

# ***The Natural Value Initiative***

Linking shareholder and natural value



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## **Workshop report 3<sup>rd</sup> September 2007**

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## Executive summary

The Natural Value Initiative (NVI) aims to raise awareness within the finance sector of the links between biodiversity, ecosystem services and investment value, focussing on companies with agricultural supply chains (food and beverage producers, processors and retailers and tobacco companies). It aims to do this by creating a tool to assist the financial world in evaluating biodiversity related risks and opportunities. This report summarises the results of the second of two workshops which brought together members of both sectors to seek their input to inform the development of the project and ensure it meets the needs of both sectors as far as possible.

**What is the business case for minimising impacts on biodiversity and associated ecosystem services?** There is no common understanding of the business case and its strength will vary according to location. In some respects the business case is stronger in Brazil than in many other countries because the economy is based on biodiversity, therefore effective management of biodiversity confers competitive advantage. It is easier to demonstrate a business case in the long term, in the short term there are greater challenges.

**How are such issues communicated to the financial community?** Existing tools do not enable effective communication on this issue and a tool which provided a general framework for communicating how a company understands and manages impacts on biodiversity would be useful. Although the finance sector is aware of the issue, true understanding is not widespread.

**What are the challenges to managing the issue?** Key barriers include the lack of a widely understood definition of biodiversity, poor understanding of the business case to manage biodiversity, a lack of appropriate indicators and the presence of a wide range of environmental and social issues. The greatest challenge, though, is the fact that the market current places limited value on biodiversity and ecosystem services.

**Would an evaluation tool be useful?** It was felt that such a tool could be useful as a means of providing a consistent way of approaching the management of biodiversity impacts. Some concern was expressed that, if this framework was developed in the wrong way, it could distract from work on the ground and could move companies in the wrong direction. The tool should be tailored according the sector, region in which it was active and the nature of the business.

**What indicators of performance would be most useful?** A number of management system questions should be included (e.g. do extension services address biodiversity issues? do the companies know what the main issues are and are they taking the right action to manage them? does the company ensure the farmers they source from have a legal reserve?), but these must be combined with quantitative indicators. Some key indicators/ issues to consider could be: profitability i.e. whether it is more profitable at the field level to avoid and minimise impacts on biodiversity, insect and soil biodiversity, level of erosion, origin of wood used for fuel, traceability of production, percentage of no tillage farmers within the supply chain, degree of use of biological control mechanisms, amount of pesticides, amount of agrochemicals used per hectare, level of crop rotation or sustainable management practices. Government, academia, pulp and paper and the agrochemicals business would also be useful to involve. The tool must be structured to consider opportunities (e.g. it could look at how the companies are incentivising producers to develop best practices) and designed with clear added value to both the finance sector and food.

**Alternative tools suggested to the benchmark?** Instead of a detailed set of questions, perhaps 5-8 big questions would be useful which banks could use to guide their discussion with companies, this could incorporate information on good practice. Value was seen in convening a workshop that aimed to establish and communicate the business case for managing biodiversity.

In conclusion, there was widespread support for the concept of the tool and some invaluable input to its design and suggestions for additional activity. The Initiative team will alter its strategy accordingly and look forward to engaging in further dialogue with the participants in 2008.



## Introduction

### Background

Growing scarcity of natural resources, increasing development pressures and escalating public concern about the resulting loss of biodiversity and associated ecosystem services, pose a strategic threat (and offer potential competitive advantage) to companies. Companies in the food and drink industry are particularly exposed to this risk. Their supply chains are dependent on the services provided by biodiversity and their markets are closely linked to patterns of consumption, which have shifted rapidly as a result of an increasingly informed and concerned public. This is increasingly being recognised by the finance sector and within the companies in which they invest. However, tools to enable a rigorous evaluation of performance on this issue are scarce, despite a rapid growth in ethical investment in financial markets and corporate responsibility within companies. Biodiversity is therefore an unaccounted for risk within the financial markets, in much the same way as climate change was 10 years ago.

