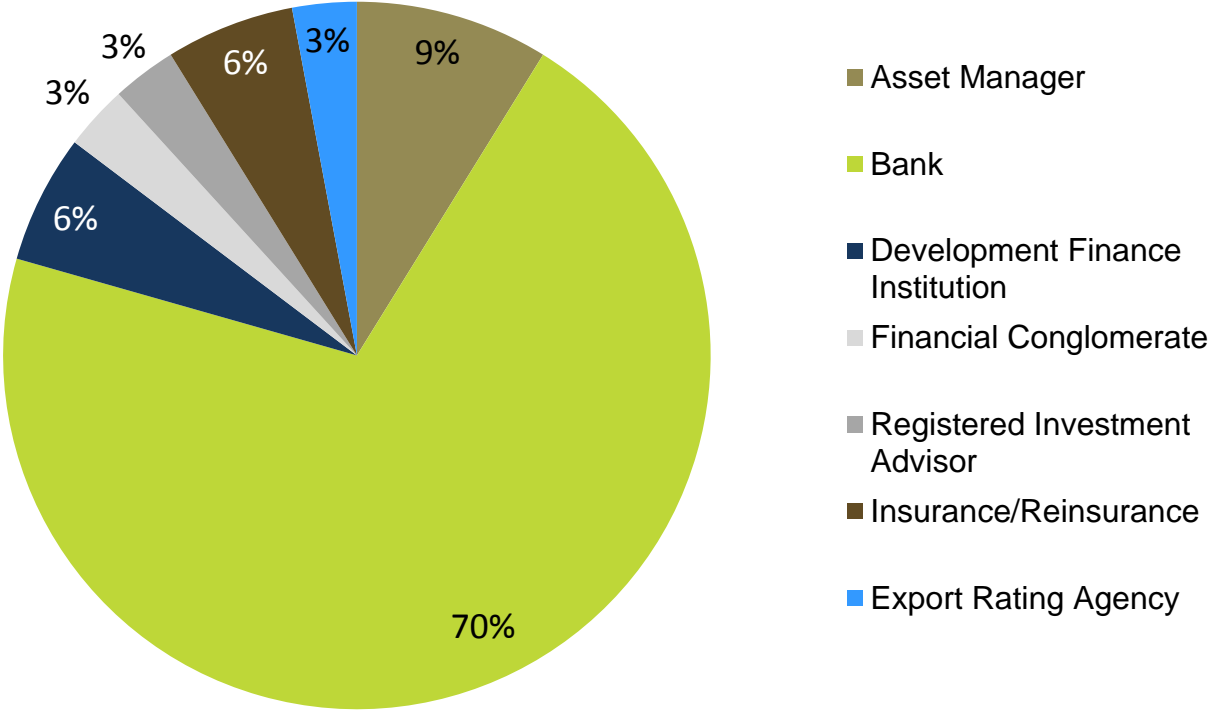
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Scoping study: Survey of Financial Institutions*

