



# EXPLAINER SERIES

## **BIODIVERSITY: REVERSING ITS LOSS AND WHY NATURAL CAPITAL MATTERS**

**ABRDN**

Fast-paced growth in recent decades has put a lot of pressure on ecosystems throughout the Asia Pacific region (APAC) which is simply unsustainable. According to a 2017 study, in APAC, it takes twice as much resources as the global average to generate one unit of economic output.

abrdn recently invited Zoe Whitton (ZW), Partner, Pollination Group, and Anders Nordheim (AN), Head of Asia Sustainable Finance, WWF to answer

questions on biodiversity loss, where we stand on this in Asia, and other related topics.

### **What's the state of the world and what are the key drivers of biodiversity loss?**

When we talk about biodiversity we're really talking about ecosystems – terrestrial and marine – in a much larger sense. We're talking about 'nature', or as some refer to, 'natural capital'.

Nature is being degraded, in aggregate, at an alarming rate. Some regions are doing better than others. But in some key hotspots, such as the Amazon, things are really quite severe and have been so for a number of years now. It's an issue that we need to address quickly.

Some of the reasons may include: value of raw natural materials; conversion of natural ecosystems to other uses; pollution, especially in marine ecosystems; and climate change. [AN]

### **Where are businesses and investors when it comes to addressing biodiversity?**

It's early days but there's a lot of interest and increasing momentum. Some investors have been thinking about biodiversity, and the risk for businesses, for a number of years now.

We've seen some really excellent global collaborations, designed to generate biodiversity data for big portfolios, that show investor activity is moving quite quickly. But it's a really mixed field – with progress in some asset classes more than others.

Biodiversity thinking is moving very quickly amongst investors and businesses because, in many cases, it is working on similar approaches that have been developed for climate change.

But it's conceptually a little bit different. For biodiversity problems, we're often working at a much more local level and the issues can be quite different. Sometimes it is easier to understand biodiversity more clearly at a company or asset level, and we can also experience the opportunities more directly. [ZW]

### **What are the biggest challenges for APAC?**

In the Asia Pacific region, there's a big difference in the types of risk we see. In some places it's deforestation. In others, it's rapid urbanisation. We also see industries, such as infrastructure construction, having an impact.

The elements of ecosystem change aren't necessarily different in APAC to what they are globally, but you need to think about what those specific elements are in this region, as the makeup of nature does differ.

You also need to realise that in APAC compared to, say, Europe and the US, a lot more of the industries are directly linked to nature – you have a higher degree of primary industries (as

opposed to service industries) in many regional economies. [AN]

### **What's the Convention on Biological Diversity summit and what's it hoping to achieve?**

The COP15 UN Biodiversity Conference aims to set global policy to limit biodiversity loss for the next decade. It is to biodiversity what the 2015 Paris Agreement has been for climate change.

Negotiations began online last year but will conclude in Montreal, Canada in December after a series of disruptions caused by Covid. The target is to reach agreement on a long-term action plan – the post-2020 Biodiversity Framework.

There are four main goals: increasing the health of natural systems and ending extinctions; natural capital to be accounted for in policy and commercial decision making; natural capital benefits to be distributed equitably; and securing adequate resources to support these goals. [ZW]

### **How does this link to the commercial world?**

There's this hope we'll get a

biodiversity version of the Paris Agreement – the global agreement on climate change.

When you think about the Paris Agreement and the momentum that it brought into the commercial world, and especially the finance sector, it was one of the first times that a UN agreement had had that much attention from the private sector.

While we'd hoped that 2020 would be the 'Paris moment' for nature, Covid has caused some delays. But we'd like to see good progress on this quite soon. That means we'll be able to start talking about things like ambitions for 'nature positive' by 2030.

Then, to some extent, you can then look at nature the same way that you look at climate – in terms of physical and transition risks. Businesses will have to manage their biodiversity risks in a similar way. [AN]

### **Why is it important for investors to consider natural capital in their processes? How do we measure the financial materiality of biodiversity loss for companies and investors?**

A useful way to think about natural capital, for an investor, is to think about it as infrastructure. This infrastructure provides a whole range of services and systems that you need to operate a business, that customers need to thrive. Without this infrastructure, or resource,

you might not have a business or may have to change the way you operate your business. Businesses need to manage their access to raw materials so they can continue to operate.

Many sectors depend on natural capital in one way or another: water; clean air; pollination; fertile soil; genetic intellectual property. Other companies affect nature by leaving a large footprint in terms of pollution or climate change.

A lot of investors are trying to value natural capital at each investment level. But a lot of that valuation work is also being done by building up a set of rigorous case studies. [ZW]

**How can investors play a role? How should they integrate biodiversity into their processes?**

There's the due diligence side of things – you can look for certifications relating to deforestation or sustainable seafood, for example.

You can look at valuations and financial materiality. This is easier in some cases than others. For example, attaching a financial value to water is easier. But how do you measure the financial

materiality of something like the diversity of species? You might have to think of other ways to integrate this into financial decision making.

The third area is alignment – how do you align your portfolio with biodiversity goals? You need to set your goals but then you need to work out how to get there. [AN]

**Please leave us with one positive thought.**

One positive note is that we're having these conversations. When I started these conferences a decade ago, biodiversity was a niche area. We're hoping that we will have a credible political signal in the form of a new biodiversity agreement by the end of the year. It's also really exciting to see a lot of investors experimenting with investing in nature and nature-positive investments. [AN]

Some of the innovation that we're seeing is extraordinary. It's a small part of the capital that's available but it is heading towards the private markets and elsewhere. New asset classes are able to join the discussion so that these issues form part of the governance framework. [ZW]