



NATURAL
CAPITAL
COALITION



Natural Capital
Finance Alliance
Finance sector leadership on natural capital

Secretariat:



Connecting Finance and Natural Capital: Consultation Report

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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 consultation process and the feedback this generated. It also sets out the actions taken to respond to this process.

The consultation process

A consultation process was held to help identify the areas and aspects to further address on the draft version of the Supplement. This process ran from May 16th, 2016 to August 31st, 2017.

The draft of the Finance Sector Supplement was available through the publically available Collaborase platform, where stakeholders were able to leave comments on the text and respond to survey questions. The consultation was supported by several face-to-face workshops, events and webinars. Table 1 summarizes these events.

Table 1. Supporting events during consultation phase

Location	Date	Type of event
New York, USA	May 16 th	Launch workshop
Amsterdam, Netherlands	June 28 th	Workshop
London, UK	July 10 th	Workshop
Johannesburg, South Africa	July 18 th	Workshop
Bogota, Columbia	August 2 nd	Workshop
Melbourne, Australia	August 29 th	Workshop
Sao Paulo, Brazil	August 30 th	Workshop

Summary of participation

Each of the above actions served to raise awareness and as result led to engagement points with 581 people from 40 countries.

The following figure shows the distribution by consultation mechanism, geography and by sector.



Engagement feedback

All comments were reviewed by the project technical team, and classified according to their subject, the stakeholder group who left the comment, and whether there were duplicative or recurring comments (added more weight). From the hundreds of comments received, we identified the main priorities which needed to be discussed and resolved with the wider project group.

To address these issues, the project management group, representatives from financial institutions, and members of the Coalition Advisory Panel met for a full day workshop to discuss the priorities raised through the consultation process.

A summary of the main themes discussed and actions taken to respond to them is set out below:

Leading issues

1	Issue	Level of technical detail needed
	Description	Level of detail is not sufficient for a technical reader, but equally too overwhelming for a high level reader.
	Discussion	Argument that the sector will struggle to integrate anything that isn't pitched as immediately material, and will therefore need as much guidance as possible. However, also need to remember that it is beyond our scope to be too prescriptive around the use of valuation techniques.
	Action	Decision to develop and release a set of documents for different type of readers: <ol style="list-style-type: none"> 1. A two-pager document focused on 'why' / business case 2. A Supplement / process document - 60/70 page 3. Appendix (or interactive content) on practical use cases of valuation techniques: to link each valuation technique to an illustrative 'use case', linking to existing studies where possible. 4. Develop a plan for an ongoing training or application programme for FIs to pick up the document. Will also reintroduce actions into each of the Stages, to offer more direction and support to technical readers.

2	Issue	Use of 'public and private value' terminology
	Description	This language does not resonate with the finance audience.
	Discussion	This isn't the term in common use, and different terms will resonate with different groups. Developing a bit of mapping / translating between them is needed.
	Action	Decision to return to 'value to business' and 'value to society' for ease of translation from Protocol. However, a box acknowledging all the different terms and offering a bit of mapping between them has been included. For example; <ul style="list-style-type: none"> • Financial / nonfinancial value • Tangible / nontangible value • Externalities • Economic value / welfare value • Financial materiality • Public/private



3	Issue	Additionality and strengthening the business case
	Description	The Supplement is weak up front, and doesn't outline the immediate business case for picking it up.
	Discussion	Decision not to move the business case to the primer because is unlikely people will download and read two documents in tandem. Should not move to the orientation either, as this is more about process and structure than business case.
	Action	To keep orientation as it was in the draft version, but to gradually bring some text forward to strengthen the business case.
4	Issue	Balance between risk and opportunity
	Description	Request to include more reference of opportunity throughout the document, as is disproportionate to the discussion of risk.
	Discussion	Can add more reference to opportunity into the case studies, but should also work into the framework (e.g. Table 1.3 on Business Applications, should include an example of opportunity such as net positive. Agree to strengthen all of the rows in this table). The ultimate opportunity is to create a portfolio that is less risky. There may also be an equity angle that the draft version did not include. Impact investing could also be another opportunity. Similar issue: note inclusion of positive impacts, not only negative impacts.
	Action	The full document has been reviewed, and increased the reference to opportunity, and positive impact, where possible.
5	Issue	Reference to existing approaches, particularly TCFD
	Description	Many FIs will benefit from relating the Supplement to existing approaches they are already using and understanding its additionality. Inconsistency is also unhelpful; for example the risk and opportunity typology used is different to that in the TCFD guidelines.
	Discussion	We should stay aware that the work of the TCFD differs to the finance supplement. That key message is not that we need to completely align approaches, but to acknowledge how they relate to each other. Also consider relationship to ESG and other initiatives.
	Action	An illustration has been introduced in Frame stage to show the connection with other initiatives.



