

# The Natural Value Initiative

## Phase 2

### BACKGROUND

Biodiversity provides a range of goods and services (termed ecosystem services) on which business is reliant. Provision of clean water, the maintenance of fertile soils, and the regulation of climate are all examples. The World Economic Forum placed biodiversity at the nexus of a wide range of global risks, including: food security, water management, poverty alleviation and climate change.

The Millennium Ecosystem Assessment, a United Nations (UN) review of the ecosystem services on which we rely, showed that over 60% of these services are degraded or in decline. The Economics of Ecosystems & Biodiversity showed the economic impacts of this to be in the region of US\$2-4.5 trillion in 2008.

This downward trend in biodiversity ecosystem services (BES) is likely to intensify, as demand for raw materials continues to grow. This clearly has implications for the long-term viability of businesses that depend upon natural systems for value generation, operational stability or raw materials. This is creating new risks to security of supply, brand value, license to operate and investment return, whilst also opening up new business opportunities.

▼ Companies that are heavily dependent on agriculture are equally dependent on the ecosystem services on which agriculture relies such as access to water, access to healthy soils and pollination.



### CURRENT RESPONSES ARE LACKING

Current approaches to environmental management focus on a company's environmental impacts rather than dependencies. Failure by companies to anticipate, plan for and take steps to mitigate loss of biodiversity and decline in ecosystem services on which they depend creates potential risks for both the companies and the financial institutions that invest in, or provide financial services to, those companies. The risks can be commercial, if companies are unable to deliver sustained return on investment or are exposed to unforeseen costs and liabilities. They can also be reputational if financial institutions are seen to be profiting from poor performance. Conversely, companies that actively manage and minimise these risks may create opportunities for investors.

Our research into companies in the food, beverage and tobacco sectors demonstrated that companies are not making the link between business risk, sustainable sourcing and dependence and impact on biodiversity and ecosystem services. Furthermore, current measures of performance do not address impacts and dependence on biodiversity and ecosystem services. As a result strong practices remain unrewarded and risk exposure unnoticed.

## THE NATURAL VALUE INITIATIVE – AN OVERVIEW

The Natural Value Initiative (NVI) is a collaboration between Fauna & Flora International, the United Nations Environment Programme Finance Initiative (UNEP FI), Nyenrode Business University, the Dutch Association of Investors for Sustainable Development (VBDO) and the Brazilian Business School FGV.

The Natural Value Initiative has four broad objectives, to:

- Build awareness of corporate dependence on ecosystem services and impact on biodiversity and the links to corporate risk;
- Build expertise in both companies and investors on evaluating and managing biodiversity and ecosystem services (BES) risks and opportunities;
- Stimulate improved performance within the private sector and encourage greater reward of responsible behaviour;
- Mainstream biodiversity and ecosystem services (BES) into investment analysis.

## OUR WORK SO FAR

We are building a leadership group within the finance sector to build the business case for companies to avoid, minimise and mitigate their impacts on biodiversity and ecosystem services. We are currently working with Aviva Investors, F&C Investments, Mn Services, Pax World, VicSuper and Syntus Achmea Asset Management.

The Natural Value Initiative (NVI), in conjunction with a number of these investors, developed and tested an Ecosystem Services Benchmark. Designed to evaluate investment risk and opportunity associated with biodiversity and ecosystem services impacts and dependence in companies with agricultural supply chains, it offers investors unprecedented access to information on corporate risk management for an issue gaining rapidly in importance.

## LOOKING FORWARD

We are now adjusting the benchmark and applying it to a range of other sectors, starting with the mining and energy sectors. We are conducting research into companies listed in the Netherlands and the UK against the Ecosystem Services Benchmark. Alongside this we intend to conduct research to build an investor focused sector specific business case for acting on the issue of BES.

## OUTPUTS

### Current work:

- Company specific risks and opportunities identified through applying the benchmark and communicated to companies in the mining and energy sectors (and to investors with an interest in them)
  - Publicly available BES benchmarking methodology for the extractive sector;
  - Public report summarizing the findings of the application of this methodology on 2-3 further sectors with significant impacts or dependence on BES.

### Future work:

- An analysis of materiality of biodiversity and ecosystem services to a number of major business sectors - a key piece of work that will aim to substantiate the business case for companies to manage impacts and dependence on BES;
- Sector briefing notes for most material sectors.

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