

LatAm INVESTOR



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EXPLORING ECUADOR

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Biodiversity is good business in Latin America

writes **Maria Amparo Alban, Founding Partner, Inter-American Institute for Justice and Sustainability**

Thirty years ago, the international community negotiated its first global agreement on biological diversity. The meetings took place during the United Nations Conference on Environment and Development in Rio de Janeiro in 1992. The famous Convention on Biological Diversity (CBD) soon became a hot topic, but mostly for bilateral and multilateral official agendas.

Many international forums including the World Trade Organization (WTO) which in 1995 replaced the GATT Agreement, was one of the first to recognise the potential links of biodiversity to the international business community. Unfortunately, for a long time the CBD was seen as incompatible with the WTO Agreement on Trade Related Intellectual Property Rights (TRIPS). This agreement, which was signed when the WTO was created, embedded a controversy regarding patenting different forms of life and biotechnology development. The discussion became so contentious that it set a defensive tone from a large portion of the international business community and created distance with environmental organisations for many years. This was especially felt with the agrochemical, pharmaceutical, and agribusiness industries.

But CBD legal mandates forced the more than 190 signatory countries to

preserve ecosystems, protect species, and avoid the misappropriation of genetic material by those that do not share the benefit with the countries of origin or the local communities that helped preserve these species or genes. This challenge attracted international cooperation to help African, Latin-American and Asian countries protect their natural heritage.

Decades later, with developing countries still strengthening their institutions to protect nature, the world is faced with a disturbing reality: that there may not be much left to protect unless urgent actions are taken immediately. Many scientific reports that proliferated during the pandemic, explored the relation between zoonotic diseases and wildlife. These reports helped to establish the true impact of globalisation on nature's health and ecosystems. One of those publications, the WWF Living planet Report 2022 found a 69% reduction in wildlife populations since 1970 and an 83% decline in fresh water over the same period.

The damage is particularly notable in Latin America. "The decline in the Latin American region, is far greater than any other region worldwide, with a 94% reduction between 1970 and 2018. Declines are seen across all the species groups studied but are most profound in freshwater fish, reptiles, and am-

phibians", says the report.

Biodiversity decline is such a serious challenge is that it's impossible for governments to fight alone. Command and control measures will not suffice on their own so, financial markets and the business communities must be part of the solution. If business communities and markets don't join the crusade to stop biodiversity depletion; they could end up paying a high price.

Business impact

Raising costs of fresh water production will restrict investment and productive activities as it is already happening in some parts of the world. The disappearance of insects and birds will threaten pollination and the reproduction of various flora and fauna species. And affecting natural pollination will have an impact in agribusiness and raise costs of management and food production. The decrease of ecosystemic functions of nature will determine a series of impacts like massive extinction in wild habitats. The ocean depletion will impact global food security. In summary, the risks and the costs of many businesses will increment exponentially.

A recent report from consultants Ernst & Young explains why biodiversity is more important to business than realised, noting that "the impact of biodi-

versity loss can be extensive and often unrealised, causing disruption to supply chains, increasing regulatory compliance costs and potentially eroding social licenses.” Investors are increasingly picking up on the biodiversity risk and will direct capital toward companies with a coherent biodiversity strategy.

For a large portion of institutional investors, it could become more difficult to invest in companies that impact biodiversity directly, even for those with a clear biodiversity strategy. The need to assess biodiversity risks is growing as well as its relation to productivity and social acceptance.

Challenges and opportunities for businesses and investors are growing. New technologies, such as satellite imagery, can monitor large territories. Another example is ‘Nature eDNA’, by UK firm Nature Metrics. It is a new technology that with the help of a database and water samples collected in rivers and in other aquatic ecosystems, is capable of determining the presence of different organisms, fish and hundreds of vertebrate fauna and flora, including

endangered species, and can monitor the impact throughout time in different ecosystems. This is particularly relevant for agribusiness, the mining sector and other industries that manage impacts in large territories.

The investment in new technologies that monitor nature restoration is critical. But we also need to establish good crediting systems to finance nature restoration projects. Many initiatives are underway. Such as the Nature Framework Development Group (NFDG) which was formed to develop a nature crediting framework, including an underlying methodology to drive investment to high-quality biodiversity conservation and restoration activities.

It is also important to rally important companies in conservation groups such as Blue Nature Alliance (with support from McKinsey & Company), Conservation Finance Alliance, Conservation International, the Great Barrier Reef Foundation, International Union for Conservation of Nature (IUCN), The Biodiversity Consultancy, and others.

The goals set in the recent Global Bi-

odiversity Framework of the convention on Biological Diversity (GBF 2022) aims at protecting 30% of the planet and oceans by 2030. These nature solutions such as in forests, coastal and wetlands restoration or other critical ecosystems will attract increasing private investment and produce biodiversity credits. Biodiversity credits are a common unit of measure for offsets in the Biodiversity Offsets Scheme. And could be tradeable, similar to the more established carbon credit market.

Opportunities are increasing, and investors are already incorporating biodiversity assessment to place capital. This will be formalised by the Task Force on Nature-related Financial Disclosure (TNFD) which has recently launched the beta version of the TNFD framework, to make it easier for businesses to understand their biodiversity risks and opportunities. This new nature framework should move investors on biodiversity just like the Task Force on Climate-Related (TCFD) did for climate change. Being nature positive is already proving to be good for business. In the coming years it will become crucial for investors in Latin America.

Humanity’s impact on the natural world

Humanity’s Ecological Footprint by land use

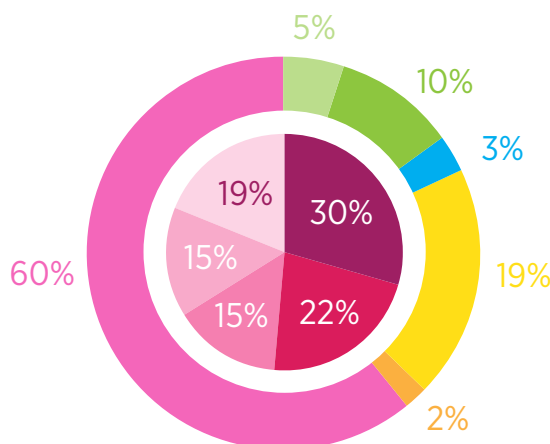
Key

- Grazing land footprint
- Forest product footprint
- Fishing grounds footprint
- Copland footprint
- Built-up land footprint
- Carbon footprint

Humanity’s Ecological Footprint by activities

Key

- Food
- Housing
- Personal transportation
- Goods
- Services



Measuring the different ways we impact ecosystems

The Ecological Footprint measures how much demand human consumption places the biosphere and compares it to what eco systems can renew. 2020, the world average Footprint amounts to 2.5 global hectares per person, compared to 1.6 global hectares of biocapacity. The Footprint can be broken down by area categories (outer circle) or, using Multi-Regional Input-Output Assessments, by activity fields (inner circle).