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
• Networking:
  2001-02 Global Outreach: Manila, Santiago, Midrand, Budapest, Belgrade.
  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**
- Drought & 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:

Alberto Pacheco Capella
alberto.pacheco@unep.ch

UNEP Finance Initiative