

Biodiversity in the balance - degradation threatens economic prosperity

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It is a mere six months old, but 2020 has already been a bumper year for natural disasters. The devastating Australian bushfires in January, broken heat records, the most damaging locust plague in 70 years in parts of East Africa, a super-cyclone in the Bay of Bengal, and the worst drought in centuries in Central Europe.



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Most damaging of all, of course, has been Covid-19 – a consequence of our increasingly close contact with hitherto remote ecosystems. The pandemic has revealed the massive and unpredictable interconnectedness between natural environments and global economies.

Biodiversity crisis a direct risk to humankind

Damage to ecosystems across the world, and the resulting loss of biodiversity, has received less attention than other sustainability challenges – climate change risks, pollutants, poverty and conflict. Yet the biodiversity crisis is a direct risk to humankind. It is hard to quantify given the heterogeneity of ecosystems, and it is very hard to solve. However, what is certain is that we have not found a way to continue to grow and develop that interacts with the natural world in a sustainable way.

The effects of human action on the natural world are profoundly damaging: deforestation; land degradation; pollution of the water, air and soil; hunting and harvesting; and climate change. And as our population increases and our pursuit of economic growth continues, so the threat intensifies. We lost an average of 60% of the population of vertebrate species between 1970 and 2014. Three-quarters of the land on Earth has been 'severely altered' by human actions, as has two-thirds of the marine environment. Around a million species are at risk if we do nothing.

Our dependence on biodiversity for food, raw materials, medicine and weather regulation makes this trend extremely worrying. Around 70% of cancer drugs are organic or derived from natural products, for instance. Production of over 75% of global food crop types relies on animal pollination. In economic terms, the WWF estimates the cost of inaction on ecosystem decline at \$9.87tn over 2011-2050.

Like many sustainable development challenges, protecting and restoring biodiversity remains extremely complex for investors, policymakers and communities around the world. So perhaps there is a risk, that as policymakers and companies focus on tackling Covid-19, and then on increased debts, balance sheet damage and weak profits, that other sustainability issues might get pushed into the background.



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How investors can take the lead

However, as we seek to build back better from the current social, economic and environmental crisis, we have an opportunity to integrate an urgent and sizeable response to the biodiversity crisis at global and systemic levels. And we think investors can take a lead in three keyways.

First, they can support the development of a robust methodology for measuring biodiversity loss, conservation and enhancement. More data will allow the measurement of biodiversity risks and enable markets to integrate these in valuation.

Second, investors can allocate assets towards companies which operate in environmentally sustainable ways and which produce biodiversity-positive technologies. A simple analysis contains evidence to suggest that such companies have outperformed in recent years. And third, asset management firms should embed biodiversity protection at the heart of their approach to responsible investment through engaging with issuers, proxy voting and disclosure.

If anything, the pandemic should accelerate the focus on sustainable investing, rather than distract from it. While governments are firefighting, investors can step up and play a pivotal role, with potential long-term benefits for themselves – and for the planet as a whole.

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