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VALUING NATURAL CAPITAL IN

“The Sustainability Balance Sheet”



VALUING NATURAL CAPITAL IN “THE SUSTAINABILITY BALANCE SHEET”

One of the greatest challenges in evaluating sustainability and in making sustainable decisions is the lack of a reliable mechanism to value nature as an asset. As an input, such as lumber or drinking water, we can assign value through traditional market strategies. Nature as a valuable asset, as a productive forest, healthy aquifer, living organism, or open space enjoyed by a community, is incalculable by this method because the market cannot establish willingness-to-pay for these resources and is generally forced to treat nature as an externality in an equation¹.

This week, an interdisciplinary research team from Arizona State University, Yale, California State University at Chico, Michigan State University, and NOAA changed this shortcoming in valuing environmental capital². Through a multidisciplinary approach, they developed an equation which can estimate the value of natural resources in their natural state³. That is to say, it is an equation to assign monetary value of an acre of standing forest without considering it as some number of lineal feet of lumber.

In practical terms, this allows natural resources to be converted into a monetary unit for direct comparison on a balance sheet. Now, the value of natural resources

can be measured in the same method and directly aligned to factory equipment, real estate, and other financially reported assets².

Until now, this has been a key shortcoming in how the sustainability of an organization, policy, and decision making practices function. Assigning monetary value to human capital and economic capital is a straightforward and easily assessed process, but with nature's incomplete knowledge, or the inability to directly compare each element in a common unit, outcomes are really the result of a carefully considered “best guess.”

The newly developed method overcomes this barrier and allows each of the three pillar aspects of sustainability (environment, social equity, and economy) to be effectively measured on a common ground. As the method is refined and implemented by firms and governments, the true value of our natural capital will be revealed and factored into sustainable development with previously unattainable accuracy³. In short, this new method of computing natural capital in monetary terms will make sustainability a more sustainable practice.

¹ What's nature worth? Study helps put a price on groundwater and other natural capital. (2016, February 8). Phys.org. Retrieved from <http://phys.org/news/2016-02-price-nature-literally.html>

² Fenichel, E., Abbott, J., Bayham, J., Boone, W., et al. (2016, February 8). Measuring the value of groundwater and other forms of natural capital. PNAS Early Online Edition. doi: 10.1073/pnas.1513779113

³ Researchers from ASU, Yale, NOAA develop equation for calculating value of natural capital. (2016, February 8). Sustainable Brands. Retrieved from <http://www.sustainable>

Contact

Kareem AbuEid
Sustainability Services Leader
RSM
Kuwait
kareem.abueid@rsm.com.kw

Arraya Towe 2, Floors 41 & 42, Abdulaziz Hamad Alsaqar St.,
Sharq, P.O. Box 2115, Safat 13022, State Of Kuwait

T: +965 22961000 **F:** +965 2241261

W: www.rsm.global/kuwait

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