

The capitals approach

Business has a significant role to play in delivering the SDGs. How can the concept of 'capitals' – from natural to intellectual – help the sector to focus its contribution?

By **Mark Gough**, Executive Director, Natural Capital Coalition, and **Richard Spencer**, Head of Sustainability, Institute of Chartered Accountants in England and Wales

In a world where the interconnected and constantly changing relationships between financial, social and environmental issues are becoming more and more evident, firms that remain

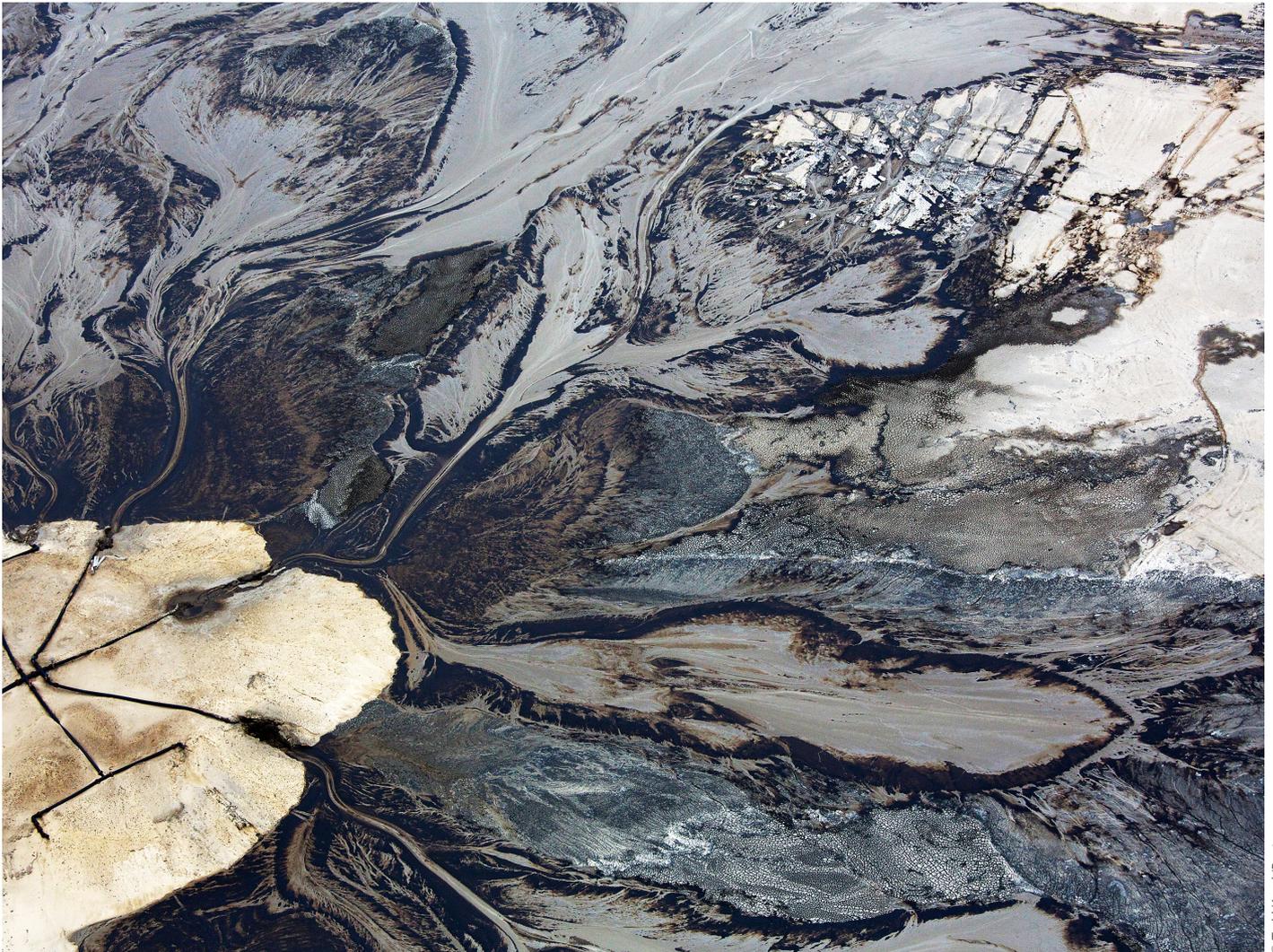
unaware of their impacts and dependencies on their non-financial relationships provoke unnecessary risk. They also fail to recognise new opportunities for efficiency, growth, resilience and development.