### The Natural Value Initiative

The Natural Value Initiative (NVI) is a multi-stakeholder initiative aimed at addressing this gap by raising awareness within the finance sector of the links between biodiversity, ecosystem services and investment value, focussing on companies with agricultural supply chains (food and beverage producers, processors and retailers and tobacco companies). It forms one of two key projects within the UNEP Finance Initiative Biodiversity and Ecosystem Services workstream. The NVI aims to develop and test a tool aimed at providing a rigorous evaluation of biodiversity related risks and opportunities and which can be fed into financial organisation's investment decision making processes, thereby reducing investment risk and increasing returns. For the agricultural sector (as defined above), this will provide a strategic framework against which issues based or commodities based initiatives can be placed to facilitate prioritisation and enable more effective communication with an increasingly engaged finance sector, thereby rewarding good practice in a way that is not currently achieved. The key project partners are international NGO Fauna & Flora International, Brazilian Business School FGV and UNEP FI. A steering committee composed of industry leaders, NGOs and academic institutions oversees the work – members include F&C, Pax World, IUCN, WWF, Conservation International, the Convention on Biological Diversity Secretariat, Business for Social Responsibility and M&S.

### Our approach

The tool will be based on an adapted version of a tried and tested methodology already employed within the asset management community to evaluate the extractive sector – 'the biodiversity benchmark'. The benchmark is based on established risk management processes and asks a series of questions regarding the presence within a company of appropriate governance procedures, policy and strategy, management tools and monitoring and assurance procedures to allow understanding and management of biodiversity impacts. It is based on publicly available information and therefore avoids placing an administrative burden on companies.

### This report

This report is a summary of the second of two workshops, which brought together members from the finance, food and beverage, tobacco, NGO and government sectors in order to:

- share examples of best practice management of biodiversity and ecosystem services risks within the food and beverage sector; and
- inform the development of a benchmarking tool for the finance sector to enable a better understanding within the sector of biodiversity and ecosystem services impacts and risks.

48 participants from the finance sector, food and drink sector, tobacco industry, academia and the NGO community attended (see Appendix 1). This event, combined with additional one to one discussions with key stakeholders and the results of our workshop in the UK, will be used to inform the NVI's strategy going forward.



## **SESSION 1- Setting the scene: Biodiversity and ecosystem services risk management in the finance sector**

All presentations can be accessed on:

[http://www.unepfi.org/events/2007/saopaulo2\\_biodiversity/index.html](http://www.unepfi.org/events/2007/saopaulo2_biodiversity/index.html)

### **Opening remarks (Christopher Wells, Chair Latin American Task Force – UNEP-FI)**

UNEP Finance Initiative (UNEPFI) aims to raise awareness within the finance sector of sustainability issues. It has a broad spectrum of members - development banks, asset managers, banks and commercial banks. The focus of the Latin American taskforce of UNEP FI is to raise awareness of the banks within Latin America of the need to mainstream sustainability into their business. The current focus is on training of finance institutions on how to address sustainability issues and an online training course has been developed which is now being rolled out across the world. UNEPFI focuses on a range of issues e.g. climate change, water and the newest workstream is focusing on biodiversity and ecosystem services. The mission of the workstream is to assist financial services sector in dealing with the loss of biodiversity and degradation of ecosystems. The world relies on ecosystems and it is clear if the economy grows that our current use of such systems is not sustainable. One of the key products of the workstream is a briefing for CEOs within the finance sector on why biodiversity is an issue and setting out the business case for the finance sector to consider biodiversity impacts of their investments. This will be launched at the Sustainable Finance Roundtable in Melbourne in October.

### **Finance and biodiversity – what is an externality? (Christopher Wells, Chair Latin American Task Force – UNEP-FI)**

Historically environmental goods have not been paid for by society – they form externalities. Society does not pay for the use of such services, nor are they compensated if they are destroyed. This is changing. We now have to, for example, pay for the installation for equipment to clean water, with the Kyoto Protocol, for carbon and even indirectly for biodiversity. These costs are likely to increase, with increased payment required for water, garbage disposal, greenhouse gas emissions, air pollution and contaminated land. The key risks are; credit risk (default), collateral risk (depreciated assets), reputational risk and shareholder risk (depreciation of stocks). ABNAmro has policies covering the mining, forest and oil and gas sectors. These help guide lending and go beyond legislation. A key part is that the bank cannot finance projects where forests have been recently felled. These policies are applied on a global basis.

