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# THE BUSINESS CASE FOR THE GREEN ECONOMY

*Sustainable Return on Investment*

UNITED NATIONS ENVIRONMENT PROGRAMME



GLOBESCAN

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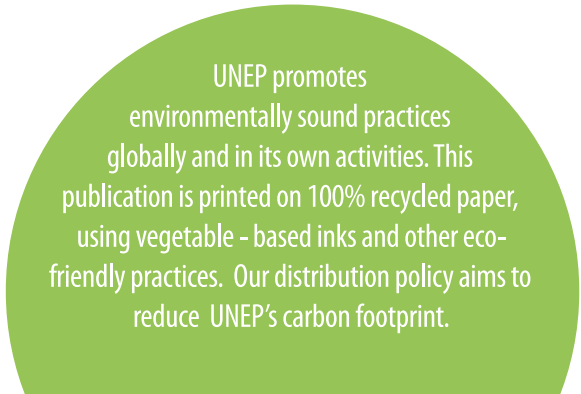
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# Foreword

by UNEP

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In a world where resources are gathered in one country, processed in another, then sold as products manufactured in yet another, there can be no doubt that protecting our planet, and the resources it provides, is imperative. We live in a world now so interconnected that a drought or flood in one part of the globe can soon challenge supply chains or move commodity markets in another with profound implications for the poor and the vulnerable.

It thus makes sense that as we switch to a more resource efficient and Green Economy – one in which economic growth, social equity and human development go hand-in-hand with environmental security – business and industry will be a key driving force. People, planet, profit is the mantra already adopted by many companies in the pursuit of corporate sustainability, but if we are to truly transform the economic paradigm then it needs to be adopted by many, many more. From corner stores, to medium-sized enterprises and international conglomerates, there needs to be an understanding that nature provides us with valuable resources and services that must be accounted for, and that it is only by safeguarding these resources and services that we improve our own livelihoods and those of future generations.

This report clearly shows that business cannot afford to ignore the benefits that switching to a Green Economy will bring. Compelling economic and scientific data demonstrate the advantages for the financial bottom line, and a wide-ranging collection of case studies gives real-world examples of the Green Economy in action.

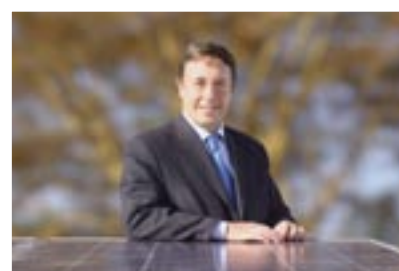
For many businesses the benefits of a Green Economy will not be news, for they have already made the switch or are in transition. PUMA with its Environmental Profit and Loss Account is able to quantify the economic risk (€145 million in 2010) from environmental impact along the supply chain; Kenya's Equity Bank has joined with partners to provide loans to farmers enabling access to water-efficient irrigation technology at a low interest rate and has increased the bank's profit by almost 30 per cent in a year; the Colombian Coffee Growers Federation ensures a sustainable income for more than 27,000 coffee growers with its Rainforest Alliance certified coffee; and Unilever has launched a Sustainable Living Plan which is set to integrate sustainability as the key driver into its business model. For these enterprises, all brave enough and innovative enough to be early leaders, the Green Economy is more than a theory; for them, it is a practice already reaping rewards for them, their customers and communities.

The United Nations Conference on Sustainable Development, Rio+20, provides an unprecedented opportunity to scale-up and accelerate these efforts. As governments gather to consider the Green Economy in the context of sustainable development and poverty alleviation, and the kind of frameworks they need to put in place to protect the future, we invite business to step up and show the role it can play in generating decent jobs, in developing energy efficient technologies and industrial processes, in greening its supply chains and in integrating environmental, social and governance principles throughout their lending, investment and insurance decision-making.

Business has long been a leader. Its ability to embrace ideas, to innovate, to conceptualize and develop solutions in the form of new products and services is something that we will need to emulate at all levels of society if we are to achieve a Green Economy transformation.

