

EMBEDDING NATURAL CAPITAL IN RESPONSIBLE INVESTMENT DECISION MAKING





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INTRODUCTION

Preparing, financing and implementing infrastructure projects in Sub-Saharan Africa



Mission

- Advance development impact in Africa by expanding access to development finance and effectively integrating and implementing sustainable development solutions to:
 - Improve quality of life through the development of social infrastructure
 - Support economic growth through investment in economic infrastructure
 - Support regional integration
 - Promote sustainable use of scarce resources

Strategic objectives

- Sustained growth in developmental impact – aggressively grow businesses to maximise developmental impact
- Integrated infrastructure solutions' provider across value chain – partner of choice
- Financial sustainability – maintain profitability and operational efficiency to enable growth in equity and fund developmental activities
- Sustainability innovations

ALIGNMENT TO NATIONAL, REGIONAL AND GLOBAL PLANS

National



integrated policies gas free
us renewable energy
resource plan

Regional



Infrastructure Vision 2027

Regional Infrastructure Development Master Plan

Global



PARIS2015
UN CLIMATE CHANGE CONFERENCE
COP21·CMP11

INTEGRATED APPROACH TO INFRASTRUCTURE DEVELOPMENT



1. Plan

- Municipal assessments
- Bulk infrastructure plans
- Infrastructure planning advice

2. Prepare

- Project identification
- Feasibility assessments
- Technical assistance
- Programme development
- Project preparation funds

3. Finance

- Long-term senior and subordinated debt
- Corporate and project finance
- Mezzanine finance
- Structured financing solutions

4. Build

- Managing design and construction of projects in education, health and housing sectors
- Project management support

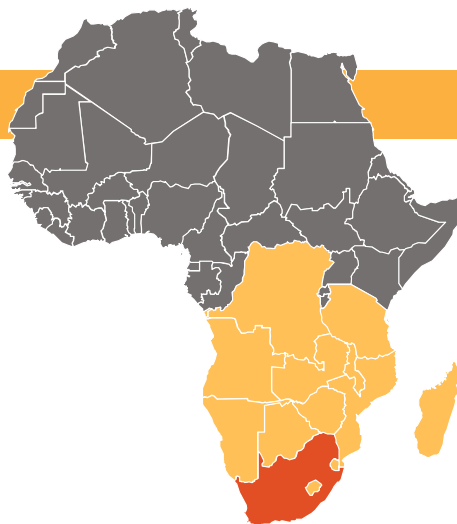
5. Maintain

- Supporting maintenance/ improvement of social infrastructure projects

Clients

Public

- Municipalities
- SOEs
- Sovereigns



Private

- PPPs
- Private sector

DEVELOPMENT POSITION



DBSA contributes to a **just transition** toward a **renewed and inclusive economy and society** that embodies resilience, regeneration, and transcends current trajectories. As development practitioners, the DBSA holds this to be the transformative change needed to realise a **prosperous, integrated and resource efficient continent**. This stance progressively advances the common goals for **sustainable and equitable** wellbeing. The DBSA will work in partnership to co-produce impactful development solutions and the sustained platforms of an enabling environment for participation, a sense of purpose, empowerment and deep connections. DBSA will bend the arc of history through our continued multi-faceted investments in sustainable infrastructure and human capacity development.

DBSA VISION TO GREENER ECONOMY



Over the years the South African government has adopted a range of national legislation and plans in support of its vision of a greener and more sustainable economy.

South Africa's vision of sustainable economic development and commitment to a greener economy was re-affirmed at the Conference of Parties 17th Meeting (COP17) held in Durban, South Africa during December 2011.

