



BSR Submission to the UNFCCC: Building Private Sector Engagement on Climate Resilience through the Technical Examination Process

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Summary

As activities shift toward implementing the goals within the Paris Climate Agreement, non-state actors, including the private sector, will be a critical voice and partner in dialogue and action that helps to break down the barriers to societal resilience. In the following submission, we propose opportunities for private sector engagement at upcoming adaptation Technical Expert Meetings (TEMs), and present our framework for helping companies to build their adaptive capacity in their own direct operations and supply chains and within vulnerable communities. The private sector brings valuable expertise, perspective, and resources to the table, and should be viewed as an implementation partner on climate risk and resilience.

Background

The transition to a low-carbon economy is underway. The historic Paris Agreement was unprecedented in its ambition to reduce emissions, in its level of active participation from all major economies, and as a global economic stimulus mobilizing trillions of dollars of investments. Prior to COP21, BSR, through the We Mean Business coalition,¹ advocated for ambitious provisions to bolster the pre-2020 climate ambition on both mitigation and adaptation (formerly known as Workstream 2 of the Ad-Hoc Working Group of the Durban Platform for Enhanced Action).¹ With these provisions secure, we are committed to ensuring full implementation, maximum ambition, and access to climate compatible development for all.

However, the path to achieving the goals set out by the Paris Agreement is not yet clear, and communities around the world, including those most vulnerable, are already facing the consequences of climate change. Efforts to advance climate resilience by building adaptive capacity are more urgent and important than ever. Progress toward the global adaptation goals will require more action and collaboration with non-state actors, including local and regional governments, civil society organizations, and the private sector.

Furthermore, businesses can, and should, be agents of climate resilience. The private sector both benefits from and can take meaningful actions to protect resource availability, supply chain and transportation route security, worker and infrastructure safety, and the rising prosperity of consumers and shareholders. Alternatively,

¹ We Mean Business is a coalition of seven partners (BSR, CDP, WBCSD, Ceres, The Climate Group, CLG, and B-Team) working with thousands of the world's most influential businesses on climate action to reduce emissions and build societal resilience. For more information please visit: <https://www.wemeanbusinesscoalition.org/>.

businesses that fail to properly account for climate risk can suffer considerable strategic, operational, financial, reputational, resource, and legal harm.

Since COP21, BSR has focused on developing the research and tools necessary to ensure businesses choose a climate-resilient path. We engage with businesses across industries and geographies to build climate resilience in direct operations, supply chains, and communities around the world. We also bring businesses and governments together to create and reform policies to support and enable climate resilience. The Technical Examination Process on adaptation (TEP-A) provides a great opportunity to accelerate climate action and break down barriers to private sector engagement on resilience—a win-win as the private sector has much to gain from enhancing both their own resilience, and the resilience of greater society.

Climate Change is a Material Risk to Business

The risks posed by climate change are serious, immediate, and far-reaching. Companies that fail to properly understand and manage climate change are exposed to a variety of strategic, financial, operational, marketing, compliance, and human resources risks.ⁱⁱ Despite the potential breadth and severity of these impacts, few companies have analyzed the full impact of climate on their business (see figure 1). Still, fewer have fully mapped the full spectrum of risks across the supply chain, time scales, and geographies—or the way those risks interact with issues such as resource availability, changing disease vectors, and migration.

In recent research conducted by BSR and CDP, 72% of suppliers surveyed stated that climate risks could significantly impact their business operations, revenue, or expenditure—yet only half of these companies are currently managing this risk (see figure 2).ⁱⁱⁱ

Some companies are beginning to address climate risks, primarily by building on existing business risk assessment activities and integrating adaptation initiatives into enterprise risk management systems.^{iv} However, the majority of businesses continue to apply a very limited approach, what we describe as a one- or two-dimensional approach to a three-dimensional problem (described in more detail in the following section).

This limited view fails to account for the broad range of climate impacts on companies and can skew risk assessments creating false alarm where a company may be relatively secure, or missing important vulnerabilities.

