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RPM Ep 14 transcript

Graziella Scassillo: StepStone is privileged to welcome Margaret Kuhlow, the Global Finance Practise Leader for WWF to our podcast today to be interviewed by StepStone Head of Responsible Investment, Suzanne Tavill. Margaret has extensive background working with governments and DFI's around development and sustainable finance. In her role at WWF she looks to engage the finance sector around the topic of biodiversity. With the crisis of climate change, biodiversity is becoming an even more critical consideration within investments and - as our recent podcast on Natural Capital Solutions discussed – as a place to invest.

Suzanne Tavill: It's a pleasure today to be joined by Margaret Kuhlow, who is the global lead of WWF Finance Practice. Margaret is perfectly positioned in her role to help us guide us through topics today that bridge the worlds of nature as well as finance. And it's very exciting to see at this moment in time when we have just completed COP15 and are about to embark on COP26, how the topics around nature and biodiversity are moving onto center stage. So very much looking forward to our discussion today, and thank you in advance for your time, Margaret.

Margaret Kuhlow: Well, thank you, Suzanne. It's great to be here.

ST: So to get us started, let's turn to discuss biodiversity. So we know that biodiversity refers to the richness of the species that inhabit our planet be they plant, animal or bacteria. So explain how this topic of biodiversity has become interrelated to the topic on climate change.

MK: Well, let's start with climate to get to biodiversity. So the Paris Agreement, which was reached in 2015, was a historic global agreement to limit warming of the climate to well below two degrees Celsius. In 2018, the Intergovernmental Panel on Climate Change, IPCC. We can try to keep the acronyms to a minimum in this conversation, but they'll be everywhere. They published a 1.5-degree report. It highlighted the difference in the expected impacts of limiting warming to 1.5 degrees versus two degrees to show how important every little bit of progress is. And I think it's helpful to think about some of those examples that they pulled out with one half degree more of warming. There's 25 million more undernourished people in the world by the end of the century. There's 150 million more cases of malaria, which already carries one of the world's worst disease burdens. At one and a half degrees of warming, we can expect to lose about 70 percent of the world's coral reefs with two degrees of warming. So just to have degree more, they'll essentially all be wiped out, along with a quarter of the marine biodiversity that they support, not to mention all the tourism revenues that are essential to coastal communities around the world. So those are just some differences between warming by two degrees and warming by one and a half degrees. The recent NDC synthesis report the nationally determined contributions

evaluation of what we have so far from the parties to the Paris Agreement shows we're on track for warming of about two point seven degrees Celsius.

That's not a habitable world. For the most part. That's not an investable economy for the most part, and we're also not really doing very well on biodiversity to get back to your question. We've seen a little bit more than a two thirds reduction in average population size of key vertebrate species over the last 50 odd years and roughly a million species at risk of extinction. Many in our lifetime and biodiversity and its benefits to people are also the lifeblood of our economy. The Dasgupta review in the UK which just recently came out showed how all of our economic activity is dependent in one way or another on nature and its services. And the World Economic Forum has estimated there's roughly \$44 trillion dollars of GDP, about more a little more than half of global GDP, That's moderately or highly reliant on nature and its services. So this is clearly a big challenge for us, not just if you're an environmentalist, but you know, if you're living on the planet and operating in any sector, essentially on the planet. Biodiversity loss and climate change are highly interconnected, essentially in a negative feedback loop. So increase temperatures and shifts in precipitation, for example, are key drivers of that biodiversity loss I spoke about rising temperatures negatively impact biodiversity. At the same time, we need healthy ecosystems to capture and store carbon. So a healthy ocean, a natural forest, nutrient rich soil all absorb and store more carbon than they're degraded forms.