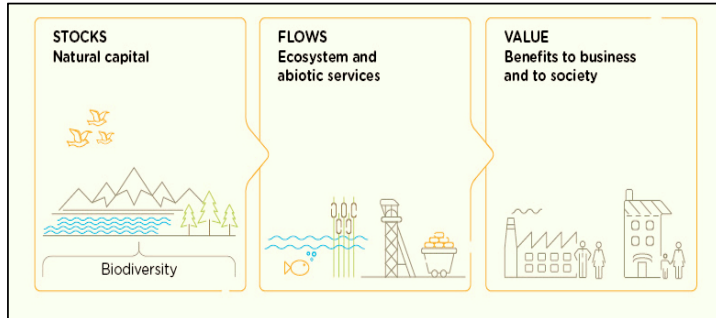
The DBSA in support of government's commitment to contribute to a wide range of goals of transitioning to a greener economy aims to:

- To be a leading DFI with regard to its contribution towards the country and region's transition to a low carbon economy
- Support government and region in meeting its NDCs
- Achieve excellence in climate change reporting and development of appropriate frameworks
- Support efforts to embed natural capital accounting in our investment portfolio

DEFINITIONS ON NATURAL CAPITAL DEPENDENCY

Natural capital is the stock of renewable and non-renewable resources that together provide benefits to people. This includes clean air, food, water, energy, shelter, medicine, and raw materials used to produce goods. Natural Capital provides humans with flood defense, climate regulation, pollination and recreation.

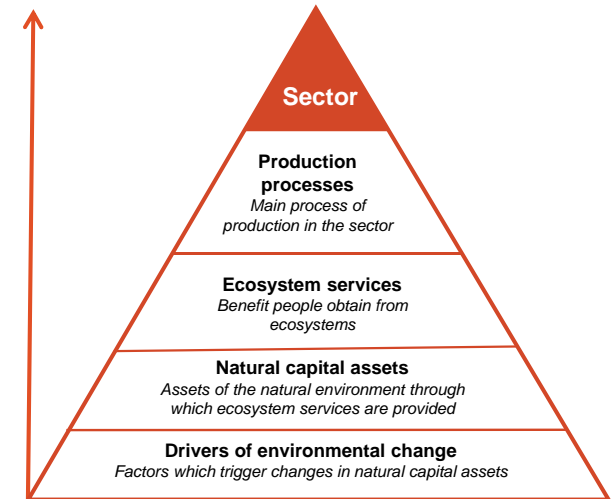
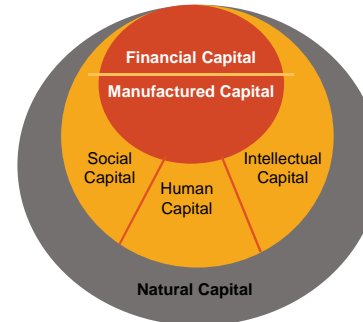
Natural Capital Risk comprises the risk of reduction or interruption of the benefits that humans and their economy receive from nature as a result of human pressures on the environment (NCFA 2018).



Natural capital dependency – A business reliance on or use of natural capital.

Dependency pathway – A dependency pathway shows how a particular business activity depends upon specific features of natural capital. It identifies how observed or potential changes in natural capital affect the costs and/or benefits of doing business.