Figure 1: Climate risks for business

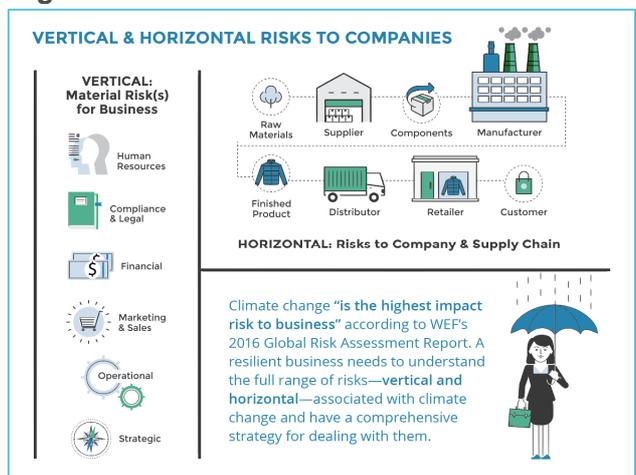


Figure 2: Climate risk in the supply chain

As a result, most companies are working with approaches to risk management that are weak and potentially costly to their business, their suppliers, and society. When companies improve their understanding of climate risk, they open innovative routes to enhancing resilience and in turn derive benefits for their core business, supply chain, and the frontline communities managing climate change impacts across the globe.

The World Economic Forum (WEF) has described “a resilience imperative,” which refers to the urgent need for resilience approaches that are accessible, actionable and collaborative.^v To address this imperative, BSR has developed a three-dimensional understanding of climate risk to support comprehensive strategies for building climate resilience inside a company, across supply chains, and within vulnerable communities.

A Three-Dimensional Approach to Equip and Mobilize the Private Sector

The private sector has an important role to play in creating and ensuring a climate resilient world. To incentivize and help companies to realize this potential, BSR developed a framework oriented toward four key objectives:

1. To **equip business with a three-dimensional diagnosis of climate risk**. Climate risk is determined by the existence of three dimensions: physical **hazards**, **exposure** to those hazards, and underlying **vulnerability** (see sidebar at right).
2. To **provide a foundation from which to build private sector understanding and response to nexuses** between climate risk and other business risk vectors including strategic, financial, operational, human resources, compliance & legal risks.
3. To **present companies with a successful strategy for building climate resilience**. A successful strategy for climate resilience will need to include elements that together enhance the adaptive capacity of the company, its supply chain, and the communities in which the company operates.
4. To **position companies as agents of climate resilience** by identifying ways in which the private sector can mobilize actions in support of climate resilience.

The analysis behind these objectives was derived from a comprehensive literature review, semi-structured interviews, and focus groups conduct in Bangladesh, the United States, and Morocco.²

THE THREE DIMENSIONS OF CLIMATE RISK

Climate risk is determined by the existence of three dimensions: physical **hazards**, **exposure** to those hazards, and underlying **vulnerability**.

1. Hazard refers to the possible future occurrence of natural or human-induced physical events that may have adverse effects on people, ecosystems, resources, assets, or infrastructure.¹ C40 recognizes five key types of physically hazardous events: meteorological, climatological, hydrological, geophysical, and biological.

2. Exposure refers to the people, ecosystems, resources, assets, or infrastructure present in an area where hazardous events may occur.¹ As the global population continues to grow, demand for housing, food, and other goods and services will continue to push up against climate hazards, intensifying exposure.

3. Vulnerability refers to the propensity of exposed elements to suffer adverse effects from climate-related physical hazards. Vulnerability results not just from exposure, but also from underlying weaknesses, deficiencies, or lack of capacities that magnify the negative impacts of exposure to a physical hazard.¹

² The approach for this analysis was structured around five key indicators of research excellence – robust analysis, independence of bias, institutional coherence, actionable outcomes, and timeliness. These were used to ensure an appropriate balance between strong evidence and actionable insights, based on the conviction that insights without analysis lack credibility and analysis without a point of view quickly becomes inaccessible and impractical. The design was informed by original research conducted by BSR and funded by the International Development Research Center (IDRC). Full methodology details available upon request.

