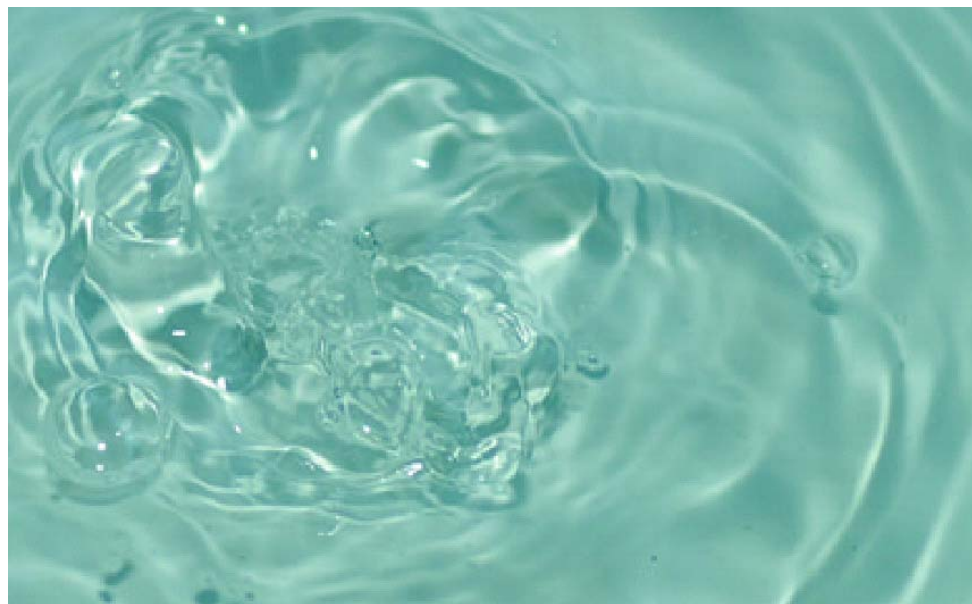
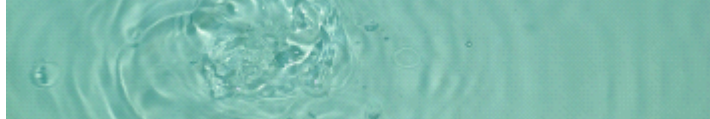


# Risks of Water Scarcity

**A Business Case for Financial Institutions**

Preliminary Findings





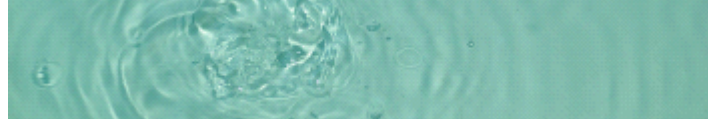
# UNEP Finance Initiative

## A unique global partnership

Between the United Nations Environment Programme and 239 financial institutions in 47 countries.

## Our mission

To realize best environmental and sustainability practice at all levels of financial institutions' operations



# UNEP Finance Initiative

## Our Activities

- Working Groups:

Climate Change, Asset Management, Sustainability Management and Reporting

- Regional Task Forces:

Africa, Latin America, North America, Asia, Central and Eastern Europe

- Outreach:

0.618... newsletter; monthly e-bulletin; [www.unepfi.net](http://www.unepfi.net)

- Networking:

2001-02 Global Outreach: Manila, Santiago, Midrand, Budapest, Belgrade.

Annual Global Roundtables (Rio 2002, Tokio 2003, New York 2005)

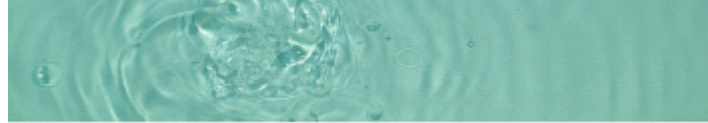
Expert Workshops

- Projects:

Investing in Stability

Ratings Roundtable on Qualitative Risk

UN Global Compact/UNEP FI Workshop on Investors and Sustainability

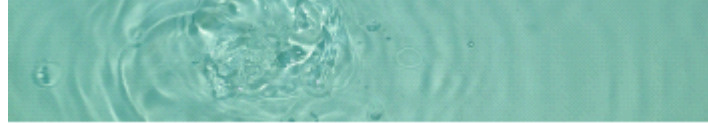


# **Risk of Water Scarcity: A Business Case for Financial Institutions**

A project to understand the links between water scarcity and its potential risks and opportunities for financial institutions.

