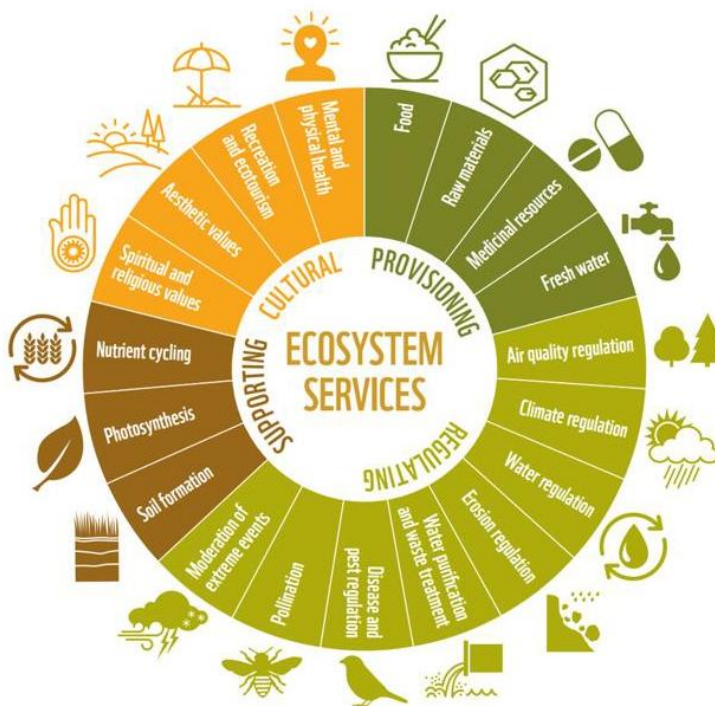


An Introduction to Natural Capital

Financial capital, produced/manufactured capital and human capital are all familiar terms to us. But what about “Natural Capital”? What exactly is it and how is it relevant to your business?

The term “capital” is used to represent a form of wealth which can build more wealth. Produced capital, for example, is a term which can represent factory machinery, which helps produce goods. Similarly, natural capital is the term used to bring attention to the fact that nature produces goods and services, which are used by businesses in one way or another, whether for production or to reduce costs or risks.

Examples of this include habitats and nurseries for fish (mangroves and coral reefs), pollination (courtesy of insects and wildlife) for crop production, water services (from forests, rivers and other ecosystems) for manufacturing, water purification (from mangrove forests and other ecosystems) for food and beverage and high-tech industries, and flood control (from forests and other ecosystems), to name a few.



ECOSYSTEM SERVICES

Provisioning services are the products obtained from ecosystems.
Regulating services are the benefits obtained from the regulation of ecosystem processes.
Cultural services are the nonmaterial benefits people obtain from ecosystems.
Supporting services are those services that are necessary for the production of all other ecosystem services.
Source: WWF Living Planet Report 2016, adapted from the Millennium Ecosystem Assessment 2005.

You might hear of 'Natural Capital' more and more as there is a recent push to acknowledge the role that nature plays in businesses. This push comes as we become more aware that we are seeing huge losses in nature (68% loss in global wildlife since 1970, 1 in 5 plants threatened with extinction¹). This, compounded with the impacts of climate change, will affect the goods and services produced by nature, which your company might rely on. In fact, Bank Negara² recently reported that 54% of the commercial lending portfolio of Malaysian banks are highly or very highly dependent on one or more ecosystem services. Ecosystems (such as a forest) provide multiple ecosystem services so the loss of a forest may impact businesses in multiple ways. If your business isn't aware of your dependencies (and impacts!) on natural capital, then you

can't measure or manage your risks arising from this loss.

¹ WWF (2020) Living Planet Report 2020 - Bending the curve of biodiversity loss. Almond, R.E.A., Grooten M. and Petersen, T. (Eds). WWF, Gland, Switzerland (<https://livingplanet.panda.org/>)

² World Bank and Bank Negara Malaysia (BNM) (2022) - An Exploration of Nature-Related Financial Risks in Malaysia. World Bank, Kuala Lumpur, Malaysia (<https://www.bnm.gov.my/-/bnm-wb-report-2022>)

WWF-Malaysia and **Capital Markets Malaysia** have teamed up to host 4 events to introduce natural capital to Malaysian businesses. In our first event, moderated by Zalina Shamsudin, we heard from Isabel Hoffmann from the Capitals Coalition and Michael Salvatico from S&P Global Sustainable1 who gave an introduction on natural capital and shared a couple of examples of companies who had carried out natural capital assessments. We heard about Puma who discovered that the value of their impacts on the environment were valued at around 145 million Euros, with the majority of that around the production of raw materials.

We also heard about Kering, a luxury goods brand which owns, amongst others, Gucci, Balenciaga, and Yves Saint Laurent, who measured their impacts on nature along their value chain, helping them to identify, for example, that they had a large land-use impact during their raw material production stage - large enough that land-use was their second largest impact, accounting for 32% of their entire environmental impact. This allowed them to understand where and what they had to act on. One example that came out of this was that the global demand for cashmere had led to farmers in Mongolia increasing their goat herds and intensifying their production, leading to overgrazing by the goats. The degradation to the grasslands caused by the overgrazing created dust storms which were seen as far afield as Beijing, over 1,200km away. Understanding this impact led Kering to work with the farmers in their value chain in Mongolia on more sustainable practices.

In our next event Hitesh Kataria from KPMG will share with us more about the process of assessing natural capital and his experiences in doing so, and Sharath Martin from ACCA will share with us the current developments in Nature-related Financial Reporting and where he sees upcoming requirements for companies to report on natural capital. This session will be moderated by Luanne Sieh.

If you missed out on our first webinar held on 20 January 2022 and titled "Nature's Role in the Economy: An Introduction to Natural Capital", you can watch it now here:

<https://csc.capitalmarketsmalaysia.com/natures-role-in-the-economy-an-introduction/>