This research also identified three key findings when engaging the private sector on climate resilience:

- 1. Climate change has implications across all business risk vectors.** Companies are beginning to understand that climate change affects all business risk vectors, including strategic, financial, operational, human resources and compliance and legal—and this expands across the entire business value chain.
- 2. Investing in capital assets is the key to resilience.** BSR’s approach draws upon a series of components that together enhance the adaptive capacity of a company and enable greater resilience across the supply chain and within vulnerable communities. These components, called “capital assets” in the climate resilience community,^{vi} consist of human, financial, social, natural, physical, and political capital, and we consider them to be the key building blocks of resilience (see figure 3). To date, the bulk of climate resilience research has explored how capital assets can be developed and deployed in the public sector. BSR’s framework adapts this work for use in the private sector. By strengthening capital assets, businesses can develop approaches that successfully address underlying vulnerabilities and boost societal resilience.

Figure 3: Strengthening capital assets



- 3. Resilience strategies need to be tailored to individual sectors and companies.** Hazards, exposure, and vulnerability vary by sector, geography, and a range of other social, cultural, economic, environmental and political factors. Consequently, businesses should conduct tailored risk assessments and develop individualized strategies for resilience. While an approach encompassing all six capital assets is recommended, the depth of investment in each asset will—and should—vary.

The result of BSR’s research is an approach to understanding risk and enhancing resilience that builds on 25 resilience frameworks used by development agencies across the globe and is specifically tailored for the private sector.

In addition to taking action within direct operations and supply chains, the private sector’s access to and ability to utilize capital can be a valuable lever for building resilience. This is particularly salient for financial services sector companies, which have the capacity to provide access to finance and mobilize financial support for resilience at scale.

Leveraging Private Sector Finance from the Investment Community

The financial services sector can play a vital role in enabling climate resilience across sectors. Ultimately, the benefit and the value of the nexus between financial services and resilience will be derived from the ability to mobilize finance in support of the capital assets, and in the ability to ensure vulnerable sectors, companies and communities have access to the financial goods and services fundamental to long-term resilience. The investment community can contribute significantly to building climate resilience by:

Channeling capital flows towards adaptation project pipelines that strengthen the full range of capital assets.

- **Identifying Opportunities:** Investors are increasingly aware that climate change can lead to opportunities as much as risks. The kind of information companies disclose about climate risk allows for better risk management and helps identify opportunities.
- **Integrating Climate Risk in Investment Decisions:** Climate change poses investment portfolio risks and opportunities in several areas. Once risk is identified and classified, investors have opportunities to mitigate climate risks in their portfolios by engaging companies to include resilience in climate change strategies, and encouraging more robust disclosure of climate factors to allow for even better risk mapping.
- **Using Green Bonds:** Green bonds are particularly well suited to financing and investing in resilience projects since they offer long term financing opportunities. However, only 4.3% of bond proceeds to date are used for adaption and resilience financing.^{vii} With such a small proportion of green bonds being allocated to adaptation, investors can lead growth in this category.

Equipping other sectors to incentivize resilience across geographically dispersed value chains by targeting capital assets in the supply chain.

- **Developing Innovative Products:** By developing offers to respond to the evolving demand of their clients or to steer trends in climate-compatible directions, banks can enable other business sectors to build climate resilience. Asset managers, sitting at the top of a chain of capital flows, can encourage further growth.
- **Leveraging Equity:** Investing in equity to strengthen climate adaptation activities can be an effective way to support the development of more innovative products and solutions. Capital assets can be a valuable tool for assessing the resilience of companies and evaluating what segments of its value chain or strategy require further strengthening from the point of view of climate resilience.

Providing access to finance so that vulnerable communities and individuals can strengthen their capital assets and hence rebound from climate impacts.

- Financial literacy and access to financial products and services are an essential building-block of resilience. By focusing efforts on reaching communities with limited access to financial products and services that are exposed to climate risks, investors can contribute to building resilience not only in vulnerable communities but in global supply chains that rely on them.

Access to financial products and services and having the competence to use them reduces vulnerability and enhances ability to bounce back after climate impacts by protecting assets. In particular, financial literacy is key to building resilience for individuals, households, communities and businesses --especially smallholder farmers and small and medium enterprises.