## **Achim Steiner**

UN Under-Secretary General and Executive Director  
United Nations Environment Programme



# Foreword

by SustainAbility and GlobeScan

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Ten years ago UNEP and SustainAbility collaborated on a research report titled *Buried Treasure – Uncovering the business case for corporate sustainability*. In the time since the report's release, the evidence that sustainability is good for business has accumulated. While the treasure is no longer buried, it remains, to a large degree, unclaimed.

Over the 25 years that GlobeScan and SustainAbility have worked on corporate sustainability, we have witnessed time and again the multiple ways that sustainability delivers business value to companies that adopt it as a strategic principle. There is no doubt in our minds: there is a clear business case for an economy that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities – a Green Economy. In fact, the long-term prosperity of businesses is tied directly to our ability as a society to make the transition.

It won't be easy. The survey that we conducted for this project identifies real and significant barriers to the transition, the most prominent of which is the short-term thinking which pervades businesses, governments and consumers. The solutions are neither simple nor quick. *The Business Case for the Green Economy*, however, makes a compelling case for bolder, faster and more substantive change – a transition to a Green Economy that is an essential condition of future business success.

## Jeff Erikson

Senior Vice President, SustainAbility



## Chris Coulter

President, GlobeScan



Facts and  
Figures:

- General Motors saved more than US\$ 30 million in 6 years through their resource productivity programme, they also reduced waste volume by 40 per cent.<sup>1</sup>
- In the offshore wind sector alone, employment in Europe is projected to grow to 150,000 by 2020 and to over 200,000 by 2030.
- Grupo Bimbo in Mexico saved approximately US\$ 700,000 and 338,400 m<sup>3</sup> of water in 3 years through its water reduction programme.
- Markets for biodiversity offsets are predicted to grow to US\$ 10 billion by 2020.
- Global revenues for companies involved in the renewable energy markets are projected to rise to more than US\$ 300 billion annually by 2020.
- Evidence shows that employee engagement can deliver significant productivity gains.

In 2011 UNEP produced a report titled *Towards a Green Economy*. It described an economy that results in improved human well-being as well as social equity, while significantly reducing environmental risks and ecological scarcities.<sup>2</sup> The report proposed a development pathway for policy makers to transition to a Green Economy that is low carbon, resource efficient and socially inclusive, and whose growth in income and employment is driven by public and private investments that reduce carbon emissions and pollution, enhance energy and resource efficiency, prevent the loss of biodiversity and ecosystem services and contribute to poverty alleviation. It demonstrates that a Green Economy will stimulate new markets, create more jobs, generate higher rates of GDP growth in the medium term, improve returns on investments, and reduce individual and collective risk, all whilst strengthening environmental, social and human capital.<sup>3</sup>

*The Business Case for a Green Economy*, complements and extends the 2011 report. Written for a corporate audience, it illuminates and clarifies the business benefits to companies that pro-actively participate in – perhaps even lead – the transition. Numerous examples and compelling empirical data demonstrate how business strategies that reflect the attributes of a resource efficient and green economy can positively impact the financial metrics of companies of all sizes.

These examples from both developed and developing countries, demonstrate how integrating sustainability into core business activities can generate a positive return on investment. Returns that go beyond the financial component and contribute to the socio-economic and environmental framework conditions necessary for business to grow and operate successfully.

An extensive body of research has been conducted to create this business case publication. Sources include UNEP's wider Green Economy Initiative work, UNEP's partner organizations, and the wider business community. Numerous case studies included in this report reflect a new Green Business Case Model to demonstrate how actions taken by companies to improve their environmental impacts result in improvements to leading indicators of financial success, which result in improvements to six key financial metrics:<sup>4</sup>

6 key  
financial  
metrics

- Sales growth
- Duration of sales
- Capital expenditure
- Profit margin
- Tax rates
- Cost of capital

<sup>1</sup> World Business Council for Sustainable Development (WBCSD) (2008). *Sustainable Consumption Facts and Trends – From a Business Perspective*. Geneva: WBCSD. Available at: <http://www.wbcsd.org/pages/edocument/edocumentdetails.aspx?id=142&nosearchcontextkey=true>.

<sup>2</sup> United Nations Environment Programme (UNEP) (2011). *Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication*. Available at: <http://www.unep.org/greeneconomy>.

