

thenaturalvalueinitiative

linking shareholder and natural value



An overview

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Overview



- The need
- The benchmarking approach
- The Natural Value Initiative
- Getting involved

The need

“Investors are not asking the right questions about biodiversity. If they were, we wouldn’t be able to answer them.”

A retailer



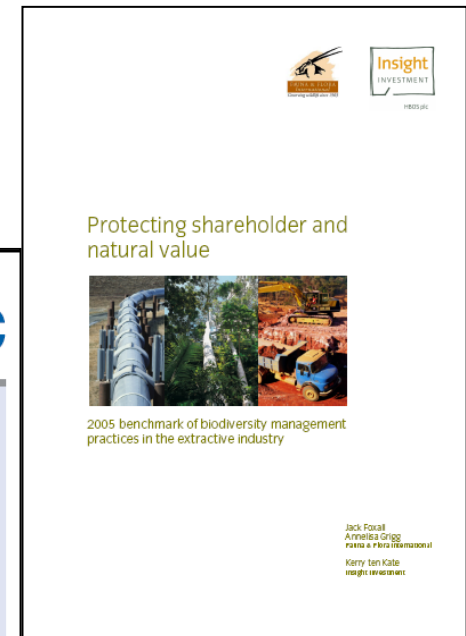
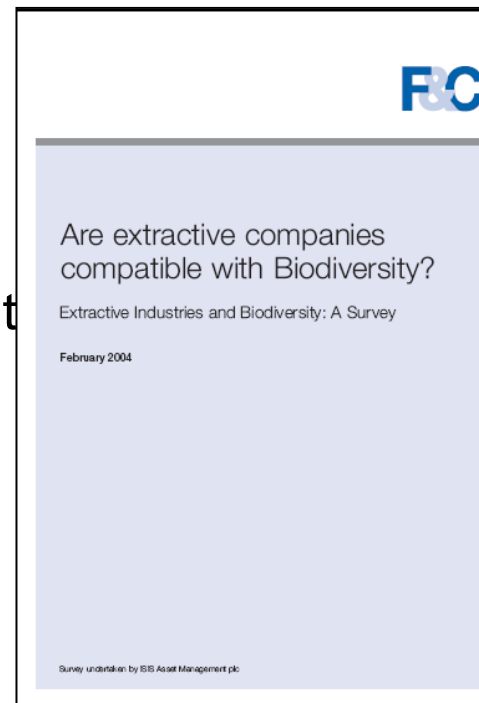
“Better tools are needed to integrate biodiversity into investment analysis.”

F&C Asset Management

- Increasingly links being made between shareholder value and environmental issues
- But in many companies biodiversity and ecosystem services dependency and impacts remains an unrecognised risk
- Information needs of investors are not being met
- Strong practices are not being rewarded
- Few tools currently exist to enable a rigorous evaluation

Benchmarking tools

- F&C
 - Focus on extractive sector
 - Review of key elements of biodiversity management
 - Ongoing engagement
- FFI and Insight Investment:
 - Includes 34 standard and 7 leadership aspects of management (Governance, policy & strategy, management & implementation, assurance and reporting, leadership)
 - Provides an objective, consistent basis for examining the comparative risk exposure and management of companies in on biodiversity



How was it used?



- By companies:
 - As a strategic framework against which to evaluate their activities
 - As a means of securing greater internal support
- By financial organisations
 - To inform investment decisions
 - Goldman Sachs: key element of their ESG reports
- Why was it so positively received?
 - Looked at BES as a business risk and opportunity
 - Brought a global view
 - Came from investment community

Feedback



“Cultivated land covers one quarter of the world’s land - this has resulted in loss or degradation of natural habitats such as forests and wetlands”

Millennium Ecosystem Assessment

- Attention has been focused on the extractive sector
- Companies with agriculturally based supply chains have a dependency and impact on biodiversity that is potentially greater
- The analysis was Eurocentric in nature and could benefit from developing country input
- The focus was on process rather than performance measures
- Others: subjectivity, auditing and ground level performance

The Initiative in brief



- A collaboration between international environmental NGO Fauna & Flora International, Brazilian business school FGV, UNEP FI and is supported by the UN PRI



- Through this to build a leadership group within the finance sector which pilots and support this toolkit (F&C Asset Management, Insight Investment, Pax World, Banco Real, VicSuper)

The Initiative in brief



“A further 10-20% of grassland and forest are projected to be converted to agriculture between 2000 and 2050.”
Millennium Ecosystem Assessment

- Build expertise in the finance sector for evaluating risk and opportunities associated with this issue
- Build awareness of the food, beverage and tobacco sector’s dependence on biodiversity and ecosystem services
- Stimulate improved performance in the food, beverage and tobacco sectors

The process



An ongoing process of engagement to track performance improvement...

