Biodiversity: why investors should care

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The past 30 years have seen a bigger improvement in human prosperity than all of the past centuries combined.

We have built more roads, buildings and machines than ever before. More people are living longer and healthier lives and access to education has never been better.

The average GDP per capita has grown 15-fold since 1820. More than 95 per cent of newborns now make it to their 15th birthday, compared with just one in three in the 19th century.[1]

However, such progress has come at a great cost. As humanity has thrived, nature has suffered.

Humans are driving animal and plant species to extinction and destroying their habitats to feed and house an ever-increasing population. An influential UN report warns that up to one million animal and plant species are at imminent risk of extinction.[2]

Data shows that, in the 1992-2014 period, the amount of capital goods – such as roads, machines, buildings, factories and ports – generated per person doubled , see Fig.1 Over the same timeframe, however, the world's stock of natural capital – water, soil and minerals – per person declined by nearly 40 per cent.[3]

Policymakers now consider biodiversity protection as urgent a priority as halting global warming. At the UN COP15 biodiversity summit in Montreal in December, more than 200 countries reached a landmark agreement to halt biodiversity loss by 2030 and achieve recovery and restoration by 2050 in a framework that could prove as transformative for environmental investing as the Paris climate accord of 2015.

Within this Global Biodiversity Framework (GBF), Target 15 is perhaps the most relevant to businesses and investors. It requires large companies and financial institutions to monitor and disclose their impact on biodiversity, as well as the risks they face from biodiversity loss.[4]

Importantly, this requirement will apply across the entirety of the business's value chain. For financial institutions, the provisions will extend to portfolio investments.

Target 14 is also important. This calls for public and private financial flows to be aligned with the goals and targets of the GBF, which should help scale up action from the financial sector.

Such goals are a major step in the development of global environmental policy because they are measurable and subject to regular monitoring, reporting and review.

Biodiversity finance: a burgeoning market

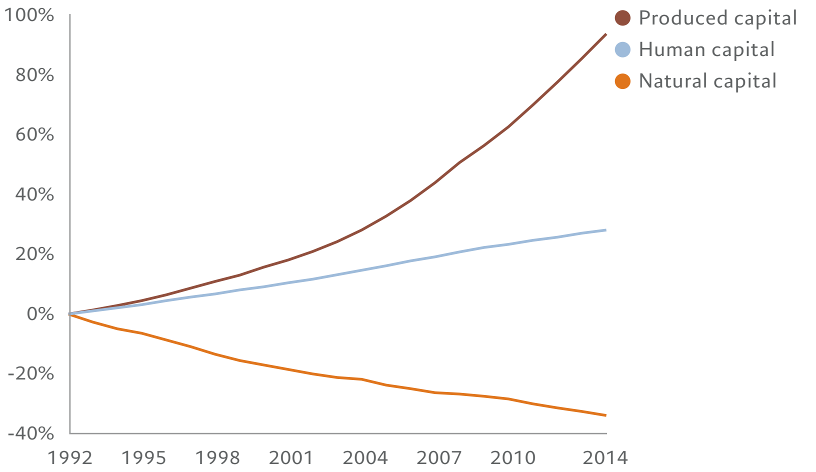
The Kunming-Montreal Accord has alerted policymakers, businesses and investors to the fact that there is more to protecting the planet than net zero. Reducing greenhouse gas emissions and restoring the biosphere are problems that must be tackled together.

This agreement should, over time, lead to a reallocation of capital. As biodiversity protection grows in importance, it should give rise to new investment opportunities in ecosystem services and natural capital.

It is estimated that the world needs to spend nearly USD1 trillion a year to achieve positive biodiversity outcomes by investing, for example, in sustainable supply chains, green financial products, biodiversity offsets, carbon markets and natural climate solutions. Current spending stands at no more than USD143 billion.[5]

Nature and humans at odds

Global capital stocks per capita, 1992-2014



Source: Managi and Kumar (2018) Note: Produced capital refers to roads, ports, cables, buildings, machines, equipment and other physical infrastructures. Human capital refers to education and longevity. Natural capital is calculated with renewable and non-renewable resources including agricultural land, forests as sources of timber, fisheries, minerals and fossil fuels

For its part, the GBF calls for both the public and private sectors to secure at least USD200 billion of capital per year for conservation initiatives – significantly higher than current levels of biodiversity financing but well short of filling the gap.

Recent years have seen a steady increase in biodiversity and natural capital investment, including strategies which invest in companies that explicitly aim to minimise biodiversity loss and restore nature and capitalise on the potential for long-term capital growth.

Funds investing in biodiversity and natural capital aim to help embed more sustainable and regenerative business practices across a whole value chain, involving industries such as agriculture, forestry, IT, fishery, materials, real estate, consumer discretionary and staples, utilities and pharmaceuticals.

The Food and Land Use Coalition estimates that efforts to transform current food and land use in favour of regenerative and circular practices have the potential to create a biodiversity market worth USD4.5 trillion by 2030.[6]

Nature has always been the economy's most important asset. It is time the finance industry recognised that.

**Gabriel Micheli is a keynote speaker at IPE's upcoming Biodiversity event on 26th April 2023.*

For more information, scan the QR code or visit am.pictet.

FOOTNOTES:

1 Our World in Data
2 IPBES
3 Source: Managi and Kumar (2018) Note: Produced capital refers to roads, ports, cables, buildings, machines, equipment and other physical infra structures. Human capital refers to education and longevity. Natural capital is calculated with renewable and non-renewable resources including agri cultural land, forests as sources of timber, fisheries, minerals and fossil fuels
4 https://www.cbd.int/article/cop15-cbd-press-release-final-19dec2022
5 https://www.nature.org/en-us/what-we-do/our-insights/perspectives/closing-nature-finance-gap-cbd/
6 https://www.foodandlandusecoalition.org/wp-content/uploads/2019/09 FOLU-GrowingBetter-GlobalReport.pdf

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