

Report on the Engagement process on the Finance Sector Supplement

7/3/2017

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1 Introduction

The Natural Capital Coalition (The Coalition), the Natural Capital Finance Alliance (NCFA) (formerly the Natural Capital Declaration) and the Dutch Association of Investors for Sustainable Development (VBDO) have agreed to jointly produce a Finance Sector Supplement to the Natural Capital Protocol.

This report summarizes the engagement process and the feedback this generated. It also sets out the decisions that this engagement has informed.

2 The engagement process

An engagement process was held to help identify the need, provide input, raise awareness and create shared ownership through a community of practice. It ran from October 26th, 2016 to January 31st, 2017.

A briefing note¹ was the focal point and set out challenges and opportunities for as perceived by the project management group. Feedback was collected through an online survey, supported by face to face workshops, events and webinars.

The intended audience was the potential users in the financial sector but we also encouraged organizations that engage with, or support, the finance sector to participate to ensure that the enabling environment was taken into consideration.

2.1 Launch

The engagement process was launched at the UN Environment Programme Finance Initiative's Global Roundtable (Dubai, October 26th, 2016). The launch introduced the relevance of natural capital and the global context, the Finance Sector Supplement briefing note, and was followed by round table conversations. 36 people from 31 organizations attended the launch.

2.2 Online survey

An online survey was set up to collect feedback in a systematic way. It was accessible from the Coalition website and advertised at different events². The online survey ran from the November 15th through to December 16th, 2016. 43 people from 42 organizations responded to the survey.

¹ The Briefing note is accessible through the webpage of the Coalition: <http://naturalcapitalcoalition.org/projects/finance-sector-supplement/>

² Such as the Business and Biodiversity EU Platform (23th November), the Dutch Conference of Natural Capital (24-25th November) and the Spanish National Conference of Environment (30th November).

2.3 Workshops and events

a) Workshop

VBDO organized a workshop on December 7th, 2016 in Utrecht (The Netherlands). The Finance Sector Supplement project was presented and discussed. 10 people from eight organizations attended the workshop.

b) Joint event

NCFA organized an event on January 17th, 2017 in Paris (France), in collaboration with Kering, Natural Capital Coalition and the Coalition for Private Investment in Conservation. The event was an interactive discussion around natural capital initiatives, challenges and opportunities for engaging business and finance. Fifty six people from 39 organizations attended the event.

2.4 Webinars

a) Coalition webinars

As mentioned, the project was communicated with the Coalition network via webinar. Twenty six people from 26 organizations attended the webinar. The survey was also promoted through social media and the Coalition's newsletter.

b) NCFA webinars

NCFA organized webinars with UNEP FI signatories on January 31st, 2017. The briefing paper further helped to structure the discussion. Twenty six people from 26 organizations attended the webinars.

2.5 Summary of participation

Each of the above actions served to raise awareness and as result led to engagement with 249 people from 193 organizations. The following figure shows the distribution by engagement channel.

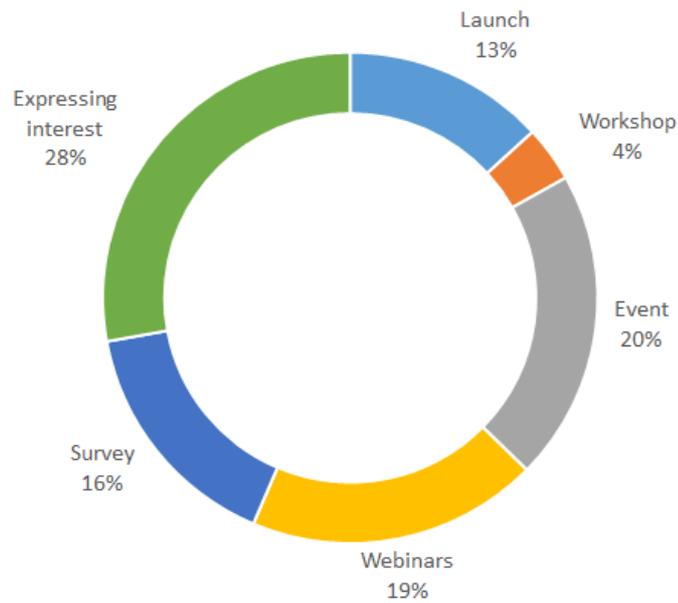


Figure 1. Distribution of engagement by participation in each event or channel during engagement

38% of people who participated are working directly in banking, insurance or investment. Almost two thirds were from supporting organizations such as advisory, data or rating agencies. This shows the importance of supporting organizations in influencing the financial sector. It also provides a systems approach to the development of the Supplement which is central to natural capital work.