### **Overview of the Natural Value initiative (Annelisa Grigg, Director of Corporate Affairs, Fauna & Flora International)**

The agricultural sector is characterized by its complexity. Lack of ability to influence, challenges of prioritization and tight margins, together with a lack of consumer willingness to pay premium for environmentally responsible projects makes it challenging both to manage biodiversity impacts and to communicate those management activities. At the same time, the finance sector is increasingly aware - and seeking information that reassures them - on environmental risk management and opportunity development. Currently the tools to achieve this are inadequate. The tool NVI proposes to develop would meet this need, using lessons learned in developing a similar tool for the extractive industry which would then be used to evaluate performance in 40 companies in Brazil and the UK based on publicly available information. It is based on an evaluation of how well a company understands and is managing biodiversity related risks and opportunities across the board – not simply focusing on a single commodity. The initiative is in a scoping and development phase until October 2007, where information is being gathered from key stakeholders to ensure it is designed to complement existing initiatives. The UK and Brazilian workshops are a key part of this. The methodology will be developed in consultation with key stakeholders and the results will be published. The rationale for the results will be shared with the companies evaluated.



## **SESSION 2- Approaches to risk management within the food and beverage sector**

### **The food and beverage sector perspective:**

#### **Fernando Sad Costa, Carrefour, Manager Sustainable Development**

Carrefour has the second largest retail network in the world, with a presence in 29 countries - operating in different hypermarkets in Brazil, business, tourism and drug stores. It has over 20,000 suppliers and a range of guarantee of origin programmes focused on taste, health, appearance and social/ environmental responsibility. Currently it involves more than 100 products. Sustainable development has to be phased in strategically, linked to the business case and integrated. Customers' views are important, this is one of the sources of motivation for Carrefour's development in the area, driven largely by international markets. Carrefour has a number of relationships and initiatives in place aimed at tackle the issues – the company has two private protected areas and partnerships with environmental institutions in Mato Grosso. Within the gas business they have a commitment to biodiesel. The company also markets fish but have seen huge declines in catch – annual catch in 2004 and 2005 was around 200,000 tonnes, recently it has dropped to 60,000 tonnes, this has prompted an investment in fish farms.

#### **Michel Santos, Bunge, Communication Manager**

Bunge has been active in Brazil for more than 100 years and aims to go beyond compliance. It has a comprehensive range of operations – agribusiness, fertilizers, food products. Sustainability policy considers wealth for community, social responsibility and rationale use of resources. Bunge has major commitments on biodiversity including environmental education centres, reforestation of vegetation in riparian zones, set up of a private protected area. The company has ISO14001 in place and a natural focus on sustainable agriculture and training through agricultural extension services – farmers that show particularly strong practices are rewarded. Bunge is working with Conservation International in the Cerrado to facilitate farmer compliance with the Forest Code and to help use this law to connect areas of biodiversity and reduce habitat fragmentation. The area covers 180,000 ha and includes nurseries of native species and teaching farmers on reforestation and the importance of biodiversity. They have a commitment not to buy soya from recently deforested areas and are members of the Round Table for Responsible Soya and the Soya Moratorium.

#### **João Shimada, Grupo Maggi, Environment Coordinator**

The company has 18% of the overall market share of soya in the State of Mato Grosso and 5% of the Brazilian market. The Group has an environmental policy in place, a commitment to ISO14001 and were awarded another certification called the Green Seal by the government of Mato Grosso. This includes compliance with environmental criteria e.g. no deforestation after June 2006. Linked to the soya moratorium, they have a programme of fostering producers and offering fertilizers and credit in return for a commitment to supply soy beans. This involves an audit of the property, mapping the area with satellite images, making photographic report of property and identifying areas for improvement. The programme is in its third year with 2287 properties registered in Mato Grosso. The company has a foundation that supports farmer education. They have also purchased an area of land which contains significant areas of native forest and are undertaking forest restoration, research and education activities there, together with partners IPAM and WHRC. The research includes biodiversity, carbon sequestration and water quality issues. They are part of the RTRS, Moratorium and employ Environmental impact assessments with associated public consultation even when not required by law. Three years ago NGO-corporate relationships were tense, now we have moved into a dialogue and partnership phase. Perceptions from outside Brazil can be inaccurate and damaging, despite having strong practices in place. Finally it was pointed out the risk of creation too many criteria related to sustainability.



