THEMATIC PAPER

Development & Climate days

Global ambition.
Local action.
Climate resilience for all.
#DCdays17

Over the last decade, Development & Climate Days (D&C Days) has built a reputation for providing stimulating and interactive debate of topics and issues at the interface of development and climate change during the middle weekend of the UN climate change talks.

This year the host partners have elaborated a strategic plan to contribute to the achievement of the Paris Ambition and seek to do this by bringing evidence into dialogues aimed at influencing key stakeholders – the private sector, the climate negotiators and the climate adaptation community.

Shared resilience, will be one of four key themes explored at this year's D&C Days.

4. Shared resilience

We Mean Business

Addressing climate risk is becoming a shared experience. In an increasingly connected world, underlying weaknesses at one end of a global supply chain will have implications from the farm to the fork and from the factory to the showroom. A business that builds infrastructure to defend its facilities but neglects the communities from which it draws its workers has a two-dimensional understanding of enterprise risk. Similarly, a frontline community that ignores the private sector loses the opportunity to harness the transformative power of powerful partner in resilience. Building climate resilience must also be shared. As we seek to anticipate, avoid, accommodate and recover from climate impacts a greater emphasis on public-private partnerships is needed. This will help create a policy enabling environment conducive to building adaptive capacity while mobilizing the innovation, goods, services, and capital of the private sector. We need a new vision of how to work with the private sector to enable resilience within companies, across complex supply chains, and within frontline communities.

1. A material risk to business

Climate change represents a material and cascading risk to the private sector. According to the World Economic Forum (WEF) 2016 Global Risk Assessment Report, climate change is the "highest impact risk to business" out of 29 risks that were reviewed (WEF, 2016).

Climate risk is increasingly impacting individual companies – across finance, operations, human resources, compliance, marketing, and strategy divisions. Financial risks include potential risks to profits; reduced availability of capital; and threats to existing assets and investments that may be exposed to hazards. Operational risks result from damage to vital infrastructure caused by climate hazards; production shortfalls and procurement problems when communities and resources along the supply chain are adversely impacted; and logistics failures when transport routes are affected by extreme weather. Human resource risks include workforce safety and liability through extreme weather events. Strategy risks could include losing out to competitors who are better adapted to climate change, and reputational damage because of failure to prepare/respond to an extreme event. These risks are experienced across complex global supply chains at every level – from extraction of raw materials and product manufacture to the transportation and distribution of goods and services. The true extent of the globalization of trade and commerce – and the risks it presents – is insufficiently recognised.

The cumulative global cost of climate change-related impacts will reach between $2 trillion and $4 trillion by 2030 (Mercer, 2011). More recent assessments suggest costs to the market value of global financial assets could be as high as $24.2 trillion under worst case scenarios (Dietz, 2016). And yet the private sector is currently ill-equipped to manage risks inside its own sphere of operations and therefore poorly positioned to contribute to broader shared resilience. Recent research found that 72 per cent of suppliers surveyed stated that climate risks could significantly impact their business operations, revenue or expenditure, yet only half of these are currently managing this risk (Chase et al, 2016). The private sector has much to learn from the resilience community of practice.

2. The power of the private sector

The private sector has untapped potential to enhance resilience through investments in capital assets. A company might enhance human capital by investing in resilience-building skills and training for the workforce. A company could also strengthen adaptive capacity by enhancing social capital, for example establishing planning boards with worker participation, designed to evaluate risk and design strategies for resilience. Many options are available for companies to invest in natural, physical and political capital also.

Companies have significant potential to enhance financial capital. To-date collective investments in resilience have been inadequate to the task. The United Nations Development Program (UNDP) estimates that the annual costs of building resilience could range from US$140 billion to US$300 billion by 2030, and between US$280 billion and US$500 billion by 2050. Yet total bilateral and multilateral public investment in resilience totaled just US$25 billion in 2014 (UNEP, 2016). What if more could be done to leverage the power of the private sector purse?

Historically climate adaptation finance has been focused mostly on the disbursement of public money, or when addressing the private sector on using public money to leverage private capital in support of large-scale adaptation initiatives drawn from a project pipeline. Very little has been done to understand the myriad ways in which the private sector puts money to use. As a result, the true scale of private sector investments in resilience is unknown as data are scarce; the effectiveness of private sector investments is unclear; and most of the research to date has focused on quantifying, classifying or reviewing approaches to leveraging private sector finance using public funds (UNEP, 2016). We need to evolve our understanding of private sector investment to include all the money put to use by the private sector by expenditure, procurement, the allocation of investment capital and the management of risk. This provides a platform to consider how to put a broader array of private money – from the massive flows circulating through global supply chains, to equity, debt financing, insurance and even the operation of financial markets – in the service of climate resilience.

Foreign direct investment (FDI) inflows have increased a staggering 25-fold since 1980, rising from $54 billion to $1.23 trillion in 2014, as marked by shifts from manufacturing to services and from developed to developing and emerging markets. South-South investments have also intensified, growing by two-thirds, from US$1.7 trillion in 2009 to $2.9 trillion in 2013. (WEF, 2016). A new understanding of private sector investments would open the potential to use these flows to support climate resilience.

3. Mobilizing the private sector on shared resilience at Development and Climate Days

This year's D&C Days will seek to equip and empower the private sector to lead on climate resilience. Three dedicated conversations will look at how to understand risk and build resilience across complex global supply chains; how to rethink our understanding of private sector finance in order to mobilize investments at scale; and how to create a framework for private sector commitments on resilience.

First, we will ask what actions can companies take to reduce vulnerability and enhance resilience in the communities along their supply chains? The goal will be to foster common understanding of supply chain management, climate risk and resilience, and both the needs and agency of vulnerable populations and the private sector.

Second, we will ask how do we mobilize the financial power of the private sector in support of climate resilience? Together we will surface new ways of thinking around private sector investments in resilience.

Finally, we will ask what would a science-based target on resilience look like? The scenario proposed in this session will argue that business should adopt a "science-based strategy on climate resilience" to mobilize companies in support of adaptation.

Chase, M., Norton, T., and Wright, C (2016) From Agreement to Action: Mobilizing suppliers toward a climate resilient world. *CDP Supply Chain Report 2015 | 2016*. BSR and CDP. New York.

Dietz, S., Bowen, A., Dixon, C., and Gradwell, P. (2016). Climate value at risk of global financial assets. *Nature*, 6, 676-679. Macmillan Publishers Limited.

Mercer (2011). *Climate Change Scenarios – Implications for Strategic Asset Allocation*. Mercer LLC, Carbon Trust, and International Finance Corporation: New York City.

United Nations Environment Programme (UNEP) (2016). *The Adaptation Finance Gap Report 2016*. Nairobi, Kenya.

World Economic Forum (WEF) (2016). *Global Risks 2016, 11th Edition*. Geneva, Switzerland.

D&C Days 2017 will take place on 11-12 November 2017 in Bonn, Germany during the UN climate change talks, the 23rd Conference of the Parties (COP23)