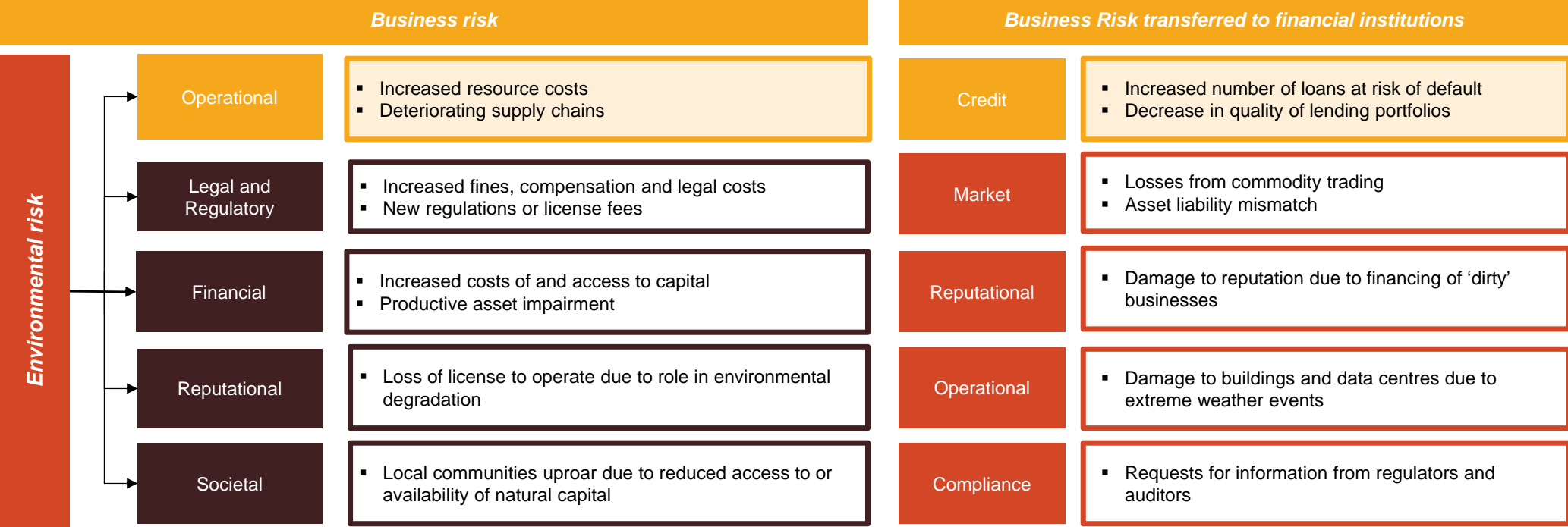
King IV requires institutions to report on how they make profits – Natural capital supports all capital including financial, manufactured, social and relationship, human and intellectual capital.



