

Framework emerges to build the business case for natural capital

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After months of consultation with stakeholders, the Natural Capital Coalition has published the first draft of a suggested framework to help businesses account for the value of natural resources such as water, soil, forests and even clean air in strategic decision-making.

It's the group's first step toward creating a common approach to natural capital accounting and measurement, the process of assigning monetary or economic values to the earth's assets so that they can be considered in investment or risk management discussions.

"We are very conscious that right now, natural capital means different things to different people," said Dorothy Maxwell, CEO of the Natural Capital Coalition.

Leaders from about 140 companies, NGOs, policy makers, standards bodies and sustainability consulting firms contributed ideas. The result is two draft documents that are being circulated for review.

The first is a "strawman" framework, "Valuing Natural Capital in Business: Towards a Harmonised Protocol," which outlines specific steps managers might take to integrate these principles. Here is a high-level summary of its suggestions for building the business case for natural capital:

- Be prepared to describe why it is important to measure, value or account for natural resources
- Make sure the argument covers risk mitigation, supply concerns, traceability factors and reputation benefits
- Address the "added value" to business
- Use the language of business and financial institutions to find common ground
- Clarify the need to set local priorities
- Make connections with long-term value creation
- Demonstrate the connection between natural capital and the other five capitals: financial, manufactured, societal and relationship, intellectual and human
- Stress the opportunity for early mover advantage

The second document is a comprehensive guide to existing specifications, assessments and applications that are likely to help organizations get started and that ultimately will contribute to the final protocol. The research was funded by the International Finance Corp. (part of the World Bank Group) and the Gordon and Betty Moore Foundation.

"The rationale for the Natural Capital Protocol is similar in some ways to the GHG (greenhouse gas) Protocol, which harmonized GHG emissions measurement many years ago," the coalition writes in the introduction to its report. "This Protocol would do the same for natural capital.

"The intent of the framework is not to invent new methodologies or guides unnecessarily, but to build on the existing front runners, by including technical innovations and filling gaps that can enable scalable integration of natural capital considerations in business."

Over the next six months, the coalition is encouraging companies to review the principles and begin testing these ideas internally. An updated framework should be available by the end of 2014, and 10 companies already have offered to participate in the pilot test phase and to share their findings, Maxwell said.

"The pilot testing will enable a period of experimentation in the market via different sectors and geographies to inform the protocol and guides," the coalition notes. "It is anticipated that the result protocol will inform future standards."

Aside from the generic framework, industry-specific guides are being developed for the food and apparel industries. Other "high-impact" sectors such as energy, forestry, mining, construction and fisheries are on the list for the future.

One of the most tangible revelations from the coalition's primary research was the depth of the disconnect between how sustainable managers discuss natural capital and how business leaders perceive this issue, Maxwell said. "We really need to clarify and define what we're talking about," she said.

That's one rationale behind the Natural Capital Business Hub, a joint effort of The Nature Conservancy and the Corporate EcoForum that showcases case studies from about 40 pioneers of this movement such as Coca-Cola (which also participated in developing the framework).

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