<sup>3</sup> Ibid. See also: Organization for Economic Cooperation and Development (OECD) (2011). *Towards Green Growth. A Summary for Policy Makers*. Paris: OECD.

<sup>4</sup> These metrics are combined into three overall financial drivers in the Green Business Case Model: sales growth and duration; reduced capital expenditure and improved profit margin; and preferable taxation and reduced cost of capital.



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As this report makes evident, the benefits to business of adopting greener and resource efficient practices are obvious, and the consequences to business of ecosystem collapse are disastrous. So, why are sustainability strategies not more widely adopted? Significant barriers remain, most notably the deep-seated financial short-termism that exists in businesses, markets and governments. In addition, many policies, subsidies and incentives offered by governments and markets reward or encourage behaviours and decisions that increase, rather than decrease, environmental impacts. However, as pressure on ecosystems and natural resources increases, changes in public policy, customer preferences, and technology will drive the market for improved environmental performance. Businesses with the foresight to get in front of these changes will gain a competitive advantage. It is estimated that the annual financing demand required to create the Green Economy is in the US\$ 1-2.5 trillion range.<sup>5</sup> This level of investment represents an enormous opportunity for the private sector to provide the infrastructure, equipment, goods and services that will drive the transition. With this in mind, investors are increasingly considering environmental performance as a proxy for management quality.

The transition to a Green Economy is not an easy path. It is characterized by step changes in resource efficiency and a shift in emphasis from shareholder value to stakeholder value. Some companies, and perhaps whole industries, will not survive the transition. Success over the long-term will require new skills, diverse collaborations, continuous innovation, investments with uncertain returns, and a change in what the market values. Companies, like governments, will need to choose wisely if they are to capitalize on the opportunities it brings.

“

*“In a world of constrained resources Unilever sees the only way to double the size of our business is to decouple our growth from our environmental impact. We can do this by making sustainable living the driver of everything we do.”*  
UNILEVER



### The Business Case for the Green Economy at a glance:

Decoupling environmental impact enables companies to position themselves for sustainable business growth. The Green Business Case Model identifies actions companies can take to drive leading indicators of performance and improve financial value drivers.<sup>6</sup>

#### Green Economy benefits to business include:

- More resilient supply chains
- New investment opportunities
- Increased consumer demand for sustainable goods and services
- Sales growth and duration of sales
- Training and job creation
- Reduced dependency on natural resources
- Mitigation against the negative financial risk from environmental impact

<sup>5</sup> UNEP (2011). *Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication*. Available at: <http://www.unep.org/greeneconomy>.

<sup>6</sup> Please refer to page 10 for the Green Business Case Model.

The gathering of leaders from government, business and civil society at the Rio+20 United Nations Conference on Sustainable Development presents a historic opportunity to accelerate the transition to a Green Economy. Positive business engagement in the conference is critical. Indeed, while public policy is an essential ingredient in making the Green Economy a reality, it is the actions of the private sector that will ultimately determine whether and how quickly it occurs.

### **Business actions:**

- *Enhance resilience and business growth by adopting alternative valuation techniques:* Traditional monetary valuation techniques fail to capture the value of supplies from nature. Alternative techniques more adequately value human, social and natural capital.
- *Drive policy change:* Companies can also drive policy change for market-based regulations of environmental “bads” and cuts in public funding in sectors that deplete natural capital. This can create opportunities for responsible business investing in the technology innovations and entrepreneurship that these new markets require.
- *Move from shareholder to stakeholder value considering the wider operating framework:* Businesses are achieving competitive advantage by looking at their company as part of a wider network of stakeholders and engaging them to make better informed decisions.
- *Ensure employee engagement and enhance resource productivity:* Creating incentives and mechanisms to embed sustainability within company culture in all operations will reap more societal benefits and resource efficient outcomes.
- *Establish sustainability as a permanent item on the Board agenda and communicate its value to investors and consumers:* By placing sustainability at the core of governance, leading companies are planning for the implications of the transition to a Green Economy. Making the link between sustainability and financial reporting will enable the value to be better communicated to investors and consumers

As companies anticipate and drive the transition to a Green Economy, the business case will grow. So the question is: why wait?

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