

POLICY BRIEF #4

Private sector and natural capital: Business opportunities and climate action

This document has been prepared for the purpose of disseminating the learnings of the Community of Practice on Public-private articulation for **climate action in Latin America** (ArticuLAC), in collaboration with the Technical Assistance of the thematic sector Forests Biodiversity and Ecosystems (FBE) of the Euroclima program.

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The content of the policy brief is based on the discussions held during the CoP's second year of work, as well as on a review of the literature and specific consultations with representatives of public and private institutions in the region.

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The Paris Agreement has marked a new global dynamic in the fight against climate change, **with its objective of preventing global mean temperature from exceeding 2°C** above the levels prevailing in pre-industrial times, and aiming at not exceeding 1.5 °C, according to the best available scientific studies¹. This new dynamic involves the generation of novel mechanisms for climate risk adaptation and greenhouse gas (GHG) emission reductions in the private sector, as well as the necessary regulation to incorporate the cost that normal corporate operations imposes on the environment. Within this context, there is an immediate potential of opportunities for companies involved in generating real reductions in their emissions and climate risks, sustainably managing natural capital and leveraging Nature-based Solutions (NBS) for climate action.

This policy brief on the opportunities generated by sustainable management of natural capital for business and climate action was drafted as a result of the work of the Community of Practice ArticuLAC and the Technical Assistance of the thematic sector Forests Biodiversity and Ecosystems (FBE) of the Euroclima Programme. The brief presents the concept of natural capital and its connection with other key concepts for business sustainability and climate action. It analyzes opportunities and risks, good practices and lessons learnt from Latin American experiences and, lastly, it discusses the role of public policy in the sustainable corporate management of natural capital.

¹ IPCC, 2022.



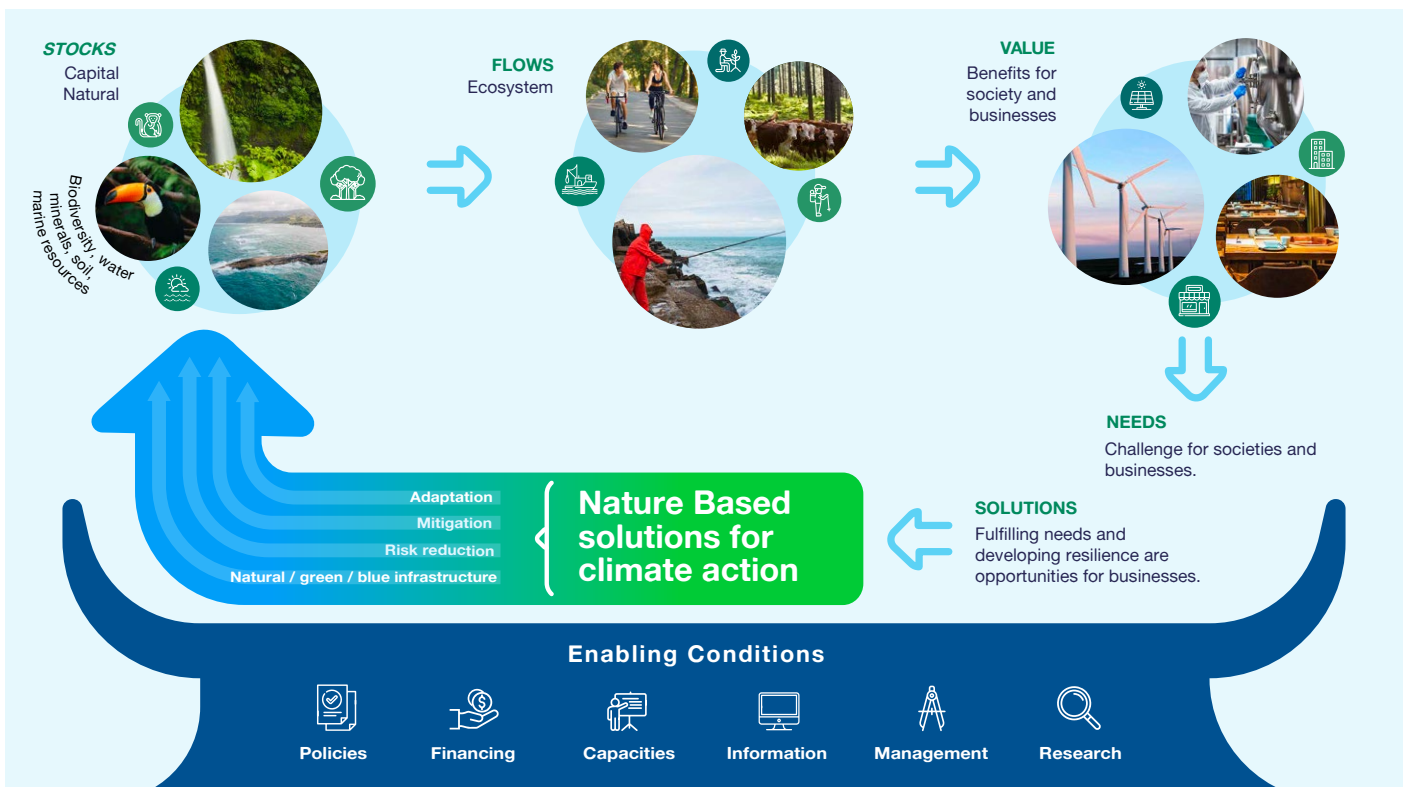
Natural capital and nature-based solutions