## The business case for managing biodiversity and ecosystem services

- **There is no common understanding of the business case:** there is a clear business case for some companies, however, for many the case is not clearly articulated or understood. Bunge set out the business case for working with farmers to ensure that their legal reserves are located where a corridor of more extensive natural forest can be developed. This is viewed as a means of providing a buffer around agricultural land that acts as a reservoir for pollinators. They have not yet monitored whether the proximity to such buffers has any impact on crop yields
- **The case varies according to location:** In some respects the business case is stronger in Brazil than in many other countries because the economy is based on biodiversity, therefore effective management of biodiversity becomes a competitive advantage
- **Timing is an issue:** The business case in the short term is not strong, but in the long term there was felt to be a very strong business case, particularly amongst the producers

## Communicating key risks and their management to investors

- **Existing tools do not enable effective communication on this issue:** a tool which provided a general framework for communicating how a company understands and manages impacts on biodiversity would be useful
- **Detailed understanding of the issues is lacking:** there is a level of awareness of the issues amongst the financial community, but this awareness is high level

## Key challenges/ barriers to management

- **Lack of a widely understood definition of biodiversity:** there is a need to define exactly what is meant by biodiversity, what its key elements are and to gain a common understanding of the term. This is not yet in place and understanding varies within and between sectors
- **Lack of understanding of the business case to manage biodiversity:** linked to this there is a need to raise awareness of the links between business and biodiversity, amongst consumers and the private sector
- **A lack of appropriate metrics:** There are currently a lack of indicators to measure company performance in this area, but there is a need to move from a qualitative to quantitative approach in this sort of tool
- **Large number of competing initiatives:** There are a range of initiatives already in place or under development, it is important that the NVI supports rather than duplicates
- **The market currently places limited value on ecosystem services:** The question was asked - could good practice result in preferential rates of financing? However, it was felt that this was not something that could happen in the short term. The G8 Potsdam Initiative aims to start to address this issue by producing a global economic valuation of ecosystem services



## **SESSION 3- Defining the nature and scope of a tool to evaluate biodiversity and ecosystem services risk**

### **Is a benchmarking tool useful for evaluating performance/driving performance improvements?**

- **A benchmarking tool could be useful:** All three breakout groups felt that such a tool could be useful as a means of providing a consistent way of approaching the management of biodiversity impacts. Some concern was expressed that, if this framework was developed in the wrong way, it could distract from work on the ground and could move companies in the wrong direction. However, the ability to compare company performance is important in credit rating and such a tool could help with this
- **One size will not fit all:** a range of issues need to be considered in putting the methodology together e.g. how to filter the questions to address the part of the sector in question, size of farm, location, crop produced, biomes

### **If not, what alternative would you like to see?**

- **High level guidance on biodiversity:** Instead of a detailed set of questions, perhaps 5-8 big questions would be useful which banks could use to guide their discussion with companies, this could incorporate information on good practice
- **A workshop aimed at clarifying the business case:** Value was seen in convening a workshop that aimed to establish and communicate the business case for managing biodiversity. As part of this companies would be invited to consider how their business was reliant on biodiversity and the implications that biodiversity loss might have to the business in the short and medium term.

### **What are the most meaningful measures of performance in this area?**

- **A key question is where to draw the line:** many aspects of strong environmental management practice by their nature result in the protection of biodiversity, so where should this work focus on? There was a feel that it needed to focus clearly on biodiversity, but had to also address ecosystem services linked to biodiversity. Mapping the supply chains and key points of leverage or influence would be important in defining appropriate indicators
- **It is important to include quantitative indicators:** profitability i.e. whether it is more profitable at the field level to avoid and minimise impacts on biodiversity, insect and soil biodiversity, alien invasive species, level of erosion, origin of wood used for fuel, traceability of production, percentage of no tillage farmers within the supply chain, degree of use of biological control mechanisms, amount of pesticides, amount of agrochemicals used per hectare, level of crop rotation or sustainable management practices should be considered
- **Tool must be structured to consider opportunities** and designed with clear added value to both the finance sector and food. For example, it could look at how the companies are incentivizing producers to develop best practices
- **A number of process type questions will have to be included:** e.g. do extension services address biodiversity issues? Are they used as a tool for farmer education on this issue? Another question would be, does the company ensure the farmers they source from have a legal reserve? Including set aside areas, maintenance of riparian zones etc There may be a