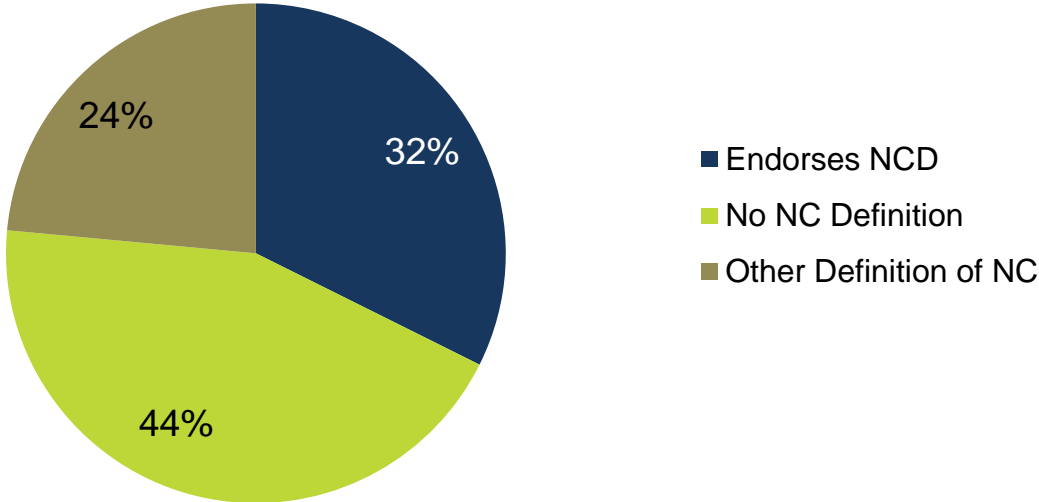
Survey Respondents – Profile



*Preliminary Results

Scoping study: Survey of Financial Institutions*

Differences in how "natural capital" is defined



The Natural Capital Declaration (NCD) defines **natural capital** as the **stock of ecosystems** that yields a renewable **flow of goods and services** that underpin the economy and provide inputs and direct and indirect benefits to businesses and society.



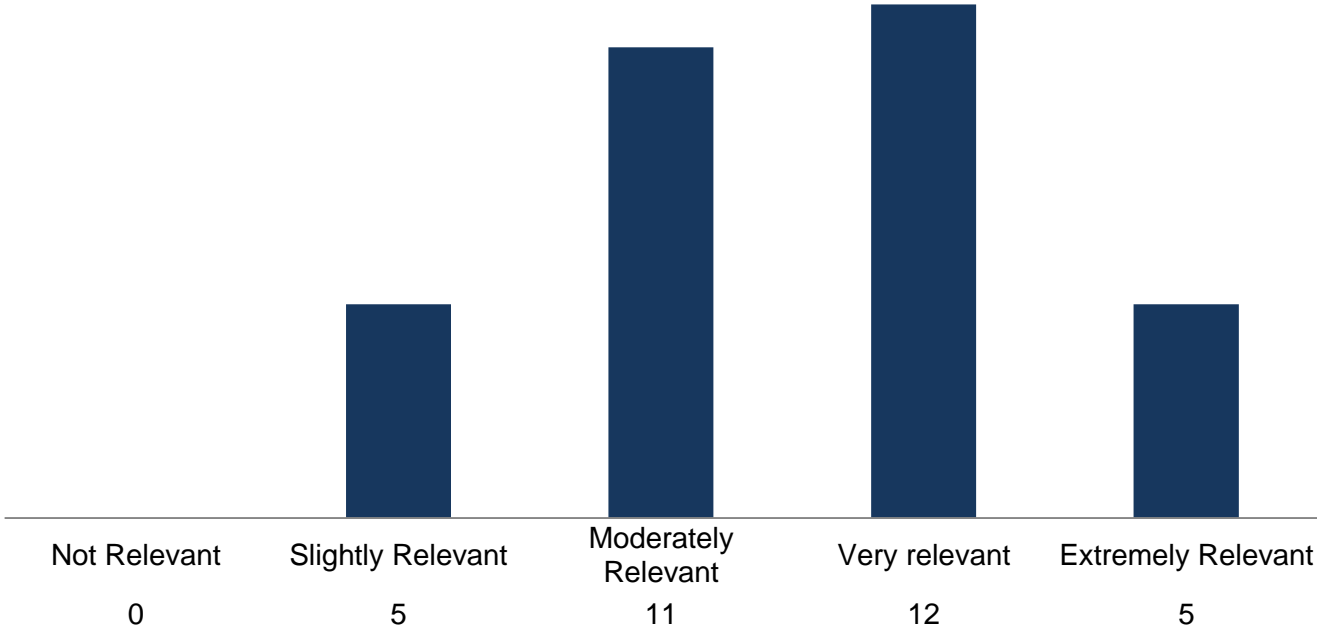
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*Preliminary Results

Scoping study: Survey of Financial Institutions*

Relevance of natural capital issues to FIs' core business strategy and/or portfolio risk management