MK: So we need nature for climate mitigation to keep the temperatures from rising. There are some estimates that as much as a third of our climate mitigation solutions could come from nature. Degraded ecosystems don't do that, as well as healthy ecosystems or in some cases, at all. Degraded ecosystems also reduce the ability of nature to help us withstand environmental shocks, so to protect us against the physical impacts of climate change like storm surge, like flooding, like droughts. So the more the climate warms, the less we can count on nature to help us cool the climate or withstand the impacts of a warming climate and the less healthy nature we have, the more the climate warms. If you want to think about that from a, you know, an economic transition perspective, that probably means we're underestimating the pace of change we need in sectors beyond the energy sector and transportation. What it means from a financial systems risk perspective is if you're only thinking about climate risks, you're underestimating your climate risks because embedded in those models is this assumption about nature's ability to perform and mitigation and adaptation function. And you also have an incomplete view of the systemic risk because biodiversity loss is also risk per say. So this is why we really need to treat climate change and nature loss like an interrelated systems risk because it is.

ST: So that is some incredible statistics there, which I think really underscore the point. It's actually pretty scary listening to, you know, that perspective of recognizing how biodiversity almost sits as that foundation for our global economy. That certainly is sort of a perception change that I think we need, right? I think, you know, we've just gone through COP15 that was hosted in China, and obviously this was a critical conference where there was a stock take in terms of how the world had done with respect to safeguarding ecosystems. According to the framework of the Convention of Biological Diversity, or CBD, and they had this 2011 to 2020 plan. So my first question is sort of how did we do in that stock take? And then as I understand, obviously there was discussion about what the post-2020 plan would be. So maybe if you can bring us up to speed in terms of what happened with respect to these two topics?

MK: Mm-hmm. Well, the CBD, the Convention on Biological Diversity conversations will actually happen in two parts this year. So we just did the beginning section. The negotiations will continue through April, when it will finalize. So the handover was officially made to the new hosts of the CBD, Kunming, China. In the lead up to that, the CBD published a global biodiversity outlook, the fifth edition of its global biodiversity outlook to assess progress in implementing the previous decades strategic plan for biodiversity. So from 2011 to 2020, which is also referred to as the Aichi targets, the analysis and the conclusion of that report are in large part based on reports that are submitted by the parties to the convention. So there are two main conclusions from that report, One, None of the Aichi targets will be fully met. And second, the national targets were actually poorly aligned with the Aichi targets. There were both gaps in the level of ambition of the commitments of countries to address the targets nationally, as well as gaps in the actions to reach those commitments. And maybe it helps to look at a couple of examples to make that kind of real. So target three on harmful subsidies. Overall, there's very little progress that's been made over the past decade in eliminating, phasing out or reforming harmful subsidies. A relatively few countries have taken steps even to identify incentives that harm biodiversity, much less to remove those subsidies and harmful subsidies far outweigh the positive incentives in areas such as fisheries and the control of deforestation. For example, there have been big global commitments to reduce harmful subsidies, including from the G20 going back well over 10 years. But we haven't really seen a lot of delivery there.

On Target Eight, Reducing pollution Despite increasing efforts to improve the use of fertilizers, for example, nutrient levels continue to be detrimental to ecosystem function and biodiversity and plastic pollution. I think, which we all have been paying a lot more attention to in the last couple of years is accumulating in our oceans with severe impacts on marine ecosystems. So not a lot of progress there on reducing pollution. So not an encouraging picture overall. So, you know, you ask, what is the 2020 the post-2020 framework look like? And there's a draft and the draft has been started to be discussed. WWF has provided some feedback on that draft. I can talk about that a little bit more. It's basically organized around a theory of change and a vision for 2050, which is living in harmony with nature. It has four long term goals to get to 20 50 ecosystems, species and genetic diversity. Human needs are met. Benefits are shared equitably, and there's a means of implementation for that. Each goal has a set of related 2030 milestones and twenty-one action-oriented targets to look to 2030. So that's basically the framework of the post-2020 global biodiversity framework.

ST: So, so give us the WWF perspective on that post-2020 plan as sort of being proposed.

