nd Priceless: The Need to e Earth’s Foundational t

Business Climate Change Impact Investing

In the story of protecting nature, humans have been lousy protagonists, but it's not too late for a plot twist

By David Sternlicht, Head of Nature Investing

Humanity’s relationship with the rest of the living world is best described as a tragedy. To (inadequately) sum up a few thousand years of history in one sentence: Human population growth, overexploitation, the agricultural revolution, global empire-building of European powers, and global markets’ persistent hunger for ‘more’ have driven many people to see nature as a resource to be conquered.

only valued based on what it's worth once extracted or developed (i.e., trees equal lumber, cows equal meat, beachfronts equal hotels). It has removed much of humanity from our connection with the land. On the other hand, many groups of Indigenous peoples — those with historical continuity and attachment to specific lands — have been shown to be great protectors of biodiversity while sequestering globally significant amounts of carbon.

The results are clear: Wildlife populations have fallen by an estimated 69 percent since 1970, extinction is occurring at 1,000 to 10,000 times the natural rate, and we have exceeded the safe and just operating space in 7 of 8 key Earth systems boundaries (i.e., climate, fresh water, and nutrient pollution).

It's time to flip the script on the idea that nature is a resource to be conquered. Beyond the intrinsic value of the diversity of life on Earth, our very existence depends on it. Biodiversity and ecosystem services are the foundation of the global economy. Let's explore.

Nature's Observable Economic Value

The World Economic Forum estimates that around half, or $44 trillion, of global GDP depends on nature. While we understand the desire to put nature's value in financial terms, any number would be a lowball. For example, massive industries like agriculture, fisheries, construction, and travel and tourism could lose trillions of dollars in value without pollinators and healthy oceans, and the social destabilization that food system collapse would trigger is unimaginable and immeasurable. On the human health side, as many as half of the pharmaceuticals currently in circulation are based on ingredients originally discovered in nature. Attempts to value the collective additional years of human life on the back of these discoveries are destined to fall short.

Then there's the role nature plays in protecting coastal populations: Healthy wetlands like salt marshes filter sediment, provide critical habitats that protect biodiversity, support recreation, and can lead to hundreds of millions in savings per storm by absorbing storm surges. A 2020 study found that a 1 percent loss in coastal wetlands increased the cost of property and storm damage by 0.6 percent. The same study estimated that damage from 2017's Hurricane Irma would have been reduced by $430 million if Florida had not lost 500 square kilometers of wetlands between 1996 and 2010. Valuing ecosystem services and valuing the GDP of industries dependent on nature are different exercises. While neither sufficiently captures the full value of healthy ecosystems, they illustrate that stabilizing the biosphere is in our economic self-interest.

So, we've established that valuing nature through an extractive lens has not ensured its protection, and we cannot live without a healthy biosphere. To continue down this paradoxical path could push Earth's systems beyond irreversible tipping points. It's a tragedy indeed, but there is still time for a plot twist: With a concerted effort across the public, philanthropic, and financial sectors, we can stop and reverse biodiversity loss in the near term while simultaneously taking steps to restore a healthy relationship with nature over the medium term.

We can't solve the ecological crisis without considering the role of money and markets. Per Bloomberg, current annual funding for biodiversity and nature protection is $166 billion, with the lion's share (76 percent) coming from government spending and the remainder from the philanthropic and private sectors. The same report estimates that $830 billion in annual additional capital flows must be redirected this decade to begin to bend the curve on nature loss. It's a daunting number, but it's less than 1 percent of annual global GDP — less than is spent on soft drinks or cigarettes globally in a year.

Productive land and seascapes are expected to play a leading role, requiring 73 percent of the $830 billion in annual funding for the transition to regenerative farming, grazing, and fisheries.

Who Should Bridge the Gap?