Finally, it is important to note that successful climate resilience financing—through any of these avenues—will require certain conditions:

- » **Investing in internal training:** Climate-change related knowledge and skills for action will be particularly important for investors and asset managers for whom climate is not part of their core business. Trainings should focus on market knowledge, technical skills on climate, and climate-related products and services.
- » **Mapping clients' climate risk:** Building climate resilience requires detailed and robust risk-mapping in order to target measures where they are most needed and most likely to succeed. HSBC's Climate Vulnerability Assessments are an example of effective climate risk-mapping aimed at the financial sector specifically: since 2011, HSBC has been mapping risk for the G20 in 2020 from expected climate impacts on food losses, water stress, and rising healthcare costs. The FSB Task Force's recommendations for climate-related financial disclosure are sure to be a landmark change in the way climate-risk is valued. Where resilience in particular is concerned, understanding capital assets as risk management tools as well as building blocks of resilience will lead to even more accurate and actionable risk-mapping.
- » **Designing sectoral approaches:** Companies in different sectors are exposed to different risks, and supply chains will share characteristics based on sector. For instance, companies in the food, beverage, and agriculture sector will require special attention to natural capital in terms of water management and land use, while companies in energy will be concerned with financial capital related to stranded assets and physical capital related to infrastructure needed to produce and distribute energy.

In addition to financial services companies, the private sector as a whole has much to offer when it comes to building resilience for global communities and supply chains. As such, engaging the private sector in on-going conversations with non-state actors and governments, such as through the TEPs, will be vital to unlocking resilience solutions.

Private Sector Engagement in the Technical Examination Process on Adaptation

Given the material risk to business from climate change, the establishment of the TEP-A and its TEMs, spearheaded by the Adaptation Committee, is a perfect opportunity to engage the private sector in conversations about how to reduce the barriers to climate action on adaptation.

As BSR, and through the We Mean Business Coalition, we have engaged in the TEPs, and are therefore equipped to continue engaging the private sector perspective in the TEMs. We are delighted that this process is designed to be more inclusive and geared toward actionable dialogue. The private sector is an implementation partner and is eager to engage in dialogue that moves from **conversation to collaboration** with governments and other actors to accelerate action--for example, by breaking down the policy, technical, and financial barriers to building adaptive capacity and enhancing societal resilience.

Our vision of a successful TEP would not only result in sharing best practices, but would ideally result in tangible outcomes led by curated conversation, such as private-public partnerships that help implement adaptation action. The TEP-A and the TEMs should demonstrate the following:

- **Planning.** The Secretariat continues to work in conjunction with non-state actors, including the private sector to ensure the appropriate individuals are invited and attend the TEMs. Doing so can help the discussion to result in tangible outcomes. Planning meetings would take place well in advance to ensure those invitees have enough notice to plan accordingly.
- **Collaboration.** Collaboration is strong between all stakeholders, attending governments and the UNFCCC Secretariat, including the private sector at meetings and in between meetings.
- **Structure.** The TEMs must have continuity of facilitators between meetings to help the flow of the entire technical process. Facilitators should be experienced in the subject area to ensure conversations move from presentations to constructive dialogue.
- **Timing.** We are encouraged that the TEMs can be held on the cusp of additional UN events, or even those that are organized and held by non-state actors, with results submitted after to the UNFCCC TEP teams. We can suggest several events throughout the year that would encourage more participation from private sector facing organizations and their companies, including the Business and Climate Summit.
- **Actionable Outcomes.** The dialogue must focus on the removal of challenges and barriers that hinder greater ambition, including that of the private sector.

Further Areas for Consideration by the Technical Examination Process on Adaption

We are encouraged to see that the Marrakech Partnership for Global Climate Action has selected seven themes to guide their work over the coming years.³ As resilience and/or adaptation does not have a designated theme, it should be considered throughout all seven themes. We are also encouraged to see that the Adaptation Committee has dedicated discussions that involve private sector resilience, appointed a representative from the

³ The Marrakech Partnership for Global Climate Action has selected the following themes: Water, Oceans, Land-Use, Energy, Industry, Transport, and Human Settlements. For more information, please visit the website: http://unfccc.int/files/paris_agreement/application/pdf/champions_outcome_draft_v4.pdf

BINGO constituency to ensure the private sector perspective is represented, and has considered holding TEMs outside of formal UNFCCC meetings.