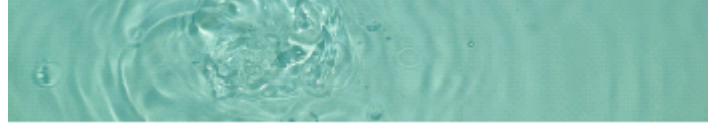
A collaboration between the Stockholm International Water Institute (SIWI) and UNEP Finance Initiative.

Funded by the Swedish International Development Cooperation Agency (Sida)



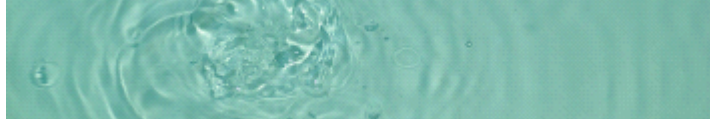
# Risk of Water Scarcity: A Business Case for Financial Institutions

- Objectives
  - Framework for acknowledging risks of water scarcity and water related social conflicts.
  - Case studies from Latin America, Africa and Australia.
  - Proactive approach to water scarcity by financial institutions.
- Scope
  - Identify risks to project finance and investments.
  - Broader definition of water scarcity was used.
  - Different perception, views and practices are explored.



# Risk Drivers and Consequences

- Drought cycles
- Water quality
- Institutional and management capacity for effective water governance
- Political and regulatory conditions
- Cross boundary and risk of conflict
- Local communities and stakeholder concerns



# Potential Risks and Exposure for Financial Institutions

## Risks

- Losses due to disruption of operations.
- Increased financial investments.
- Loss of revenue base.
- Environmental liabilities.

## Exposure

- Dependence on water supply and/or quality for operations.
- Revaluation of collateral assets.
- Capacities of client to deal with water scarcity.
- Value and terms of loan.

# Potential Risks and Exposure for Financial Institutions

## Water scarcity risk

Draught & Drought Cycles  
 Contamination of resources  
 Institutional and Political Risk

Capacities for water governance  
 Shared resources and conflict risk  
 Local Community and Stakeholder expectations

## Risks to project & investments

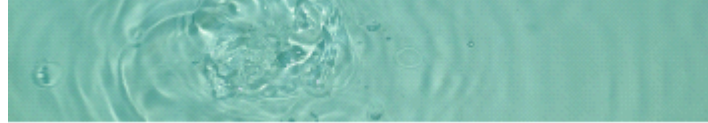
Disruption of operations  
 Increased costs for maintaining current water supply  
 Constraints on growth and expansion

Deterioration in the quality of assets  
 Loss of water use license  
 Environmental Liabilities

## Financial institutions exposure to these risks

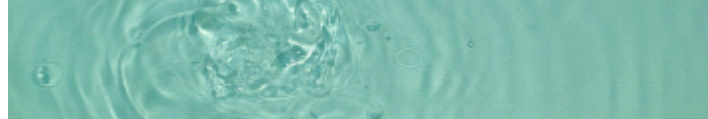
Loan default  
 Devaluation of asset value of investments  
 Loss of value of security/collateral

Environmental Liabilities  
 Reputation risk  
 Project failure risk



## Conclusions

- Water scarcity poses considerable risks to projects and investments.
- Need to include water scarcity risks in project planning, business projections and business opportunity due diligence.
- A collaborative approach builds credibility, trust and partnerships to mitigate water related risks.
- Financial institutions must understand how water concerns affects its business and its business partners.
- Water supply problems can create new opportunities for sustainable investments. Financial institutions can exercise considerable influence which can benefit business and water sustainability.



# More Information:

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**UNEP Finance Initiative**

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