

A large, abstract graphic consisting of numerous overlapping, hand-drawn green circular lines of varying thicknesses, creating a sense of movement and complexity. The lines are centered around a large, solid dark green circle that contains the main text.

The Investment Case for a Resilient Future



GLOBAL
RESILIENCE
PARTNERSHIP

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The importance of resilience for financial institutions

In only the last fifteen years the world has faced a global recession, a pandemic, and – more recently – an energy crisis.

Global interconnectedness, climate change, biodiversity loss, rising social inequality, new technology, and geopolitical tensions are likely to increase the frequency of further shocks in the future.

Resilience is critical to managing, mitigating, learning from, and adapting to these shocks. However, there is currently a gap in the way the private sector and capital markets account for resilience-related risks. Not only does insufficient investment in resilience limit the world's ability to respond to shocks, but it also places investors' assets at a higher risk. As global shocks increase in frequency and magnitude, these assets become more exposed. At a systemic level, the existing policy frameworks, market-based incentives, penalties, and regulations are inadequate in promoting the integration of resilience into corporate planning and investor portfolios.

In our hyperconnected world, events such as pandemics, financial crashes, food shocks, and energy crises will all have adverse impacts on investments. These events are becoming more frequent for **two main reasons**:

- 1 *The Earth's environment and climate are undergoing massive and accelerating changes due to human activities.*
- 2 *Global warming, rising inequality, and the integration of global markets will impact one another and trigger far-reaching global shocks.*

Financial institutions can effectively reduce this exposure by operationalising and integrating resilience into their investment decisions. To help investors establish more resilient portfolios, a redefinition of the concept of resilience is needed. Resilience should transcend simply recovering to the status quo. It needs to embrace the ability to prepare for, adapt to, and transform in response to global shocks. This transformation has significant financial and social, as well as environmental, benefits. Furthermore, these benefits are not confined to the long term; shocks may occur at any time in the near future and with little or no warning.


Recent advances in resilience science and practice show that resilience – in its current definition – is rooted in five attributes: diversity, redundancy, connectivity, inclusivity and equity, and adaptive learning, described in further detail below. Organisations that integrate resilience into their investments and operations, by ensuring these five attributes underpin their decision-making, can mitigate the risk of global shocks and are likely to improve the stability of their financial returns.



Resilience – The need for a new definition

Analysis of 16 prominent intergovernmental and non-government organisation’s COVID-19 response strategies, such as the International Monetary Fund (IMF) and the World Bank Group, showed that just four defined resilience. Where resilience is defined, many definitions limit themselves to ‘bouncing back’ after a shock i.e., recovering and returning to the status quo.

If organisations such as the IMF and the World Bank Group characterise resilience in this incomplete way, it is understandable that the financial services industry is yet to fully appreciate the benefits of investing in it. Recent evidence suggests that building resilience through effective investments in climate adaptation can demonstrate extremely high economic and financial returns, with benefit-cost ratios ranging from 2:1 to 10:1 (Global Commission on Adaptation 2019, Heubaum et al. 2022). To help improve investors’ understanding and operationalisation of resilience, a new definition is needed – one that recognises the importance of being prepared for, and able to adapt to future shocks. More importantly, this new definition must reference the ability to ‘transform’, enabling innovation and creating new systems and ways of functioning as a society when shocks make the existing system more unstable.



Resilience: *The capacity to live and develop with change. The ability of communities, ecosystems, economies, and nations to absorb shocks, navigate uncertainty, and innovate and transform in the face of crises.*

Resilience – The investment case

The fundamental incentive to invest in resilience is risk mitigation. Future incoming global shocks pose a real threat to organisations' supply chains and operations; investors cannot afford to exclude these shocks from their materiality assessments and management of risks.

In our interconnected world, businesses operate with global supply chains and governments rely on one another for food, raw materials, technology components, pharmaceutical inputs, consumer goods, and tourism. A climate crisis in one region (for example, a crop-killing heat wave in a wheat-exporting country or drought in a semiconductor manufacturing hub) will have extensive spillover effects across regions and sectors. The world is socially and economically integrated, so building systemic resilience is essential. In an increasingly interconnected world, a system-wide approach is required that recognises the knock-on benefits of investing in resilience globally.