To realize the ambition of the TEP-A and further advance the dialogue on private sector engagement in building climate resilience, BSR proposes the following areas for further exploration and consideration at upcoming TEMs. Please note that this is not an exhaustive list of issue areas but some of which we can provide expertise. These discussions could take place formally within the UNFCCC meetings, or adjacent to related convenings such as the Business and Climate Summit, the World Economic Forum Annual Meeting, and other events where the private sector and relevant stakeholders are present.

- **The private sector is imperative, and should be represented at TEMs.** Private sector engagement and investment are essential to building climate resilience. If key economies take more nationalistic and isolationist positions on global issues such as climate, the private sector will be even more vital to preventing catastrophic climate change and boosting adaptive capacity. In recognition of the role businesses play in building resilience, the private sector voice should always be represented at relevant TEMs. The following topics merit additional exploration within the TEP, and private sector voices will be vital for each—to ensure both that companies understand the risks they face and roles they play, and that non-private sector actors are accurately identifying ways the private sector can participate in and contribute to building resilience.
 - **Understanding key climate nexuses.** Climate change does not operate in isolation, and should be explored and managed in a holistic manner. In the coming year, BSR, in partnership with the We Mean Business coalition, will be exploring the nexus points between climate resilience and human rights, women’s empowerment, inclusive economy, job creation, just and equitable economic transitions, multi-national supply chains, and human health. These intersections are crucial for understanding how climate change connects with social developments across the globe, identifying key challenges, and implementing solutions that help states, economies, and communities build resilience. These nexuses merit discussion at upcoming TEMs, and the private sector voice should be represented in the conversation.
 - **Accurately addressing sectoral climate risks.** To ensure holistic, integrated, and efficient action toward climate resilience, approaches and interventions must necessarily vary by industry. The private sector is well-equipped to understand industry-specific risks, as well as to identify opportunities for companies to provide, support, or enable solutions for communities. Engaging the private sector in discussions around industry-specific climate adaptation will be key to identifying and implementing effective strategies.
- **Private sector action would benefit from geography-specific research.** Climate risk varies significantly by geography, and companies need to understand risks from not only the country-level, but by climate/biome. This is vital, as one country or state can include several climates and biomes, resulting in different climate risks. The TEP should consider research to identify the primary climate risks, such as extreme weather, drought, flood, sea-level rise, risk of increased disease vectors, etc., at a state or city level to enable companies to better assess climate risks across their entire business footprint. These data can then be used to assess financial implications for functions such as general business operations,

manufacturing sites, and commodity sourcing regions.

- **Leveraging private sector finance for adaptation is vital.** Climate finance at the UNFCCC has been primarily discussed as funding from public sources totaling \$100billion per year, which is far less than needed to both spur the transition to a low-carbon economy and adapt to climate-related impacts already locked into the system. Leveraging private sector finance for adaptation will be vital to achieving the ambition of the TEP, and thus should be on the agenda for upcoming TEMs.

BSR looks forward to the upcoming TEMs in the TEP-A over the coming years, and is committed to helping ensure the TEP-A succeeds in its mission to drive greater adaptive capacity in the short-term. The private sector remains an implementation partner on resilience, and its potential to boost resilience will only increase when the barriers (i.e. financial, policy, technology) preventing greater societal resilience are removed and challenges are overcome.

ⁱ <http://unfccc.int/bodies/body/6645.php>

ⁱⁱ These conclusions have been harvested from semi-structured interviews and focus groups.

ⁱⁱⁱ 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.

^{iv} Crawford, M., and Seidel, S (2013) Weathering the Storm: Building business resilience to climate change. C2ES. Washington, DC.

^v World Economic Forum. 2016. The Global Risks Report 2016: 11th Edition. World Economic Forum (WEF), Geneva. p8.

^{vi} Overseas Development Institute (2016) Resilience Measurement Frameworks and Approaches: A bird's eye view. Windward Fund and the Rockefeller Foundation. New York.

^{vii} The Climate Bonds Initiative (2015) Bonds and Climate Change The State of the Market in 2015. Commissioned by HSBC. p8.

ABOUT BSR

BSR is a global nonprofit organization that works with its network of more than 250 member companies to build a just and sustainable world. From its offices in Asia, Europe, and North America, BSR develops sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. Visit www.bsr.org for more information about BSR's more than 20 years of leadership in sustainability.

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