Business and capitals

The concept of capitals has been gaining traction as a way to address this knowledge gap. We use the word 'capitals' as a

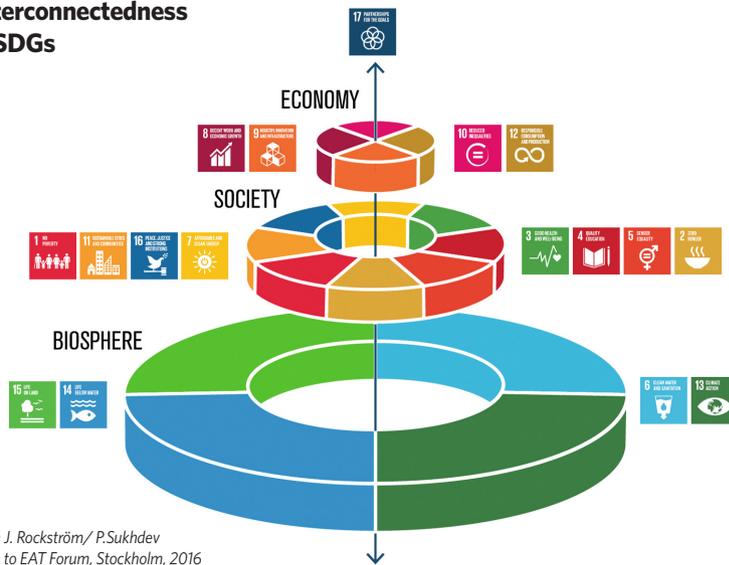
metaphor to understand the dynamic relationships that businesses, and others, have with the different constituents of our society and environment.

Capitals can range from social, human and intellectual through to manufactured, physical and natural. Understanding our relationships in these terms can be extremely useful. We can begin to think about our positive and negative impacts on



© Todd Korol/Reuters

The interconnectedness of the SDGs



Source: from J. Rockström/ P.Sukhdev presentation to EAT Forum, Stockholm, 2016

or worth', is essential if we want to implement capitals thinking in a business environment. If the vineyard, for instance, were unable to communicate the business value of designating productive land to plant unmarketable native flora, then any such proposal would be unlikely to be taken seriously at management level.

Natural capital

The materiality of the different capitals will vary greatly from industry to industry, and from business to business. What is clear, though, is that natural capital (our relationship with nature) underpins all others.

The Natural Capital Coalition is based on the theory that no individual organisation will solve the enormous problems we face by itself. It is only by working together that we will find the solutions we need. As a project hosted by the Institute of Chartered Accountants in England and Wales, the Natural Capital Coalition is a collaboration between some of the world's leading organisations. It provides a platform to share best practice and to address enduring challenges.

The Coalition's first major project was to harmonise the many existing approaches to natural capital into a single standardised global framework. This Natural Capital Protocol was published in July 2016, and has been incredibly well received. Thousands of businesses are now looking to benefit from a better understanding of their relationships with the natural world.

The Protocol was developed by a core team of 38 organisations, who came together to produce a public good, available under a creative commons licence, enabling free distribution. Over 450 organisations contributed to the Protocol's development over the two-year project. This collaborative approach has meant that governments, conservation bodies, associations, businesses and consultants are all promoting and supporting the Protocol's application – hence the considerable uptake.

The Protocol and the SDGs

The Sustainable Development Goals (SDGs) are an expression of the outcomes that the capitals approach aims to achieve.

the capitals as deposits in, and withdrawals from, a depleting finite resource, or 'account', whose balance we all depend on for continued success and survival.

This shift in perception allows us to make the corporate decision-making playing field more level. It gives a voice to non-financial information, in a game traditionally dominated by financial considerations. When decision makers begin to think in this way, there are a range of frameworks, tools and solutions at their disposal. Such solutions are often simple, yet offer significant advantages to business, society and the environment.