In their sustainability efforts, companies encounter different approaches or frameworks, promoted by public policies, international organizations, support organizations, but the connection among them is not always clear. Articulating these approaches, as well as their connection to business goals, is crucial for an efficient use of resources and an effective corporate action. To this end, this section discusses several concepts that explain the connection between natural capital and climate action, as shown in figure 1.

Natural capital is composed by “the stocks of renewable and non-renewable natural resources”, including biodiversity, ecosystems, plants, animals, air, water, soils, minerals, etc., “which come together to create a flow of benefits or services for people and society”². On the other hand, **ecosystem services** are the flows of benefits that human beings obtain directly or indirectly from the ecosystems and, in general, from natural capital. They are classified in four groups: provision (timber, water, food, etc.), regulation (flood and pest control, carbon sequestration, etc.), cultural factors (spiritual, recreational, touristic, etc.) and support (nutrient cycle, among others). These services generate value in people’s lives and in the company’s operations.

Among the efforts to address global and local challenges, including climate challenges, the concept of **Nature-Based Solutions (NbS)** has arisen. NbS targeting climate change are defined as “as measures aimed at protecting, restoring and sustainably managing natural or modified ecosystems to mitigate, adapt or reduce climate risks, while providing human well-being and biodiversity benefits”³. NbS leverage natural capital and the benefits of producing goods and services that address society’s needs, while reducing emissions, increasing resilience and generating or increasing natural capital, biodiversity and ecosystem services. For example, forest restoration provides multiple climate benefits both for society and for businesses, such as CO2 absorption, protection of water resources, landslide risk reduction, among others. Certain enabling conditions are required for this purpose, such as policy frameworks, environmental management instruments, capacities and financing.

Figure 1: Natural capital and climate action



Source: Own elaboration based on The Capitals Coalition, 2021

² Natural Capital Coalition, 2019, pág. 16.

³ Luna Rodríguez & Villate Rivera, 2022.



Business opportunities and climate action

Companies depend on natural capital and at the same time have an impact on it through their operations and supply chains. The way in which the company interacts with this capital generates risks and opportunities, which may arise in any area of the business⁴: operational, legal and regulatory, financial, reputational and marketing, and social.

Traditionally, the value of natural capital has been excluded from corporate decision making⁵ and there are many examples of how this omission may lead to inefficiencies in production and pollution, legal problems, loss of access to markets and financing, conflicts with communities, among others. However, there are increasing cases of organizations that value this capital and leverage the benefit flow generated by producing goods and services in a sustainable fashion, not only minimizing their negative impact on nature, but actually generating a positive impact. Approaches such as NbS, circular economy, regenerative agriculture and other promote this vision.

In this context, ArticuloLAC analyzed Latin American companies that are moving towards this path. The following are some examples:



Las Carolinas Colombia

Las Carolinas company in Colombia, with their regenerative livestock farming initiative, which has allowed them to reduce up to 40% of costs, reach new market segments and exemplify the virtuous circle of soil conservation and water retention.