Methodology overview



Scope

- Focus on biodiversity and ecosystem services issues associated with the management and harvesting of raw materials
- Does not consider all sustainability issues (social/ community), industrial footprint or impact of supermarket sites on biodiversity
- Bio-dependency and impacts assessment toolkit

Structure

- Three levels of supply chain
 - Primary producers and commodity processors
 - Manufacturers and retailers
 - Farm level performance
- Series of targeted questions based on established risk management practice
 - Governance
 - Policy and strategy
 - Management and implementation
 - Reporting
 - Competitive advantage

Key outputs



- **Company specific analysis of strengths and weaknesses:** A concise summary of results provided to investors and FBT companies showing strengths and weaknesses of their approach to biodiversity and ecosystem services risk and dependencies and identifying three key areas for improvement
- **Consolidated report:** outlining key findings from the analysis and ranking those companies benchmarked to show leading and lagging practice
- **Business case document:** document outlining the business case for managing biodiversity and ecosystem services dependencies and impacts
- **Biodiversity and ecosystem services dependency and impact assessment toolkit:** promoted to investors for uptake and repeat analysis

Methodology overview

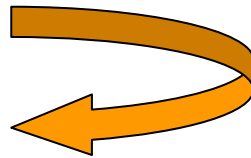


Examples drawn from the draft methodology

**These are indicative only and do not represent
a conclusive analysis of any companies
mentioned**

Example: Governance

Activity	Output
Risk Assessment	Key areas of dependency and impact on ecosystem services identified: risk profile linked to nature and type of products sold



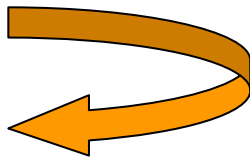
Example: BAT

- Business case for action focused on: security of supply of raw materials
- Risk evaluation on a country level to focus effort
- Risk and opportunity toolkit to evaluate risk on a site level

- **Level 1:** Lack of formal risk assessment process to identify priority products/ crops/ species for action
- **Level 2:** Identification of priority crops and species tracked through a limited number of product lines or on an ad hoc basis as a result of external pressures e.g. NGO campaigns
- **Level 3:** Evaluation of product lines conducted and those of greatest value or risk to the organisation identified against relevant risk factors
- **Level 4:** Full risk assessment of all commodities/ products against all relevant risk factors. Results integrated into a fuller risk assessment and associated action plan.

Example: Policy & Strategy

Activity	Output
Policy and strategy framework	Statement of objectives relating to sustainable production and harvesting: provides a consistent framework for driving improvement and managing risk and opportunity



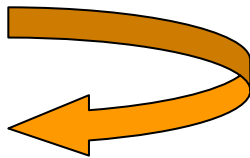
Example: BAT

Biodiversity policy statement: makes commitment to undertaking risk assessment to understand impacts on ecosystem services and taking steps to avoid, minimise and offset them

- **Level 1:** No specific policy statement
- **Level 2:** Issues covered in general terms as part of overall environment / sustainable development strategy or broad-brush policy provides framework for action; lacks specific standards or commitment to set targets
- **Level 3:** Commodity / species specific policies set out including commitments to understand and minimise impacts on ecosystem services/ efficient use of resource / farm mgmt standards, external assessment process, goals and targets, ongoing review
- **Level 4:** In addition to the former, an action plan is devised to implement the policy/ strategy

Example: Management & Implementation

Activity	Output
Supplier Engagement & Capacity Building	Driving improvements through supply chain: tools and mechanisms in place to drive improvement through the supply chain



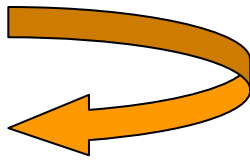
Example: BAT

- Uses a road map for performance which includes biodiversity and ecosystem services
- Suppliers self score, but audits are conducted on poor performers

- **Level 1:** Suppliers expected to take corrective action where necessary: no systematic follow-up
- **Level 2:** Compliance with policy built into contractual obligations. Suppliers required to self-assess and to produce improvement plans; in-house systems & resource limited
- **Level 3:** Suppliers required to demonstrate progress against improvement plan: in-house systems & resource in place to assess & respond
- **Level 4:** Active monitoring of supplier progress against improvement plans..

Example: Reporting

Activity	Output
Performance	Improvement in practice: information available to track improvement in the supply chain



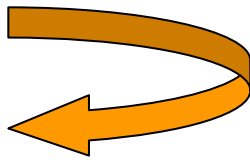
Example: M&S

- Tracking pesticide residue and GM in supply chain
- Certified products: Fairtrade, FSC, MSC
- Limited farm level data, but commitments in place

- **Level 1:** Information is not available to track performance improvement down the supply chain
- **Level 2:** Internal systems in place to track performance. Overall trends suggest no or limited improvement or data not yet available
- **Level 3:** Internal systems in place to track performance. Trends suggest improvement in some areas
- **Level 4:** Internal systems in place to track performance. Trends indicate progress in priority areas.

Example: Competitive advantage

Activity	Output
Creating Long Term Added Value	Action to overcome barriers to sustainable production: focus on issues that require collaboration or address root causes of overexploitation



Example: M&S

- Supporting WWF and MSC in their work to develop certified fisheries
- Engagement with the Roundtable on Sustainable Palm Oil
- Partnership with Shell Foundation to remove barriers to sustainability and provide access to markets in small traders

- **Level 1:** No activities in place
- **Level 2:** Activities in place but engagement is ad hoc and issues driven rather than linked to strategy
- **Level 3:** Clear understanding of issues surrounding long term dependence on ecosystem services and action plan in place to address
- **Level 4:** Series of activities in place to address priority issues which create barriers to sustainable sourcing e.g. long term NGO partnerships, collaboration with industry associations/ governments, participation in multi stakeholder process