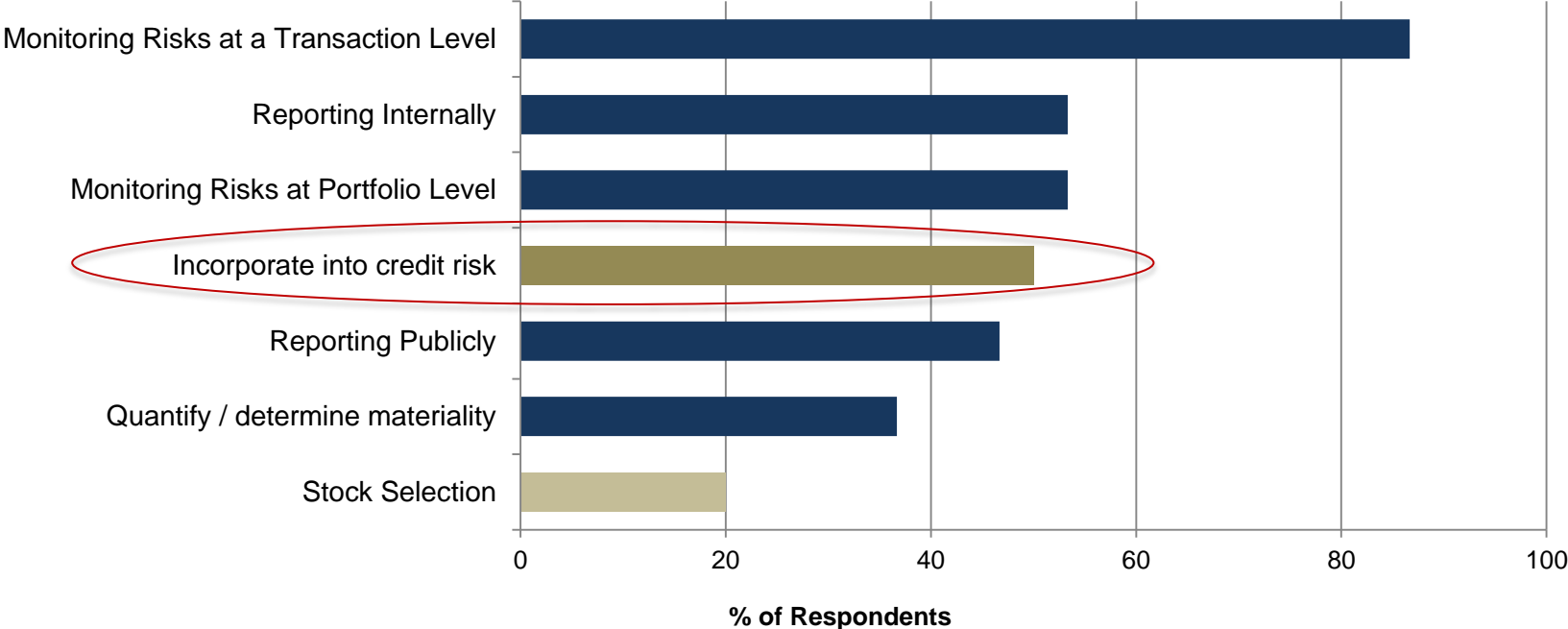
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*Preliminary Results

