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Sustainability

IFC, Coalition Partner to Develop Framework For Valuing 'Natural Capital' in Business

The International Finance Corp. (IFC) and the Economics of Ecosystems and Biodiversity (TEEB) for Business Coalition will work together to develop and pilot a global framework for valuing ''natural capital'' in business decisions.

Their natural capital protocol will seek to harmonize the growing number of approaches for assigning value to environmental assets, such as minerals or land, and externalities, such as damages from climate change or the depletion of natural resources, to promote better measurement, monitoring and management.

The project, launched at the Responsible Business Forum on Sustainable Development in Singapore from Nov. 25-26, is not intended to invent new accounting methods. Instead, it will build on existing efforts, including the World Business Council for Sustainable Development's guide for valuing biodiversity and ecosystem services, to look at the entire picture of natural capital across different sectors and geographies.

The protocol, which will describe what should be considered in natural capital accounting, is expected to become the starting point for future standards on natural capital valuation that would explain how to account for it.

Businesses, investors, technical experts and stakeholders in policy and research will provide input for the protocol, which is expected to be released by the end of 2015.

'Economic Invisibility' Blamed. ''For businesses to be viable in the long term the ecosystems and resources they depend on must be maintained, yet when it comes to the natural environment the world is seeing a rapid depletion of capital,'' Dorothy Maxwell, executive director of TEEB for Business Coalition, said in a statement Nov. 25.

The top 100 environmental externalities are costing the global economy about $4.7 trillion a year, according to a study released in April by TEEB for Business Coalition. Coalition members include the Global Reporting Initiative, Conservation International, Ernst & Young LLP and others.

''Economic invisibility has been a major reason for the neglect of natural capital,'' Maxwell said.

To illustrate the business case for natural capital valuation, the project will include pilots of the protocol. For example, investors could use the protocol in their environmental, social and governance (ESG) assessment process for clients in high-impact sectors or companies could use it to determine how much their negative impacts on nature are worth.

Valuing natural capital can improve business decisions on risk management, supply chain sourcing decisions, new markets or investments, saving costs, sustaining revenues and environmental performance, according to the coalition.

High-Impact Sectors. The project will focus on business sectors and supply chains with high natural capital impacts, including agricultural commodities, forestry, fisheries, energy, mining, construction and consumer goods.

Two sector-specific guides will be developed for agricultural commodities used in food and beverages and consumer goods. Additional sector-specific guides could be developed in the future, TEEB for Business Coalition said.

Seed funding for the project is being provided by IFC, the private sector lending arm of the World Bank Group.

''IFC supports the development of a natural capital protocol as it will allow, not only to convene different parties, but also coordinate fragmented efforts and pave the way for a win-win for all,'' Usha Rao-Monari, director of the sustainable business advisory at IFC, said in a statement.

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More information on the natural capital protocol is available at http://bit.ly/1blV0xo.

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