The following figure shows the distribution of people participating through each channel by sector. As can be seen those organizations that expressed interest in being kept informed were predominantly from supporting sectors. Although the split was reasonably even for the more active participation greater engagement with finance institutions is needed in the future.



Figure 2. Number of participants by channel and sector

3 Engagement feedback

The project management group met for a full day workshop to discuss the points raised through the engagement process. Themes were identified based upon the briefing paper. A summary of the response from the feedback and the decision, as agreed by the Steering Group is set out below:

3.1 The need for a Supplement

Responses: A Finance Sector Supplement was clearly considered as useful.

Decision: A supplement will be drafted.

3.2 Audience/Role of the Supplement

Responses: The primary contributions of a Finance Sector Supplement should be the raising of awareness of what natural capital is, and how to incorporate this into decision making. Although disclosure/reporting was also highlighted, this was not seen a primary contribution of the Supplement.

Decision: The Supplement will focus on 'raising awareness' and 'decision making'. Specific recommendations on potential indices and disclosure guidance will not be included although it will be noted that both disclosure and indices need to be focused on in the future.

The Supplement will be aimed at a technical audience. Therefore, further guidance that is more relevant for senior leaders will be developed in addition to the Supplement.

3.3 Scope of the Supplement

Responses: There was a high level of agreement that the Supplement should focus on the banking, investment, and insurance sub-sectors. There was mixed opinion on whether it is possible to do this in one documents or several. There was a very clear signal that the Supplement should follow a logical process, be simple to follow and easy to act upon.

Decision: The draft Supplement will aim to produce one overarching Supplement rather than separate supplements for each sub-sector. It will focus on the investment and lending activities. Even though the role of support services e.g. data providers and rating agencies are recognized as important there are considered outside of the scope of the Supplement.

3.4 Structure of the Supplement

Response: There was very high agreement that the Supplement should follow the same structure (Stages and Steps) that are set out in the Natural Capital Protocol.

Decision: The Supplement will follow the framework of the Natural Capital Protocol (Stages and Steps).

Each sub-sector will be discussed in at the beginning of the Supplement and the specifics that are relevant to them will be drawn out. Organizational focus, as set out in the Protocol, will be changed to address 'individual investments', the 'portfolio level' and possibly 'sovereign risk'.

3.5 Content of the Supplement

Response: There was high agreement on including all of the suggested aspects as set out in the briefing paper (Business case, impacts and dependencies, harmonized framework, contextual factors, data sources, tools, examples and case studies, and examples of disclosure and reporting) within the Supplement.

Decision: These aspects will be included in the Supplement. Specifically, in relation to examples, once the Supplement has been mapped out in more detail, the types of case studies required will be identified and then a decision made on whether we use real life or hypothetical examples. It was also decided that a glossary of terms relevant to the finance sector is needed.

3.6 Tools

Response: Several tools were suggested for inclusion in the Supplement.

Decision: It was noted that tools referenced in the Supplement may become out of date very quickly as there is a lot of new work in this area. Providing links to the best, most relevant and having robust criteria for selection of tools was also seen to be important as the Supplement will be seen to be promoting the tools it references. It was agreed therefore that tools will be added to the new Protocol Toolkit rather than referenced in the Supplement as they can be updated and referenced more easily.

3.7 Summary of decisions

Theme	Decision
Need	A supplement will be drafted.
Audience	The Supplement will focus on 'raising awareness' and 'decision making' and not disclosure and indices. It will be aimed at a technical audience. Separate high level guidance for senior management will also be developed.
Scope	Banking, Investment and Insurance will all be included in one document and a there will be a focus on investment and lending.
Structure	The Supplement will follow the Stages and Steps of the Natural Capital Protocol.

Content	All aspects will be included in the Supplement. Case studies will be included, but it has yet to be agreed if these will be real examples or hypothetical. A Glossary will be included.
Tools	Tools will be referenced on the Protocol Toolkit and not included in the Supplement.

4 Conclusion

The levels of response and the overall positive nature of the comments submitted through the engagement process clearly supports the development of a Finance Sector Supplement to the Natural Capital Protocol.

This process has established the need and expectation of the community, provided input into the drafting, and broadened the awareness and interest in the project.

The project management team would like to thank the 249 people from 193 organizations that took part for their time and valuable input.

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Annex 1: Detailed feedback from the online-survey

The online survey was structured in four sections: (i) state of play, (ii) scope, (iii) structure and content and (iv) additional comments.

