

Business contribution to managing climate and water risks: Tools and lessons

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This paper focuses on how businesses can contribute to the implementation of the SDGs where climate and water-related risks represent a significant barrier to meeting these goals. We explore the threats of climate and water-related risks to the business community, as well as the practical responses, tools and implementation challenges for the required actions. We conclude with the lessons learnt by businesses from using those tools.

1. The Threats of Climate and Water Risks

Water crises and extreme weather events were identified in 2014 by the World Economic Forum community as two of the top 10 global risks. This is not surprising, given the severe impacts of having too little water, or too much. While impacts are often local, water security is now recognized as a systemic global risk.¹

Projected changes in climate threaten with sea level rise and more pronounced hydro-meteorological extremes, a higher frequency of intense storms, more intense local rainfall, higher river discharge extremes, and longer dry periods and droughts, all of which increase water-related risks. Globally, water-related disasters already account for 90% of all natural disasters.²

Many of these are taking a toll on the private sector, impacting business operations and global trade, disrupting supply chains, and in some instances, changing consumer behavior. However, the consequences of inaction do not only impact businesses, but also the economies and communities that depend on them, and on their ability to develop sustainably. For example, in March, 2014, Brazil's worst drought in 50 years did not only impact business in the agricultural and other sectors, but also raised food prices 20% and drove inflation up by 6%.³

Additionally, new kinds of disasters are occurring, with some areas experiencing longer and more severe droughts, and others increased in exposure to flood risk. In February 2013, multinational beef company Cargill was forced to close a plant in Plainview, Texas, due to prolonged droughts and dwindling cattle supply; causing 2,098 workers to be laid off in a small town of only 22,343.⁴ Finally, other drivers also contribute to increased exposure to these risks, posing additional risks to already vulnerable communities and

¹ WEF 2014 http://www3.weforum.org/docs/WEF_GlobalRisks_Report_2014.pdf

² WWDR4, 2012. <http://unesdoc.unesco.org/images/0021/002156/215644e.pdf>

³ Forbes, 2014 <http://www.forbes.com/sites/kenrapoza/2014/03/25/brazils-biggest-drought-in-decades-also-worsens-interest-rate-outlook/>

⁴ NYT 2013 http://www.nytimes.com/2013/02/28/us/drought-fells-a-texas-towns-biggest-employer.html?pagewanted=all&_r=0

businesses: population growth, asset deterioration, rapid urbanization, and subsidence from groundwater extraction, to name a few.

2. The Challenges to Practical Responses

These climate and water-related risks have made water management one of the key societal, environmental and sustainability challenges of the 21st century.⁵ In response to this, the business community first responded by evaluating their water footprint and improving efficiency within their four walls. However, business leaders are starting to realize that long-term profitability and business continuity will not depend on how water is managed within a company, but rather on ensuring water security within a watershed and across the value chain, for them, and for all other businesses, people, and the environment.

Because of the global nature of these challenges, no single government, sector of society, or company can ensure a water secure future on their own. Coordinated collective action is needed to find new and sustainable ways to protect water resources and mitigate risks in a rapidly changing world. This coordinated approach can be achieved through engagement in water stewardship, a commitment to the sustainable management of shared water resources in the public interest through collective action with other businesses, governments, NGOs, and communities. Water stewardship engages those who do not hold a government mandate to manage water resources or water infrastructure and enables them to contribute positively to water security, risk reduction, and sustainable development.⁶

Nevertheless, widespread engagement in water stewardship has yet to take place, in part because of a poor understanding of the complex nature of climate and water-related risks, and in part due to a number of specific challenges, including, but not limited to:

- ✓ Long-term investments in sustainable water management and climate and water risk mitigation are often perceived as risky and financing is therefore scarce. Such projects have longer payback periods, are subject to technology risks, and stakeholders often lack the knowledge and financial capacity to make such investments.
- ✓ Integrating water stewardship into standard business activities and building internal and external capacity to take actions to scale at the watershed level to reduce climate and water-related risks is a challenging and complex process, and foreign to most companies.
- ✓ Developing effective corporate and public water policy is difficult because the collection and disclosure of water-related information is inadequate. The financial impact of climate and water risks on sectors and companies is unclear, in part because information on water use and impacts is spotty and partial. Adequate information is needed to support the required decision-making and policy development to mitigate both climate and water-related risks.

⁵ WEF (2012). Global Risks – Seventh Edition. An Initiative of the Risk Response Network. WEF, Geneva.

⁶ WWF 2013 http://awsassets.panda.org/downloads/ws_briefing_booklet_lr_spreads.pdf

3. Addressing Challenges – Developing and Using Tools

Here, we will discuss examples of tools and approaches the business community has adopted to overcome the above mentioned challenges.