Cooperativa Agrosilvicultores de Hidalgo México

Cooperativa Agrosilvicultores de Hidalgo, from-Mexico, which is working toward the recovery of maguey cultivation in agroforestry systems, aiming to develop new businesses and to contribute to their country's climate goals, based on a value chain with a circular economy approach.



CELEPSA - Perú

La empresa hidroeléctrica [CELEPSA](#) en Perú, que en alianza con las comunidades y socios institucionales apoya y promueve la gestión integral del embalse en la Reserva Paisajística Nor Yauyos Cochabamba, importante fuente de agua de Lima, como una estrategia para gestionar el riesgo climático y mantener su aporte a la descarbonización de la economía nacional.

In the search for opportunities and knowledge, companies may benefit from methodological proposals and tools developed and promoted by international organizations. One of is the [Natural Capital Protocol](#), a framework developed by the Capitals Coalition to help generate reliable, trustworthy and actionable information on the way the company interacts with natural capital, that management needs to make decisions. Other examples, discussed within the context of ArticuloLAC, focusing in one of the components of natural capital (biodiversity) are [Biodiversity Check Agrícola](#), developed by GIZ, and the [Guide to Biodiversity Management in Business](#) from the Business Alliance for Development in Costa Rica.

The challenge for companies and for the organizations promoting and supporting different fields of sustainability is integrating and articulating the different approaches with each other and, particularly, with the business goals, in order to move from scattered actions — though usually well-intended — to a corporate strategy that targets the company's profitability and sustainability, and that contributes to solving environmental and social issues faced by the countries they operate in, based on an adequate valuation and management of natural capital.

⁴ Natural Capital Coalition, 2019, page 18.

⁵ Natural Capital Coalition, 2019, page 2.



Opportunities for greater public-private articulation

Public policies are a key element of the enabling environment for companies to value natural capital and apply approaches such as the ones mentioned above. The State can generate an enabling —or disabling— environment for leveraging opportunities related to sustainable natural management, depending on the existence or lack of a coherent legislation and regulation framework across government portfolios, financial and non-financial incentives, soft-funding sources, training, public and accessible information, publicly funded research, and collaboration with academia, among others. According to the World Economic Forum (2022), the regulatory and commercial environments must change in order to allow positive opportunities for nature to provide a competitive financial return⁶.

In the last decades, some policy instruments have been developed in the Latin American region intended to value natural capital, such as the Payment for Environmental Services (PES) program in Costa Rica and other countries. More recently, the Nationally Determined Contributions (NDCs) and the Long-Term Strategies, within the framework of the Paris Agreement, are generating changes in the environment that enable a greater valuation of natural capital. According to an analysis performed by GIZ/Euroclima⁷, from the 19 countries participating in the program, all of those that have updated their NDCs (16 to date) include the NbS approach for adaptation and mitigation (10 explicitly and 6 implicitly). Since the NDCs establish the country's commitments at an international level, including NbS points to a potential strengthening of the enabling frameworks for its implementation.

Beyond establishing a general framework for corporate action, the government can also promote the integration and articulation of different approaches within the company, through coherence in the policies and actions of different state agencies, but also with the development of policy instruments that promote this articulation. The Clean Production Agreements in Chile were studied within the context of ArticuLAC as an example that integrates policies and regulations related to different natural capital and climate action elements to the goals adopted by companies signing these voluntary agreements.

The progress towards a sustainable future where government and companies' actions are guided by an understanding of natural capital and its benefits requires a greater articulation between the public and private sectors. This is the premise of the ArticuLAC Community of Practice work: that public policy goals can be more feasible —and even more ambitious— if the private sector is systematically included in all the phases of the public policy cycle —beginning from their design— and that private sector actions may be more effective in achieving their business goals and their contribution to sustainable development if they are aligned with national and global goals. This requires greater awareness, knowledge, tools and resources in both sectors, as well as a greater dialogue and effort coordination between the two and with other sectors.

⁶ World Economic Forum, 2022. Said source states: "Of the \$540 billion in agricultural subsidies granted by governments each year, almost all (87%) distort prices and are environmentally and socially harmful."

⁷ Euroclima, 2021.

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