In terms of the **state of play**, the main findings from the online survey are:

- The majority of organizations (58%) consider natural capital important or very important in their organizations decision making processes.
- Some of the main challenges identified by respondents are related to the integration of natural capital on decision making. There is a lack of understanding about natural capital in terms of business, as well as a lack of awareness among decision makers. The short-term perspective of many in the finance sector and the lack of uniform evidence for material financial impact were also mentioned.
- Other challenges mentioned were that, in terms of risk analysis, the link between natural capital and risk is not quantified. A globally accepted standard framework/methodology for measuring risk across different asset classes is needed. Other general limitations such as access to good quality data, budgetary and time restrictions or materiality analysis are also mentioned.
- The Finance Sector Supplement to the Natural Capital Protocol is clearly considered as potentially useful for organizations (86% of responses). The Finance Sector Supplement is expected to be useful to stress the business case for natural capital and provide a common framework and benchmark to encourage consistent identification of risk and opportunities. It is expected to contribute to measurement and reporting of natural capital considerations. A step-wise approach for finance sector with the optionality to deepen analysis around key sectors is suggested.
- The primary contribution of the Finance Sector Supplement were expected to be the provision of guidance on how to incorporate natural capital impacts and dependencies into decision-making processes (91% of responses) and raising awareness of what natural capital is and its relevance to the finance sector (86% of responses). Providing guidance on how to report on natural capital impacts and dependencies was also seen as a potential contribution by a significant proportion of organizations although not a primary concern (65% of responses). Some of other specific contributions mentioned were a potential contribution to encouraging consistency in approach, promoting the creation of green products, providing a business case and benchmarking, and providing support on measurement and valuation.

In terms of the **scope** of the Supplement, the main findings from the survey were:

- There is a high level of agreement (74% of responses) on focussing the Finance Sector Supplement on the banking, investment and insurance sub-sectors. Some organizations mentioned the necessity to provide specific guidance to each one due to differences between them.
- Although there was a stronger preference (63% of responses) for separate supplements for each sub-sector (many respondents mentioned that there were differences between these sub-sectors) there was also strong agreement that common overarching framework for the entire finance sector was needed. There was also clear agreement that the Supplement must be accessible and easy to act upon.
- The challenge around materiality and moving from a purely financial definition to a broader definition that takes account of externalities was highlighted. Some organizations believed that the focusing should be on key drivers (such as land use change), and that existing initiatives and tools should be taken into account.

In terms of the **structure and content**, the main findings from the survey were:

- There was very high agreement (79% of responses) that the structure should follow the Natural Capital Protocol Framework (Steps and Stages).
- There was strong agreement that all aspects suggested in the briefing paper should be included.
 - The case for the finance sector to integrate natural capital into decision making (95% of responses).
 - The specific natural capital impacts and dependencies relevant to the finance sector (91% of responses).
 - A harmonized framework for finance sector actors to analyze and assess their risks and opportunities around natural capital (95% of responses).
 - Discussion of the contextual factors (e.g. the policy context, developed versus emerging markets, macroeconomic factors) that affect the relevance of natural capital (72% of responses).
 - Existing data sources and issues surrounding data (e.g. availability, access, reliability) (88% of responses).
 - Tools that exist or that are becoming available to assist the finance sector actors in their analysis of natural capital risks, dependencies and opportunities (86% of responses).
 - Examples and case studies of how financial institutions have taken account of natural capital in their practices, processes, products, and services (86% of responses).

- Examples of natural capital disclosure and reporting (84% of responses).
- Some other relevant aspects suggested by the respondents were:
 - Describe the role of finance sector and Small to Medium Enterprises.
 - Include real examples.
 - Link existing Materiality Assessment outcome (GRI G4) with the Protocol framework.
 - Identify natural capital related risks specific to emerging markets.
 - Align and simplify current Environmental and Social Impact Assessments.
 - Focus on risks and opportunity identification.
 - Analysis of natural capital at the portfolio level and inclusion of regulatory frameworks.
- A selection (not comprehensive) of the main tools suggested were:
 - Green Investment Bank Handbook.
 - Environmental Social and Governance risk tools.
 - IIRC framework, EU NFR (and UK Narrative Reg's); SASB sector guides, IFC Performance standards, UN SDG, and UN GRI Sustainability Standards.
 - ISO (14008 and 14007, both under development).
 - WRI Aqueduct.
 - Ecosystem Services Benchmark & the Sustainable Seafood Finance Toolkit.
 - Natural Capital Finance Alliance et al. Corporate Bonds Water Credit Risk Tool.
 - World Resources Institute's Weaving Ecosystem Services into Impact Assessment guide. Use of non-monetary methodologies.
 - EcoMetrics Model and Platform.

Some of the main **additional comments** and suggestions provided were:

- Go beyond current ESG practice.
- Incorporate how to scale approach and apply across all processes.
- Keep it as short and practical as possible.
- Focus first on so called "green" investments.
- Use existing standards/benchmarks to manage risks and opportunities.
- Engage the entire system in the conservation.
- Provide a short "accessible" summary booklet.



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