HOW NATURAL CAPITAL DEPENDENCY RISK IMPACTS ON THE DBSA

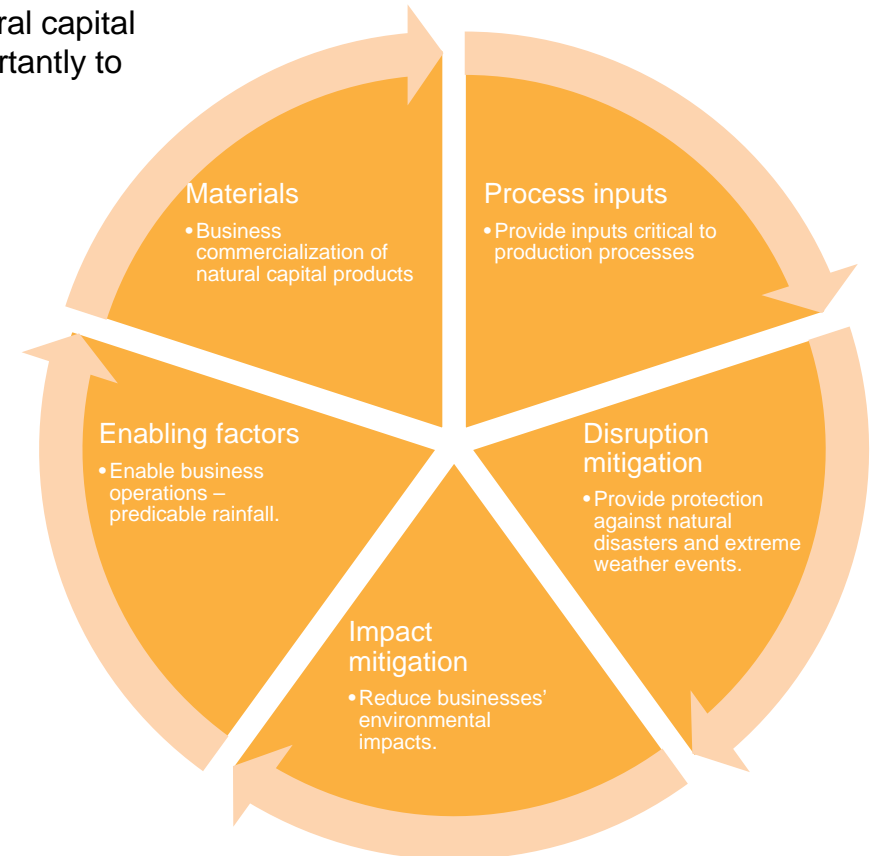
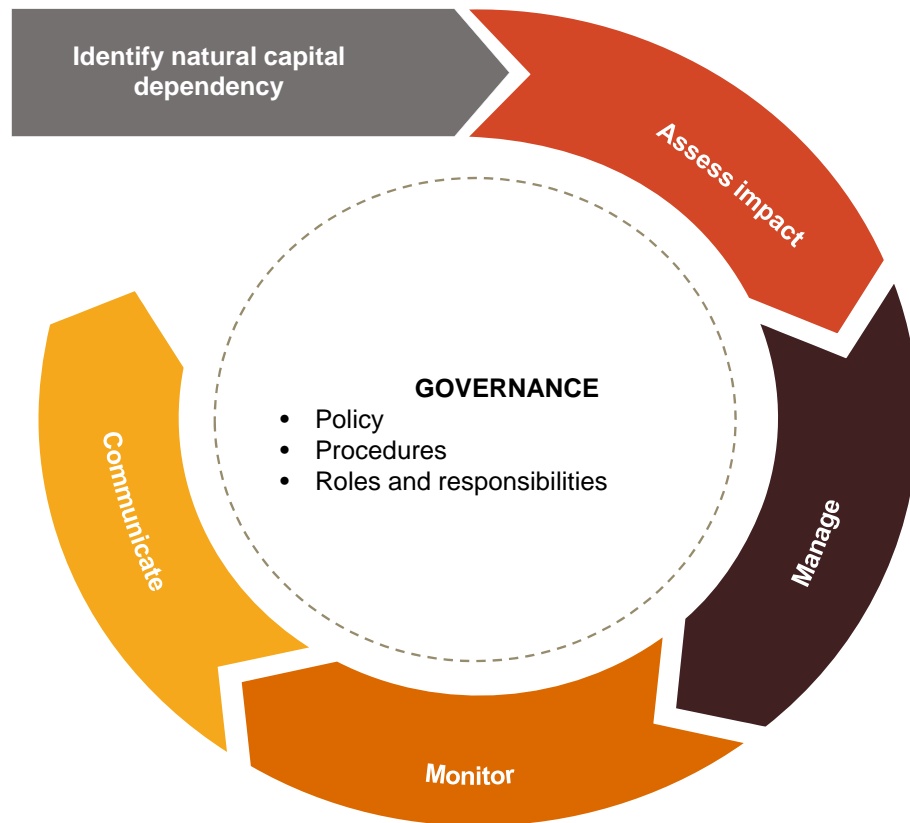


ENVIRONMENTAL DISRUPTION TRIGGERS BUSINESS RISKS



NATURAL CAPITAL ACCOUNTING A TOOL TO MITIGATE BUSINESS RISK AND SUPPORT VALUE CREATION

Understanding how business relies on the “goods and services” provided by natural capital enables businesses to both identify, manage and mitigate business risk and importantly to maximize the value creation process in a sustainable manner



NATURAL CAPITAL ACCOUNTING AND BUSINESS RISK MITIGATION



- Financial institutions are increasingly understanding that the companies they invest in depend on and impact on natural capital through extraction and production.
- Over exploitation of natural capital constrains business operations and impacts on the global economy
- Financial institutions are exposed to these risks through the loans and investments made to businesses.
- Financial institutions are increasingly accepting the need to address the exposure to risks from natural resource constraints and dependency on natural capital
- Natural Capital Valuation provides the essential granular information to undertake evidenced based inform investment decision making
- However the approach of how to implement NCA and embed natural capital valuation in financial sector investment decision making is relatively new and requires engagement with partners to develop appropriate tools and approaches
- Without a national system of accounts it is impossible to undertake meaningful natural capital valuation
- Financial institutions need to understand project sector, portfolio and national natural capital accounting risks and dependencies
- Use of common tools and standardized approaches to measurement within the financial sector can assist in embedding NCV in investment decion making

DBSA PARTICIPATION IN GLOBAL ADVANCING ENVIRONMENTAL RISK MANAGEMENT (AERM) PROJECT



- Global pilot project implemented In South Africa, Colombia, Peru leads global approaches to embed natural capital in the finance sector.

