Climate adaptation: From risks to opportunities

Climate solutions suffer from significant underfunding and a lack of prioritisation from both the public and private sectors. Without prompt and substantial changes, the latest synthesis report from the Intergovernmental Panel on Climate Change (IPCC) suggests that the world is on track to miss the goals set by the Paris Agreement, which aimed to limit global warming to 1.5°C.

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Historically, the majority of climate investment has been directed towards *mitigation solutions* such as electric vehicles, eco-friendly materials development and use, and transitioning to electrification. While achieving net-zero emissions at the earliest possible time remains crucial, it is now recognised that a certain degree of warming is unavoidable despite these efforts. Therefore, it is of utmost importance that both governments and businesses prioritise spending on adaptation and resilience strategies alongside mitigation measures.

By investing in resilience, governments and businesses can effectively address the risks associated with climate change and ensure the ability of economies and enterprises to thrive in the face of escalating climate hazards. This shift in focus will enable sustained growth and prosperity while safeguarding against the impacts of a changing climate.

Turning challenges into opportunities

The *IPCC's 2018* report shed light on the disparities between a 1.5ºC and

2.0ºC world, highlighting the stark consequences of climate change. As global temperatures surpass 1.5ºC, the report warned of increased exposure to extreme heat waves and flooding, as well as reduced crop yields. Consequently, addressing climate change involves a dual challenge: mitigating the causes and preparing for the consequences. Failure to take action on adaptation will only heighten vulnerabilities to mounting climate risks for businesses.

Fortunately, there are approaches that companies can adopt to transform the climate challenge into opportunities for strengthening their operations. The Task Force on Climate-Related Financial Disclosures *(TCFD)* spearheaded this approach in 2017 by offering recommendations rooted in well-established risk tools commonly used by businesses. However, these recommendations were tailored to address the specific impacts arising from climate change. Additionally, the International Sustainability Standards Board (*ISSB*) offers a set of global baseline sustainability-related disclosures which is useful for companies looking to demonstrate and communicate how they are managing climate risks and opportunities to stakeholders, regulators and investors.

Encouragingly, governments, corporations, and financial institutions have shown promising progress in recognising and adopting measures to address climate risks. Climate risk disclosures are now being integrated into comprehensive regulations such as the EU's CSRD, the UK's SDR, and forthcoming rules by the US Securities and Exchange Commission (SEC) that will establish them as standard requirements for significant sectors of the economy. Additionally, resources and guidelines on relevant risks for individual businesses are increasingly accessible through government agencies, financial bodies like the International Finance Corporation, as well as climate-focused organisations such as UK Climate Risk and the Climate Change Committee.

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Categorising risks: A framework for understanding

The progress made in climate adaptation efforts is further bolstered by the adoption of a common risk framework. The Task Force on Climate-Related Financial Disclosures (TCFD) has introduced a categorisation system that distinguishes between physical risks and transition risks.

Physical risks encompass the direct impacts of climate change on people, infrastructure, and ecosystems. This can then be further broken down into acute risks and chronic risks. Starting with chronic physical risks, chronic risks refers to changes that take place over or in the long-term, such as ocean acidification and desertification. In contrast, acute risks involve more extreme and sudden events, like droughts, hurricanes and floods.

Wildfires, for example, have been *growing dramatically in frequency* over the last few years due in large part to the *increasing number of heatwaves*. Both chronic and acute physical risks alike pose major challenges for businesses to adapt to, particularly in sectors like agriculture and for businesses in coastal regions where extreme weather events and long-term environmental changes will have major impacts.

Transition risks operate mostly as non-physical, comprising factors that will affect how organisations operate in business and legal worlds. For example, transition risks would encompass changes in market dynamics, tech advancements, reputational factors as organisations transition to a low-carbon economy, and policy and legal risks. For instance, as the world becomes more carbon-conscious, legal or policy risks could include managing new regulations or fluctuations in energy prices. Technology-related transition risks may manifest as unsuccessful investments in new technologies or challenges associated with the cost and process of transitioning to lower-emission alternatives.

In contrast, changing consumer behaviours, uncertain market signals and raw material costs would all be market risks. For instance, green businesses may encounter supply chain challenges related to lithium as demand escalates and agricultural organisations may need to navigate higher costs for water as droughts affect water supply levels. Lastly, reputational risks involve factors such as negative stakeholder feedback, sector stigmatisation, or shifts in customer preferences as the effects of climate change become more pronounced.

Embracing adaptation strategies

Resilience to risks can be built through adaptation strategies once foreseeable risks have been identified. Adaptation strategies for businesses are proactive by nature, meaning that businesses can approach adaptation not only as a survival strategy, but also as an avenue to thrive and succeed over competitors.

Without adaptive strategies in place, physical and transitional climate risks can cause significant financial harm as companies struggle to keep up with rapid changes or recover from damages. Investing in adaptation strategies makes sound business sense for organisations aiming to not only survive but also outperform competitors struggling to navigate unforeseen climate shocks. By integrating adaptation strategies and allocating resources throughout their operations, companies can mitigate future costs stemming from anticipated climate impacts. While competitors scramble to adjust, businesses that have already implemented adaptation strategies can continue operations with minimal disruption.

Building out a resilience strategy for the long run also involves anticipating future needs. For instance, in coastal areas, the construction industry can position itself to rebuild infrastructure and provide essential protection. Taking proactive measures not only benefits affected communities but also presents excellent business opportunities for organisations with the foresight to be readily available for reconstruction. It's crucial to recognise that banks, governments, and private investment entities have a vested interest in supporting resilient businesses with well-defined adaptation strategies as this demonstrates reduced portfolio risks. Proven resilience strategies and thought-out goals for adaptation efforts can attract investor support, which can be utilised for competitive practices such as refining business offerings or scaling operations.

Furthermore, investing in adaptation as a distinct field of business can be a robust future-oriented strategy for success. Rapid developments are already being witnessed in emerging markets such as climate risk analytics, and in adaptive technologies like *energy-saving products* and *biodiversity measurement tools*. For many organisations, the effects of climate change can be either make or break. Resilience is not only a necessity for survival but also an opportunity to outlast the competition. Organisations and investors should not ignore the effects of climate change; instead, they must seize the advantages presented by adaptation solutions now.

Margarita Skarkou is a principal at the climatech fund *2150*.

Article by Margarita Skarkou