While it's difficult to predict the mix of public, philanthropic, and private sector funding, we know from current numbers that the private sector must do more. Here are a few reasons why:

- Government budgets are stretched thin due to slow growth and are hamstrung by the need to curtail spending in the face of inflation. They will have an enormous role to play in reversing harmful subsidies to fisheries, agriculture, and fossil fuels (which are as high as $1 trillion annually around the world), incentivizing regenerative behaviors, and creating supportive enabling environments for high-quality carbon and biodiversity credit markets to flourish. Still, public funding alone will not be able to fill this gap.
- Global philanthropy in 2021 totaled an estimated $810 billion, with less than 2 percent ($12.5 billion) going towards climate change mitigation. The largest ever privately funded biodiversity protection program was an impressive $5 billion. One would have to believe that such programs would not only have to increase by an order of magnitude but could also do so on an annual basis for philanthropic funding to directly move the needle. Nonetheless, philanthropy will still have an important role to play in directly supporting biodiversity protection and ecosystem restoration in more financially risky countries and indirectly catalyzing investment funding.
- Enter investors. The size of the professionally managed assets market is $100 trillion. That's spread across asset classes, but alternative asset classes like Private Equity and Real Estate account for approximately $20 trillion. There is already a substantial and persistent appetite for investment in more complex investment structures in less efficient markets. Even 1 percent of this market could bridge the entire annual financing gap.

How Investors Can Engage With Nature as an Asset Class

It's important to note that a flash-in-the-pan, trendy wave of capital into nature would be insufficient and could do more harm than good if it only served to attract a gold rush and subsequent crash. We use the term "asset class" because it connotes a greater degree of investments in early-stage technology companies). Often as a matter of policy, the allocation across asset classes is roughly maintained over time: for example, asset owners might set a target of 45 percent to 50 percent in public equities, 25 percent to 30 percent in fixed income, and 20 percent to 30 percent in private investments. To stay in range on the latter, an investor must make new investments in, say, real estate projects and venture capital funds over time when an investment property is sold or a company like Uber goes public. These dynamics engender a long-term mentality consistent with an annual funding gap in the hundreds of billions.

Just as beachfront property and Uber stock are vastly different assets, there is a range of project types that will comprise nature as an asset class. Recall that 73 percent of the required $830 billion in biodiversity financing is expected to flow towards regenerating working landscapes and seascapes. The transition of crop growing practices represents an enormous investable opportunity. Financing the reforestation of a degraded landscape to generate carbon credits also represents a substantial opportunity, but a very different one. Ecotourism monetizes the use of land in a way that can be regenerative for communities and ecosystems alike. Nature regeneration represents a cohesive investment theme with a great diversity of underlying projects.

In future posts, the Ethic Nature Team will elucidate our views on the emergence of this new asset class and the challenges and opportunities ahead. For now, we will leave you with three conclusions:

1. Ecosystems are dangerously degraded, and biodiversity loss is dramatically outpacing its natural rate.
2. A healthy biosphere is the bedrock of the economy; all life flows from food, air, and water, and ecosystem loss also portends very measurable, near-term economic losses.
3. Significant funding will be required to reverse biodiversity loss and maintain ecosystem integrity, and investors are strongly positioned to step up to the plate.

If you want to learn more about investing with a nature-positive lens — through your equities portfolio or directly in conservation and regeneration projects — ask your Ethic relationship manager for our Biodiversity & Ecosystems Pillar Overview and for more information about our direct nature investing activities.

Sources and footnotes

Contributors

David Sternlicht's entire career has been dedicated to addressing social and environmental challenges with investment capital. He has published research reports, launched and managed private investment funds, and advised startups and fund managers in the impact space. He has assembled a team of industry leaders in finance, science, technology, and storytelling to build out nature as an asset class for Ethic.

Melissa Banigan is a content strategist with over 15 years of communications experience working with global companies and nonprofits. Also a journalist and author, her work appears in The Washington Post, CNN, the BBC, NPR, and the Independent, among other publications, and she's written three books for youth.

Travis Korte is the associate director of Sustainability Research & Data at Ethic. Previously, Travis organized civic-minded technologists at Hack for LA and advised a wide range of clients on data science, data policy, and quantitative methods. You can follow him on Twitter at @traviskorte.