MK: Well, we welcomed the publication of the framework because it's a really important first step in the negotiations for a global biodiversity agreement. You have to start somewhere and this is a critical discussion given the continued decline we see in indicators of planetary health. And given the critical moment we are living in, so we we're dealing with a pandemic related to zoonotic disease spillover. Understanding the way we're currently using and abusing nature only increases the probability of that spillover. So that's the context in which we put out a call for much higher ambition, a clear and measurable goal that captures attention and catalyze action in the same way that that 1. degree target of the Paris Agreement does. So nature isn't the same as climate. We don't expect a single number, but we do believe a clear global goal for nature can really mobilize action. Some examples of the lack of ambition from our perspective in the current draft would start with the mission. The mission is to put biodiversity on a path to recovery by 2030, and we really don't think that's going to be enough to address the crisis in nature or to have nature help us address the crisis and climate. The mission

needs to aim to reverse the loss of biodiversity to achieve a nature positive world by 2030. So more nature in 2030 than we had in 2020, not just a stop in the loss of biodiversity. So we think that level of ambition is more in line with some other international efforts we've seen by political leaders such as the Leaders Pledge for Nature, which has now been endorsed by political leaders from more than 90 countries, acknowledging interlinkages between climate and nature loss and making commitments to address biodiversity loss, raise ambition in the NDCs, the nationally determined contributions under Paris, and promote that convergence between biodiversity and climate.

And we also think it's more consistent with the more recent G7 2030 Nature Compact, which commits to bold action for delivery of ambitious outcomes for nature in 2021, including with strong ambition that cuts across Climate and Biodiversity Convention. So we have these big discussions going on. At the same time, we need to make sure that these conversations are also joined up. And we need to see more ambition in addressing the key drivers of biodiversity loss. So the best that global assessment report on biodiversity and ecosystem services from the Intergovernmental Science Policy Platform on Biodiversity Ecosystem Services is really laid out what the big drivers of biodiversity loss, agriculture, food system, infrastructure we need, We're not going to be able to reverse nature loss unless we see ambitious steps taken in transforming those systems in transforming the way we produce and consume material goods and services, especially food. So we need a clear, ambitious 2030 milestone to halve the Global footprint of production and consumption. And then maybe one last point that we made on this on the framework is the framework can take key lessons from business. What matters? Get measures, gets measured and what's measured gets managed. The Aichi targets, where we have seen the most progress are the ones that were formulated in a clear and smart manner. So we really like to see more specific, measurable, time bound, action-oriented targets in the framework when it's finalized.

ST: Thank you. So one other very important initiative that we see getting going as the Task Force for Nature related financial disclosure, which obviously sits as the analogy for the TCFD or Task Force for climate related financial disclosure. So how do we take such a complex topic such as biodiversity and start to incorporate it into the evaluation and valuation of, you know, financial assets? So, so curious in terms of how you think this this effort will develop. You know, I suppose in my mind, it's easier to conceive about how it could be applied for perhaps mining or agriculture related businesses, but thinking that for sort of mainstream industrial or services, maybe you can help us sort of understand how you think sort of this goal will play out.

MK: Yeah, I think it's fair to say it's going to be complex work, but there's already a lot to build on. The launch of the TNFD this last summer included publication of something called nature and scope, which is a framing of the principles, the proposed scope of the disclosure framework, the governance of draft work plan, and there was also a proposed technical scoping paper that was published that lays out some of the key framing issues. So the members who now have been on board since September will are not starting from scratch. And it also, as you said, you know, stands on what I would call the now broad shoulders of the task force on climate related financial disclosure. So we really think that this this kind of a framework for organizations to report and act on evolving nature related risks really can be critical to mainstream the concept of nature related risk into business and financial decision making. So it's first and foremost a disclosure framework. But we believe disclosure plays a key role in helping reallocate capital away from nature risk by increasing awareness of both dependencies and

impacts of business on nature. If you look at the TCFD case, for example, we're just starting to see those recommendations or in some jurisdictions, recommendations very like them become mandatory.