Financing /economic instruments

- ✓ New financing instruments, such as IDB's Structured and Corporate Finance Department (SCF) concessional donor funds, help catalyze private sector investments in sustainable water management and risk reduction. Examples of these financing mechanisms include:
 - The GEF-IDB climate smart agriculture fund for Latin America the Caribbean,
 - The energy efficiency finance facility, and
 - The Canadian climate fund for the Americas
- ✓ Detailed corporate water disclosure, as facilitated by CDP's water survey, is used by institutional investors to inform sustainable investment decisions and drive the market towards effective and targeted investments in sustainable water management and climate and water risk reduction. Greater disclosure and transparency around water influence private and public sector actors so that capital is efficiently allocated to create long-term prosperity rather than short-term gain at the expense of the environment

Capacity development

- ✓ Engagement in corporate water stewardship emphasizes the importance of forming and participating in watershed committees to ensure active engagement with all water users and successful implementation of water stewardship efforts. Additionally, as part of the water stewardship strategy, corporate adoption of water risk assessment process help companies identify climate and water-related risks, as well as the associated business opportunities; and stakeholder mapping tools, goal setting and cascading systems, and project management and reporting systems can ensure corporate water stewardship initiatives stay on course
- ✓ Market forces, including shareholders, customers, and governments, are powerful mechanisms to incentivize companies and cities across the world's largest economies to measure and disclose their climate and water information. Global reporting systems, like CDP's water survey, enable companies, investors and cities to better identify and mitigate risks, capitalize on opportunities, and make investment decisions that drive action towards a more sustainable world
- ✓ Grant funding to private sector actors, like those provided by IDB, enable investment grade feasibility and cost benefit studies to develop knowledge and capacities in companies contributing to sustainable development meeting SDGs

Governance, Institutions / legal framework

- ✓ Corporate water disclosure and stewardship initiatives help catalyze a transformation to a sustainable world by placing climate and water information, insights, and their expertise at the heart of policy-making decisions.

Technology

- ✓ Open access online reporting systems, like CDP water, provide a platform for corporate water disclosure. It provides standardized and centralized communication to investors focusing specifically on water, reducing the reporting burden for companies and providing open access to corporate water-related information worldwide.
- ✓ Open access and state-of-the-art online water risk assessment tools help the business community better understand, manage and disclose their exposure to current and future water-related risks and focus their investments on long-term solutions and water stewardship efforts in watersheds where climate and water-related risks are most prominent and threaten water security and sustainable development. For example:
 - WRI's Aqueduct Water Risk Atlas
 - WRI's Flood Risk Analyzer
 - WWF's Water Risk Filter
 - WBCSD's Global Water Tool
 - WFN Water Footprint Assessment Tool

4. What barriers remain to be overcome, what can we learn?

Investments in sustainable development, and climate and water risk mitigation, continue to face a number of barriers, including a lack of knowledge about the latest technologies and best practices that can help achieve sustainable water management. There also continue to be a number of perceived risks associated with sustainability investments, like longer payback periods, new technologies, or high initial capital costs. At corporate level, the lack of experience with long-term financing can be a barrier for action, especially when lending to supply chain actors, and at a producer level financial literacy is missing. Regulatory frameworks to support and incentivize sustainable investments in climate and water-risk mitigation tend to be weak or non-existing.

Regarding engagement in corporate water stewardship, the multi-stakeholder processes required are very complex and alignment can be difficult to obtain. Stewardship of water resources requires long-term thinking outside of normal business cycles, as well as sound water policy and local capacity, which is lacking in many watersheds. Actions need to be taken to scale, and better data and metrics are needed when selecting the most effective solutions and to understand their economic and environmental value.

Finally, new and innovative ways of sharing information on climate and water-related risks are needed; ways that can inform non-technical audiences and help shape sound decision making and policy development that will drive sustainable development and water security for all.

Some of these barriers are overcome with the understanding that low productivity, particularly in agricultural supply chains, low water quality, water scarcity, or other threats, can actually materialize as financial, business and social impacts. These risks are real and understanding them highlights the urgency for increased investments and engagement in water stewardship in order to ensure long-term sustainable development. External pressures, such as international buyers seeking sustainability certifications or higher costs, as well as peer and investor pressure through reporting scoring and external

corporate commitments, can also trigger increased investments and active engagement in sustainable water management.

5. Addressing the Challenges: Panel Questions

Panel Suggestions

- ✓ What are the 3 most important opportunities for the business community associated with mitigating climate and water-related risks?
- ✓ How can pursuing these opportunities best help countries meet SDG's for water?

Panel Topics

Finance (Katalin Solymosi, IDB)

- ✓ Are longer payback periods, technology risks and high levels of uncertainty associated with investments in water-related climate resilience a barrier to the type of commercial financing that will be required for countries to meet the SDG's for water?
- ✓ What actions can be taken, and what tools are available, for governments and companies to help overcome these barriers and incentivize investments to help countries meet water SDG's?

Capacity development (Bert Share, AB InBev)

- ✓ Company culture is a significant asset when integrating water stewardship into regular business activities. What key lessons, and tools, can governments take from companies, like AB InBev, to drive a similar cultural shift across government staff and civil society in an effort to help meet the SDG's for water?

Technology (Cate Lamb, CDP)

- ✓ Open access web-based platforms allow for much greater transparency and access to information worldwide. In what ways can greater corporate water disclosure and transparency more broadly, help governments meet SDG's?