As we write this, it was reported that a prominent Australian vineyard and estate had reduced toxic pesticide use by 80 per cent. It did this by understanding its dependency on natural capital in the form of predator insects. By dedicating a tiny percentage of its land to growing native plant species (designed to attract such insects), the estate found that spraying pesticides became largely unnecessary. This represents a financial saving for the vineyard, a healthier local ecosystem and environment, and a safer working environment for employees. Examples like this abound.

Without an understanding of a business's dependencies (on predator insects in this case) and the way in which they impact upon operational success, factors such as native plant species are very unlikely to be accounted for in business decision-making. Win-win solutions like the above would fail to be identified.

While spraying 80 per cent less pesticide may sound trivial as a solution to the global challenges we collectively face, if this way of thinking became ingrained in the DNA of businesses, and was applied in all decision-making, it could catalyse a fundamental shift in the way that organisations function. It could also revolutionise how they see their place in the world: not as dominators of nature, but as nature's collaborators. With this renewed understanding, businesses are far better placed to determine and accelerate their contribution to the global goals that society has established.

Valuing relationships

A key insight of the capitals approach is to move beyond measuring impacts and dependencies to valuing them. The important point here is that valuing is not the same as pricing. To give something a price suggests that it can be bought. But value does not work in this way.

Valuing, which we define as 'understanding relative importance

◀ Tar sands tailings ponds in Alberta, Canada. A natural capital approach requires a valuation of the natural capital and ecosystems services that are being degraded

They represent a single operating system of strong and resilient economies, and fair and just societies, all achieved within what nature can afford. They are a wonderful articulation of how business and economic success depend on, and are innately connected to, social and environmental success. They are a cornerstone of the natural capital business case, and provide the legitimacy that organisations need to motivate and benchmark their progress.

The Protocol provides its users with the tools to ask two key questions:

- how dependent am I on nature?
- what impact am I having on its health?

To achieve the SDGs, we will all have to ask ourselves these two fundamental questions. For each SDG, governments, businesses, associations and individuals must ask how dependent we are on the

success of that goal (often more than we think) and whether or not our actions are helping to achieve it. These are two powerful questions, because they force us to acknowledge our place in a vastly complex and interdependent system, and recognise that we cannot separate ourselves from global issues.

We also realise that it is not possible to think about natural capital without being drawn into considerations of the other capitals. They are all interconnected: understanding the dependency and impact on one leads you to understand the dependency and impact on others.

The capitals approach, and the Natural Capital Protocol, not only allows organisations to ask themselves these questions, but provides a pathway to the answers. It supplies a standardised framework to identify, measure and

value impacts and dependencies on the capitals, bringing them into the decision-making process, and working to deliver on the SDGs.

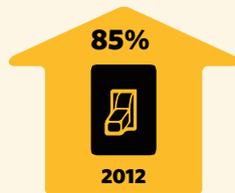
Indeed, in preparation for the 13th Meeting of the Conference of the Parties to the UN Convention on Biological Diversity in Cancún, Mexico in December 2016, the Council of the European Union called on the business sector to use the Natural Capital Protocol to increase its involvement in, and contribution to, achieving the Aichi Biodiversity Targets and the biodiversity-related SDGs.

One of the central principles of the SDGs is that they are indivisible. If we are to achieve them, businesses and individuals must recognise that our impacts and dependencies on the capitals are indivisible from our continued wealth, health and happiness. ●

7 AFFORDABLE AND CLEAN ENERGY



Ensure access to affordable, reliable, sustainable and modern energy for all



The proportion of the global population with access to electricity increased, from 79 per cent in 2000 to 85 per cent in 2012.



1.1 billion people still without electricity in 2012



Energy access varies widely between countries and the current rate of progress will be insufficient to achieve this goal. In addition, the proportion of renewable in the energy mix is only growing modestly - from 17.4 per cent in 2000 to 18.1 per cent in 2012

Source: The Sustainable Development Goals Report 2016, United Nations

Energy intensity measured in terms of primary energy and gross domestic product, 2000 and 2012 (megajoules per 2011 US dollars PPP)