AERM Project implementing institutions:

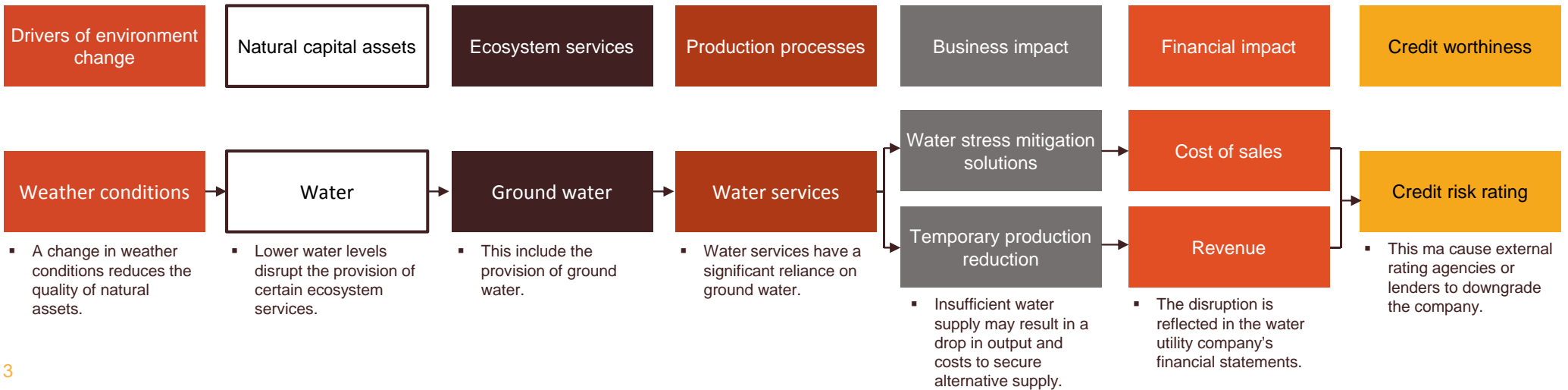
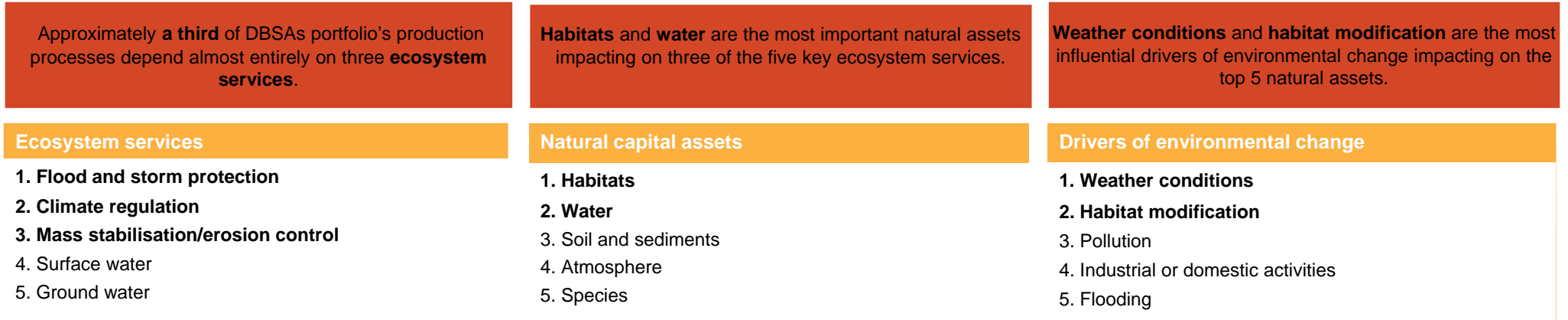
- **Project ownership:** The Natural Capital Finance Alliance (NCFA) includes 75 financial institutions who promote natural capital inclusion in financial decision-making through the Natural Capital Declaration. The United Nations Environment Programme Finance Initiative (UNEP FI) & the Global Canopy Programme (GCP) act as the NCFA Secretariat
- **The international partnership:** Peru, Columbia and South Africa (DBSA and First Rand Group) are the institutions piloting the application of natural capital risk related assessment and integration tool
- **Funder:** Switzerland's State Secretariat for Economic Affairs (SECO)
- **Technical studies:** PwC
- **Reviewing institution** Nedbank