link between this and forms of financing. Some companies which have direct activities and contact with producers and some which are integrated e.g. meat processing industry managing the impact of those third parties. How should this be managed? One of the key questions should be – do the companies know what the main issues are and are they taking the right action to manage them?

- **Key issues to include/ consider:** ecosystem functions, climate change, genetic diversity, water - views were divided on the extent to which water should be included – the question was raised as to whether biodiversity truly made a difference to water supply and quality. The link between soil ability to absorb water and biodiversity was highlighted and the function that wetlands play in water purification. When considering the fish processing / retail industry water was seen to be important and therefore needs to be part of the scope of the benchmark
- **Key sources of expertise should be included in the design of the tool:** government is key in defining appropriate performance metrics but also in providing constraints on and incentives for responsible agricultural practices. The Convention on Biological Diversity has a programme of work on agricultural biodiversity, the indicators that are being produced under this framework for governments might be a useful starting point for the quantitative aspects of the tool. Academia, pulp and paper and the agrochemicals business need also to be involved in the discussions

### **In summary**

The Chair concluded that it was clear that the people attending the event had much to contribute with significant knowledge on how biodiversity can impact production and that this has provided very positive input to the Natural Value Initiative process. There was an agreement that there was a need to more clearly articulate the business case for biodiversity and that their might be some value in a follow up event where companies listed on the stock market could be invited to explain what biodiversity loss could mean to their business in the short and long term. Translating the UNEP FI CEO briefing on biodiversity might be a good first step, then using this as a platform for discussion. Overall, there is a clear need to bridge the divide between markets on one side and biodiversity on the other – internalising what are currently externalities.

We will use the material from this meeting, the earlier one in the UK, and our research to date, to inform and revise our strategy which we will communicate in the fourth quarter of 2007.

### **Ways for participants to get involved in the future:**

- For finance institutions: pilot the benchmarking methodology
- For companies in the food and beverage/ tobacco industries – input examples of best practice approaches into the benchmark

Further information can be obtained from [Annelisa.grigg@fauna-flora.org](mailto:Annelisa.grigg@fauna-flora.org) or [gladis.ribeiro@fgv.br](mailto:gladis.ribeiro@fgv.br)



**Appendix 1: Workshop Agenda: Developing a framework for analysing biodiversity and ecosystem services risks within the food and drink sector**

**Objectives of the day:**

- 1) To extract examples of best practice management of biodiversity and ecosystem services risks within the food and drink sector
- 2) To inform the development of a benchmarking tool for the finance sector to enable a better understanding within the sector of biodiversity and ecosystem services impacts and risks

09:30-10:00	Registration	
<b>Session 1: SETTING THE SCENE: BIODIVERSITY AND ECOSYSTEM SERVICES RISK MANAGEMENT IN THE FINANCE SECTOR</b>		
10:00-11:00	Opening remarks	Christopher Wells, Chair Latin American Task Force – UNEP-FI  Ricardo Nogueira, Superintendent, BOVESPA
	Risk and dependencies – the business case for biodiversity and ecosystem services management within the food and drink sector	Christopher Wells, Social & Environmental Risk Superintendent, ABN AMRO Real
	Overview of the Natural Value Initiative	Annelisa Grigg Director of Corporate Affairs, Fauna & Flora International  Gladis Ribeiro, Executive Director, GVces
11:00-11:15	<i>Refreshment break</i>	
<b>Session 2: APPROACHES TO RISK MANAGEMENT WITHIN THE FOOD AND BEVERAGE SECTOR</b>		
11:15-12:00	Managing biodiversity and ecosystem risk – the company perspective:	Christopher Wells, Chair Latin American Task Force – UNEP-FI
	Company perspective (15 minutes)	Fernando Sad Costa, Carrefour, Manager Sustainable Development
	Company perspective (15 minutes)	Michel Santos, Bunge, Communication Manager
	Company perspective (15 minutes)	João Shimada, Grupo Maggi, Environment Coordinator
12:00-12:45	Facilitated group discussion on: <ul style="list-style-type: none"> <li>• The business case for managing biodiversity and ecosystem services – key risks perceived</li> <li>• Approaches to managing risk</li> </ul> <p>Communicating key risks and their management to investors</p> <ul style="list-style-type: none"> <li>• Key challenges/ barriers to management</li> </ul>	Annelisa Grigg, Director of Corporate Affairs, Fauna & Flora International  Renata Brito, Coordinator, GVces  Pedro Leitão, Executive Secretary, FUNBIO
12:45-13:30	<i>Lunch</i>	