And there's some early evidence that that increased disclosure does in fact result in lower carbon risk in financial portfolios. Now, of course, the ultimate goal of initiatives like TCFD, like TNFD, you know, to drive differences in investment decision making is not just to get individually clean portfolios at the individual institutions, but to use it as a lever of impact to reduce GHG emissions in the TCFD case and in the TNFD case. To reduce these nature negative outcomes and increase nature positive finance. So this kind of a global unified, agreed disclosure framework, we believe really can be important to get that done across the sector. There's a lot of risk that financial institutions may not well be aware of because they can't get that information. There are some obvious places where there are risk. You know, as you mentioned, they probably realize they have to look at food companies. They probably realize they have to look at deforestation related companies, but they may not realize how some other industries are linked to those kinds of deforestation or conversion of habitats. So this really will help us disclose those risks so that you can drive better decision making.

ST: Absolutely. I mean, the TCFD, as you said, has been an extremely successful effort, and hopefully this effort can mirror that. You know, you touched earlier on the topic of disease and climate change and biodiversity and linking them together. And WWF has produced some really interesting analysis, I suppose, on pandemic risk and its and these interrelationships. Can you explain those findings?

MK: Sure. We last year, our global science team produced a report called Beyond Boundaries on Emerging Zoonotic Diseases, Nature and Human Well-Being. It was really an effort to distill the existing research into something that, you know, people like you and me, not natural scientists could understand to make sense of a lot of research in the context of the COVID 19 pandemic and to understand what's driving such diseases and what that means for one an organization like WWF does with respect to nature conservation. They did a big literature review. They spoke to a lot of experts on epidemiology, on zoonoses, on the complex interactions between nature and human health. To put together as sort of easy to read, quick survey. In that report, they looked at the cumulative number of virus species that are identified each year, together with a rise in emerging infectious diseases and the significant spillover events in the last 60 years. That's when a when a disease moves from animal to people. So Zika, HIV, Ebola, COVID 19, those are all diseases that started in an animal. We learned that over that analysis. There are three to four new infectious diseases that have emerged each year, and the number of spillover events has been increasing over the last 60 or 70 years in particular. Now, not all emerging infectious diseases have the potential to become or cause a pandemic. In order for that, the disease has to spread from human to human once it spills over from animal to human. But there's been a significant increase in such emergence and an increase in the probability of that spillover. Then they looked at the drivers of specific a variety of pathogen types of diseases, and they noticed that land use change is a direct driver in all of the pathogen types that they looked at.

And likewise, we learned from the biodiversity assessment that was launched last year. The biggest driver of biodiversity loss is habitat degradation or land use change. So there's this similarity between climate change, biodiversity loss and pandemics. They don't cause each other, but nature loss and the rising pandemic probability and climate change all share a significant underlying driver. So land conversion for agriculture in particular, has caused 70 percent of terrestrial biodiversity and 50 percent of freshwater biodiversity loss, while it also increases

the probability of spillover of zoonotic diseases like COVID 19. So in short, we have a lot of reasons to improve our understanding of these complex natural systems interactions. And remember that we too are part of nature, which is what the Dasgupta Report was trying to remind us. It's especially easy, I think, for those of us who live in a highly urbanized area to forget where living on a big blue planet, one that we are now impacting in a way that comes back strongly negatively on us. I think, of course, if you live closer to the land, you listen to the rivers, you watch the oceans around you, you see these changes. You haven't forgotten this interrelationship. But for the rest of us, we have a lot to learn and a lot to transition for our own good and ultimately for the sake of our children, for the sake of their children and their grandchildren.

ST: Thank you, Margaret, for that discussion. There was very clearly explained some extremely complex topics and hopefully some sobering statistics and thoughts for our listeners to take in and absorb all, of course, underscoring the importance of this topic and its relevance to the finance space. So thank you again, Margaret,

MK: And thank you very much, Suzanne, for the interest. I really enjoyed the conversation.

GS: This concludes RPM's climate change special. Thanks to Suzanne, Margaret and all our other guests for shedding light on some of the important topics that have at the forefront of COP26 and the other climate-related events that have taken place over the past month.

The discussion around climate change continues to evolve quickly, and in our discussion, Margaret mentioned a lot of great reports and studies. You can find links to them and all episodes of RPM on our showpage at www.stepstonegroup.com. You can also find RPM on Apple podcasts, Spotify, Stitcher and other podcast providers.