State of play of business accounting and reporting on ecosystems

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Overview

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• Questions

SEEA
Context

- **Business accounts** and **national accounts** have been harmonized and aligned in order for business accounts to feed into the statistical production process of the System of National Accounts.

- With more and more businesses beginning to undertake **sustainability accounting** and **reporting**, there is now an **opportunity to align business sustainability accounts, as they pertain to the environment and ecosystems, with the SEEA**.

- At this moment there is **no globally accepted uniform / standardized way for business accounting on natural capital**. On the contrary, there is ‘total freedom’ and as a consequence company performance on NC is hard to assess by stakeholders, including the investors.

- As a result, there is a **growing tendency towards harmonization of corporate NC accounting approaches and towards impact reporting**. SEEA accounts produced by national statistical offices, in particular ecosystem accounts, could provide valuable information and context to businesses with regards to their impacts and dependencies on natural capital.

- The **objective** of this session is to **explore the current state of play and opportunities** for alignment between the public and private sectors when it comes to the SEEA.
The NCA VES project

The ongoing SEEA project “Natural Capital Accounting and Valuation of Ecosystem Services” includes a workstream on business accounting. This workstream aims to:

- contribute to the alignment of natural capital accounting between the public and private sectors;
- explore how to harness synergies between the public and private sectors in the collection and use of statistics and data for natural capital accounting;
- provide a technical methodological contribution at the level of methods or of indicators that promotes alignment.

To reach these objectives, there is a need to bring together the public and private sectors to look at the intersection of business accounting and the SEEA, particularly with regards to ecosystems and ecosystem degradation and restoration. At this moment, the following steps are taken:

- Literature review of current practices in business accounting and reporting
- Interviews with 10 to 12 companies
- Scoping workshop
- Roadmap
Scope of research

• Focus on ecosystem degradation and restoration
  > refers to changes in the ecosystem assets, such as improvements in condition (‘restoration’) or reductions in stock due to extraction, ‘degradation’ or natural loss.
  > the focus on degradation and restoration assumes that we will focus on the state of ecosystems where businesses have impacts or dependencies on.

• In particular:
  > water and biodiversity including ecosystem services
  > business risks and opportunities of respectively non-action and action by businesses.
  > this also includes climate change risks related to degradation of ecosystems as well as opportunities related to ecosystem restoration.

• Water and biodiversity are typical landscape scale elements that often go beyond the direct land footprint of companies and therefore are interesting to make the bridge to (sub)national level information (e.g. river basins, ecosystems). The same applies to climate change adaptation.
Business accounting and reporting on natural capital – some basic concepts

• Natural Capital Assessment: the process of identifying, measuring and valuing relevant (“material”) natural capital impacts and/ or dependencies, using appropriate methods. Natural capital assessment is the method most typically used in the private sector. The majority of assessments will use natural capital information to answer a specific question or inform a decision. A key step in the process is to identify an objective prior to undertaking the assessment (a so-called business application) - the aim is not about collecting a set of indicators.

• Natural capital accounting: the process of compiling consistent, comparable and regularly produced data using an accounting approach on natural capital and the flow of services generated in physical and monetary terms. The majority of applications are done at a national level and by the public sector. Natural capital accounts are a possible output from a natural capital assessment.

• NCA by businesses is part of CSR
Business accounting and reporting on natural capital – a quick overview

• Voluntary framework for natural capital assessment: Natural Capital Protocol
• Voluntary target-based approaches for natural capital accounting and reporting: Planetary Boundaries and SDGs
• Voluntary standards on natural capital reporting: GRI, CDP and IIRC
• Voluntary standards on monetization of natural capital impacts and dependencies: ISO 14007 and ISO 14008
• Voluntary accounting and reporting approaches based on integrated reporting thinking: E P&L
• Voluntary thematic accounting approaches: water assessment, biodiversity assessment
• Regulatory frameworks for non-financial reporting: the EU Non-Financial Reporting Directive
Landscape of NCA approaches

Approaches to reporting e.g.,
  How to report - CDSB, IIRC
  What to report -
  GRI, SASB, CDP, GHG Protocol

Strategic initiatives e.g.,
  UN Sustainable Development Goals
  Climate targets, commitments
  or declarations
  The Circular Economy
  Net Positive Impact

The Protocol helps to integrate natural capital into existing decision making processes

Depending upon the decision that you want to inform there are various tools and methodologies to help you value natural capital

Measurement approaches e.g.,
  Environmental Management Systems (ISO 14001)
  GHG Protocol

CDP - Carbon Disclosure Project
CDSB - Climate Disclosure Standards Board
IIRC - International Integrated Reporting Council
ISO - International Organization for Standardization
GHG - Greenhouse Gas
GRI - Global Reporting Initiative
SASB - Sustainability Accounting Standards Board

By informing decisions the Protocol helps increase engagement with stakeholders

The decisions you then make help define and prioritize goals against your strategy

By understanding value you are able to inform decisions

The Protocol also helps you to value the relative importance of your impacts on your stakeholders

INTEGRATING NATURAL CAPITAL INTO BUSINESS DECISION MAKING

This landscape is not exhaustive. The Natural Capital Coalition will continue to explore the landscape as it evolves.
The Natural Capital Protocol

Decision making framework that enables organizations to identify, measure and value their direct and indirect impacts and dependencies on natural capital.
Planetary Boundaries
Environmental Profit & Loss

UNDERSTANDING OUR FOOTPRINT

TO MEASURE OUR TRUE ENVIRONMENTAL FOOTPRINT WE EXAMINE:

- Carbon emissions
- Water use
- Water pollution
- Land use
- Air pollution
- Waste

AND TO REALLY UNDERSTAND OUR IMPACT WE ANALYSE THESE FACTORS THROUGH OUR VALUE CHAIN:

- Raw materials
- Procurement
- Manufacturing
- Assembly
- Operations & Retail

TRANSLATION INTO MONETARY VALUE

\[ F_u(t) = \frac{1}{n} \sum_{i=1}^{n} X_{i(t)} \]

We analyse the environmental outcomes and their impact on people.

The data collected is translated into a monetary value to accurately measure and provide a good understanding of the cost of our activity.

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<thead>
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<th>TIER 0: STORES, WAREHOUSES, OFFICES</th>
<th>TIER 1: ASSEMBLY</th>
<th>TIER 2: MANUFACTURING</th>
<th>TIER 3: RAW MATERIAL PROCESSING</th>
<th>TIER 4: RAW MATERIAL PRODUCTION</th>
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Business consultation

• Frontrunners and FI increasingly aiming for standardization in NCA – therefore the SEEA EEA takes their interest

• Increased demand for impact reporting instead of statistics reporting requires additional data e.g. on condition, policy objectives, threshold values

• The latter is very important for companies going for ‘zero impact’ and/or ‘One Planet Thinking’ and for many more companies aiming for operational risk reduction

• Climate change scenarios are getting very important too

• Sharing of company data could save money – still issue of confidentiality

• Synergies, even a win – win, are possible!!
Questions for the Committee

1. Does the UNCEEA agree that it should play a role in aligning business sustainability accounting and reporting on the environment and its relationship with the economy with the SEEA?

2. What are potential areas to focus on in terms of alignment? For example, business accounting and reporting on water is relatively advanced compared to other areas and could be an initial focus for alignment.

3. Businesses and national statistical offices can have a mutually beneficial relationship when it comes to natural capital accounting and the SEEA. What kinds of SEEA-related products or tools do you think would provide the biggest value added to the private sector?
THANK YOU
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