13:30-14:00	Feedback from group discussions	
<b>Session 3: DEFINING THE NATURE AND SCOPE OF A TOOL TO EVALUATE BIODIVERSITY AND ECOSYSTEM SERVICES RISK</b>		
14:00-15:30	Managing biodiversity and ecosystem services risk – setting the scope and focus areas of the benchmarking methodology	<b>Louise Jamison</b> Senior Consultant, Strategic Environmental Consulting
16:00-16:30	Plenary and summing up	<b>Christopher Wells</b> , Chair Latin American Task Force – UNEP-FI



**PARTICIPANT LIST**

1	Alexandre Batista Veiga	FGV
2	Afonso Champi Jr.	Cargill Agricola S.A.
3	Ana Lizete Farias	Banco ABN AMRO Real S.A.
4	Ana Paula Fernandes Gumy	HSBC
5	Annelisa Grigg	Fauna & Flora International
6	Aron Belinky	Ecopress
7	Barbara Alvim	FGV
8	Christopher Stephan Wells	Banco ABN AMRO Real S.A.
9	Cristiane Ronza	Banco ABN AMRO Real S.A.
10	Claudio Andrade	Escola Superior de Prop. MKT
11	Cynthia Machado	Fauna e Flora International
12	Diogo Caiuby Novaes	Rio Bravo Investimentos
13	Edmilson Carneiro	ProspEra Bra\$il
14	Eduardo José Carvalho	Independent Consultant
15	Felipe Oliveira	FGV
16	Fernando Sad Costa	Carrefour
17	Flavio Marques Goulart	Souza Cruz
18	Gladis Ribeiro	FGV
19	Gustavo Pimentel	Amigos da Terra - Amazônia Brasileira
20	Iranise Pedro	AxialPar
21	Isaura Frondizi	FIDES Desenvolvimento Sustentável
22	Jean Benevides	Caixa Econômica Federal
23	Jeff McNeely	IUCN
24	João Shimada	Grupo Maggi
25	Licia Maria Peres Rosa	Independent Consultant
26	Louise Jamison	Strategic Environmental
27	Luciana Vega	Fauna & Flora International
28	Mª Sulema M B Pioli	ERM
29	Marcos Carvalho dos Reis	Aliança da Terra
30	Maria Cristina Ciampolini	Independent Consultant
31	Mariama Vendramini	Independent Consultant
32	Marilia Borgo	SPVS
33	Meire de Fátima Ferreira	Sadia S.A.
34	Michel Henrique R. Santos	Bunge
35	Nicolas Bertrand	CBD Secretariat
36	Otávio Cafundó	Brasil Diverso
37	Patricia Berardi	FGV
38	Paulo Bento Maffei de Souza	BAFF
39	Pedro Calandrino	FGV
40	Patricia Moles	FUNBIO -Fundo Bras. para a Biodiversidade
41	Pedro Mader Meloni	IFC
42	Rafael Salhab	Banco Santander
43	Rafael Soares Castro	Previ
44	Ruy Bueno Arruda Camargo	Independent Consultant
45	Susan Steinhagen	UNEP
46	Taísa Cecília de Lima	Grupo Pão de Açucar
47	Veridiana Oliveira	Banco Itau
48	Wagner Siqueira	Banco do Brasil