Scoping study: Survey of Financial Institutions*

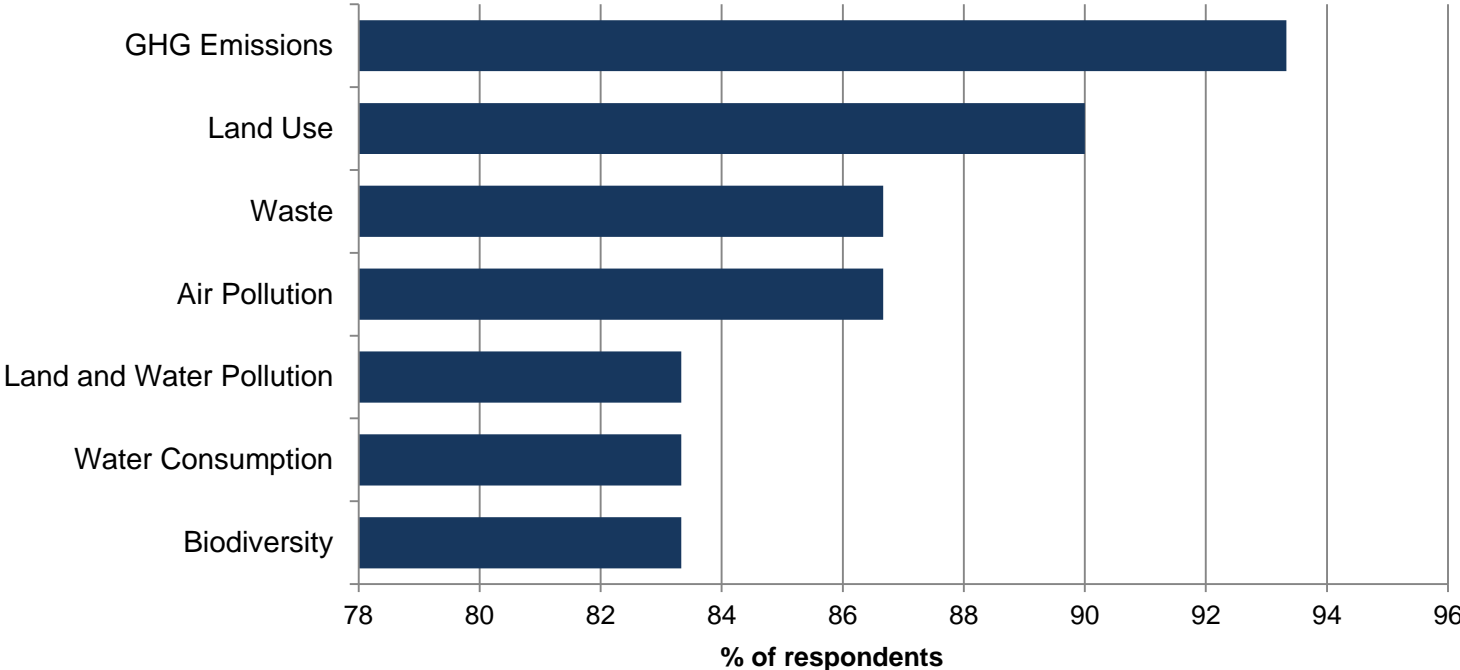
Current practices: Implementation of natural capital considerations



*Preliminary Results

Scoping study: Survey of Financial Institutions*

Types of Risk Indicators Relevant to Natural Capital



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*Preliminary Results

How might we get there?

**Link to portfolio
to obtain a risk exposure
picture**

- Existing methodologies & data sources (service providers, UN data, etc)
- Making collective choices on priorities to create a global standard
- Investors ahead of banks on portfolio-level ESG risk analysis

**Identify indicators
at country, sub-national,
sector levels
("contextual risk")**

- Contextual data linked to individual investments
- Systematically track project-level data on NC impacts and dependencies against agreed risk thresholds
- Determine quantitative risk exposure parameters, etc.)

**Establish causality
by isolating and
stress-testing credit
risk variables**

- Include as a credit risk factor alongside more traditional ones (e.g. political)
- Determine impact on overall credit risk



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Options to participate

- (i) Join stakeholder group to be updated and consulted on methodology developments
- (ii) Provide input into needs analysis and methodology and tool development
- (iii) Participate in project research & development and test draft methodologies/tools in relevant selected asset classes



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Some of the top challenges

- (i) Reconciling country and sub-national data on natural resource risks (limited availability) with investee-level performance data (esp. for non-listed companies)**
- (ii) Corporate disclosure on natural resource use (dependencies) and environmental performance (impacts).**
- (iii) Limited historical evidence vs. projections to establish links between natural resources and financial risk.**
- (iv) Aligning a standardized global approach with country-specific factors**



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Questions

1. Key elements of business case for enhanced analysis of portfolio risks associated with natural capital?
2. Linking credit risk and risks associated with depletion of natural resources /capital across portfolios?
3. Portfolio risk indicators related to natural capital?
4. Causal links vs correlation between natural capital depletion and credit risk?
5. Alignment with emerging regulatory environment?

Next Steps

- (i) Consult on draft report - engage both financial institutions and knowledge providers
- (ii) Raise ~US\$3 million to implement
- (iii) Release reports and update work programme based on results
- (iv) Build a consortium of knowledge providers to develop the main project methodology

Vision: what are the end goals?

Banks, fund managers, asset owners and insurers:

- Are better equipped to understand natural capital risks in loans, investments and insurance products.
- Have capabilities to assess how natural capital performance indicators translate into credit risk and company valuations.
- Have guidance to account for and disclose natural capital impacts and dependencies in portfolios.
- Have access to science-based data and analytics to integrate natural capital factors into products and services.
- Catalyze financial innovation to protect natural assets



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