Phase 1: Developed methodologies and frameworks to incorporate natural capital into finance sector risk management frameworks:

Phase 2: Integrate natural capital risk management into banking risk processes

Competitive edge in managing emerging risks and realising opportunities

AERM PROJECT IDENTIFIED KEY NATURAL CAPITAL DEPENDENCY RISKS FOR DBSA

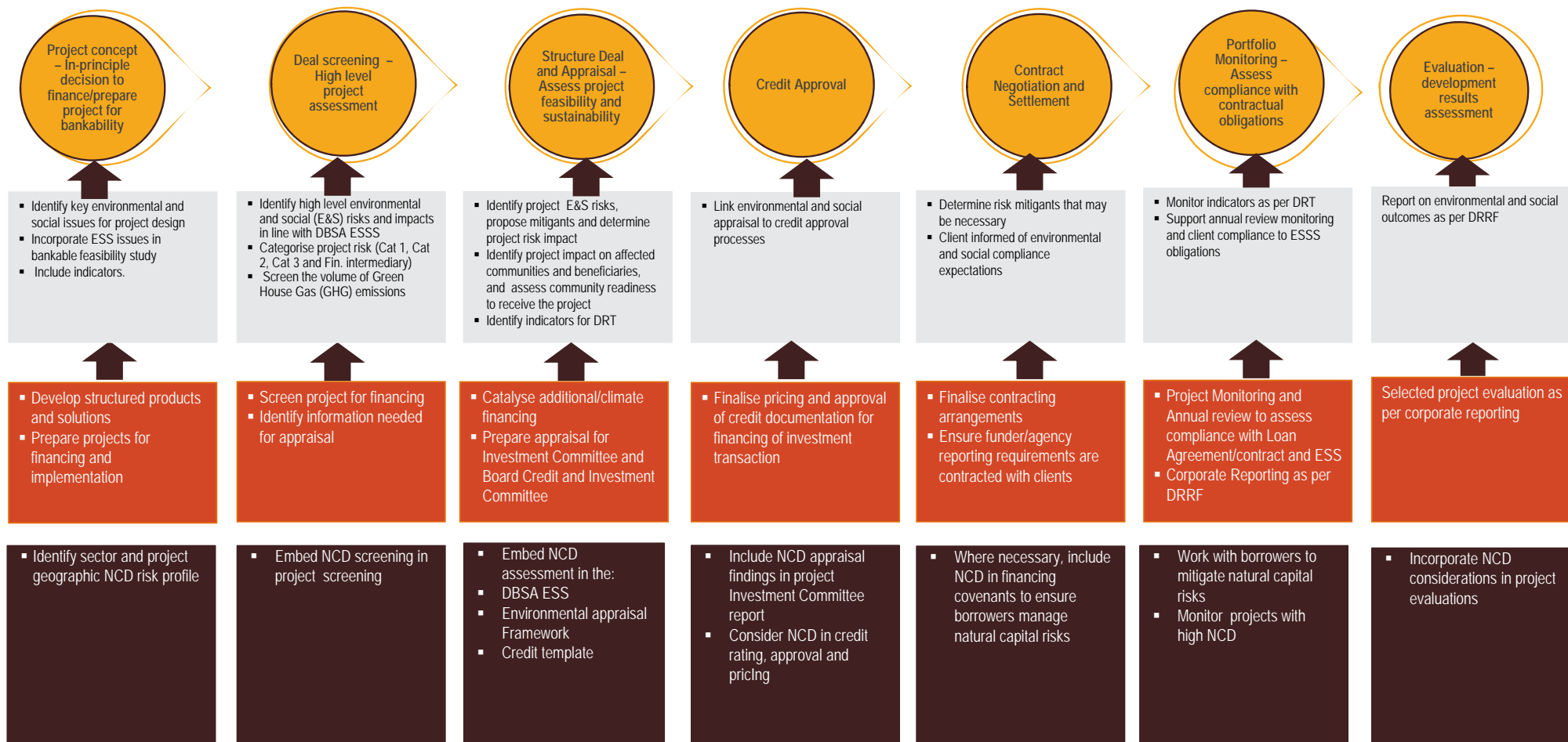


DBSA MAINSTREAMING NCD RISK ASSESSMENT IN PROJECT INVESTMENT DECISION MAKING



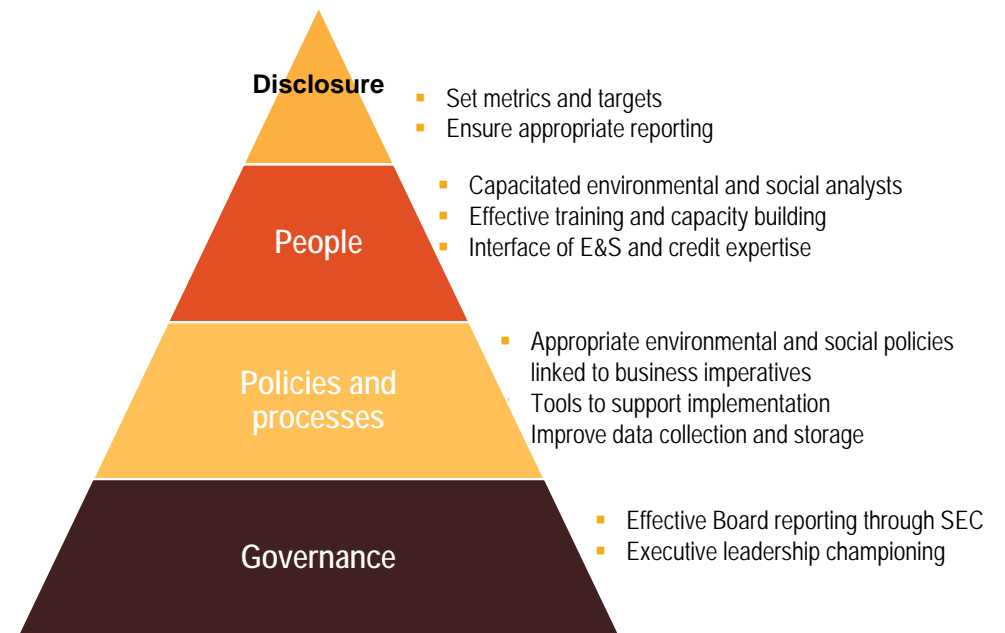
DBSA INVESTMENT PROCESSES

AERM PHASE TWO



NATURAL CAPITAL ACCOUNTING AS A TOOL TO ENHANCE REPORTING

- DBSA to continue participation in the global UNEP-FI partnership initiative with the pilot banks in South Africa, Peru and Columbia
- Refinement of the tools and methodologies to be applied
- Ecosystem/biodiversity targets for financial institutions
- New pilot on agriculture and infrastructure



APPROACH ENABLES FINANCIAL INSTITUTIONS TO EMBED NCD ANALYSIS IN PORTFOLIO RISK MANAGEMENT



LENS

Adopting a natural capital lens in risk analysis enables a better understanding of the business risks associated with environmental risk.

LEVEL OF ANALYSIS

NCD assessment can support environmental risk management at sector, and portfolio level
Enables effective developmental monitoring and evaluation of project and portfolio level outcomes.

TIME HORIZON

Environmental risk management typically requires longer term time horizons than the one to five years considered in traditional credit risk analysis.
NCD approach enables a longer time horizon assessment

DATA

Appropriate data collection processes are required to assess clients' and portfolio exposures to NCD risk.
Natural capital accounts play a key enabling framework for undertaking this approach



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THANK YOU