6	Issue	Conceptual model and government
	Description	Does the supplement need to include government in the conceptual model figure? If so, where? Government related investments and financial activities can be included as a type of 'entity' but should the supplement reference also the role of government in relation to society?
	Discussion	Consideration of showing 'entities' as a collection of multiple entities, rather than just a scene, and to label components as either business or government. This proposal rejected as would blur the line with society too much. The ongoing discussion about how to include government in this figure will never reveal an accurate solution and isn't an effective use of time.
	Action	'Entities' have been replaced by 'business' in the image. A paragraph has been added to better explain why the direct relationship to society (bypassing a natural capital link) is out of scope for the Supplement.

7	Issue	Relationship to Protocol
	Description	Greater connections to ESG are needed and the relationship to the Protocol needs to be clearer.
	Discussion	This issue is about what / how much valuable content the Supplement could replicate over from the Protocol. For some, general concepts/guidance will be helpful even if not tailored specifically to finance supplement (for example if conducting portfolio level assessment). In some cases, the Protocol content has been edited to the extent that the context has been lost. The other sector guides highlight the key differences and parallels in process from the Protocol. However, these guides are designed to be read in tandem – whereas the Supplement is a standalone. Regarding how purist the Supplement should stick to natural capital language, or whether it should offer a translation for the finance world, a decision was taken recognizing that the role of this document is to attract the finance world into natural capital, then finance language should prevail. This document is a stepping stone. That said, some technical phrases should be maintained from the Protocol, for technical clarity.
	Action	Terminology and translation throughout have been reviewed across all stages.

Other issues

8	Issue	More signposting to tools needed
	Description	Financial institutions need more guidance on the tools and approaches available to them when implementing the Supplement.
	Action	The relationship to the Natural Capital Protocol Toolkit has been strengthened and clarified.



9	Issue	Title change
	Description	The title used in the draft version "Finance Sector Supplement" won't resonate with any reader not familiar with the Protocol.
	Action	Mentioning 'assessments' might be too restrictive, while 'finance' might imply only 'financing' rather than the wider sector. Therefore the title has been changed to: "Connecting Finance and Natural Capital: A Supplement to the Natural Capital Protocol"
10	Issue	Risk and opportunity table
	Description	Typology is different to that used in Protocol (i.e. financial risks and opportunities are removed). This might be confusing.
	Action	This classification has been revised and 'market' risks and opportunities have been incorporated. Connections with TCFD classification have been explained.
11	Issue	Natural capital language
	Description	Insufficient introduction to natural capital terms – e.g. if/how different to isolated climate change and water issues, and an explanation of ecosystem services.
	Action	Improved introduction of natural capital terms, especially in Frame stage. In addition, impact / dependency pathway has been defined before using them in text.
12	Issue	Conceptual model – relationship with society
	Description	It isn't clear why the relationship to society is out of scope. Potential confusion between the inclusion of 'social capital' vs. the natural capital 'value to society / public value'.
	Action	Refer to issue 6. A paragraph explaining this has been added.
13	Issue	Discussion of subsidies
	Description	Subsidies distort the market, and also the realization of some natural capital issues. Can we address this more directly?
	Action	A box to discuss externalities and market failure / distortion in more detail has been included in Measure and Value Stage. It also links to role of government.
14	Issue	Disclosure
	Description	Contains little discussion about how to appropriately disclose natural capital information.
	Action	The Supplement can discuss disclosure at a general level, but it is beyond scope to dictate the expected level of disclosure for investors; this is already covered by CDSB and GRI.



15	Issue	Broaden scope of objectives
	Description	Current objectives aren't ambitious enough, should include more discussion of trade-offs, etc.
	Action	Some more ambitious examples of objectives have been included.
16	Issue	Impact and dependency pathways
	Description	Redesign pathways to include relevance to finance sector – e.g. add an extra 'link' in the pathway chain.
	Action	The Impact/Dependency pathways figures have been extended to become 'financially meaningful', by including another stage.
17	Issue	Foreword
	Description	Edits around framing of finance sector in foreword.
	Action	The foreword has been edited to better frame it.

Conclusion

The consultation process has:

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

This valuable feedback will contribute to making the Supplement a constructive, robust and representative tool for the financial sector.

The project management team would like to thank all individuals and organizations that took part for their time and input.

If you would like to discuss any of the above issues further, please contact info@naturalcapitalcoalition.org.

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