By improving resilience in the Global South, a region integral to global supply chains and expanding markets, investors will better equip themselves to prepare for future shocks and mitigate the volatility of returns. This is particularly true for investors with portfolios of companies that rely on global supply chains stretching into emerging economies, or have a major exposure to businesses in the Global South. Similarly, for businesses that are investing directly into their subsidiaries or supply chains, there is a clear case for investment in resilience which will help to ensure the continuity and diversity of supply. Regardless of what underlying strategies and motivations they have, resilience is important for all types of investors – be they asset managers, pension funds, private equity, impact investors, or companies doing direct investments into their own value chains or operations.

Even those who have no direct links to the Global South may benefit from the knock-on effects in greater resilience, owing to the increasing interconnectedness of economic systems. This interconnectedness is not always apparent. For example, Russia's invasion of Ukraine has had a much more severe impact on food supplies in Northern African countries than expected.

Diversification will only become more important as scrutiny and regulation of supply chains intensifies, and overreliance on certain regions becomes increasingly problematic.

There is an opportunity as well as a risk component. By enhancing resilience in their operations and mitigating the impact of shocks, organisations can lower costs and improve their long-term investment value – for example, electric utilities strengthening grids, building stable transmission systems, investing in storage, and setting up clear regulatory frameworks with transparent power purchase agreements to maximise energy efficiency. Resilient portfolios and supply chains are likely to increase the consistency and stability of financial returns, and at the same time reduce the risk of financial and economic loss for both the utility company

and the country. A forward-looking, system-wide approach to investment which accounts for future incoming global shocks is needed. Organisations that fail to invest in resilience risk jeopardising their own – and the Earth’s – ability to withstand shocks and stresses. These are systemic as well as business risks: financial institutions’ ability to operate and make investment decisions will deteriorate rapidly in a world where they cannot operate effectively if the Earth’s systems are destabilised.

A guide for integrating a new resilience definition

We have identified five key attributes that underpin this new definition of resilience. Organisations should consider and include these attributes in their investment decisions and long-term strategies to ensure adaptation and transformation in response to shocks.

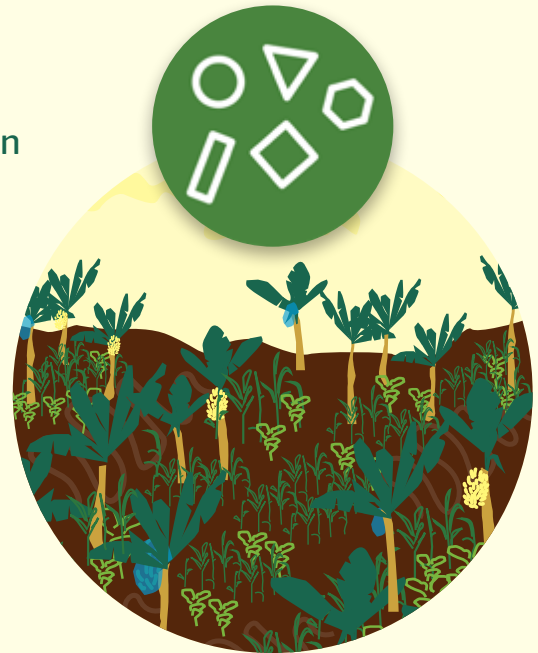


1 Diversity

– is there adequate diversification within sectors of an economy to be flexible in response to a shock?

The presence of a diverse energy production mix, or the ability to produce a variety of foods and fibres, to withstand disruptions to trade or industry is critical to a functioning economy. Likewise, the diversification of markets and sources of revenue is at the core of avoiding being unnecessarily vulnerable to external shocks. Investors should take this into account when looking at the diversity of their portfolios and deciding where to allocate capital.

For example, food companies and retailers who have diverse sources of commodities are better equipped to cope with supply disruptions or higher prices caused by extreme climate and weather events. Furthermore, the COVID-19 pandemic highlighted the dangers of overreliance on global supply chains for essential items such as PPE and medical supplies – as has the Chinese state’s oppression of Uighurs in Xinjiang and the Russian invasion of Ukraine. Companies across the West are now faced with the task of rapidly diversifying their supply chains. Global Resilience Partnership’s work with Ugandan coffee company Mountain Harvest, for example, is promoting the diversification of crops and use of regenerative agriculture to bolster the farmers’ resilience to extreme weather.

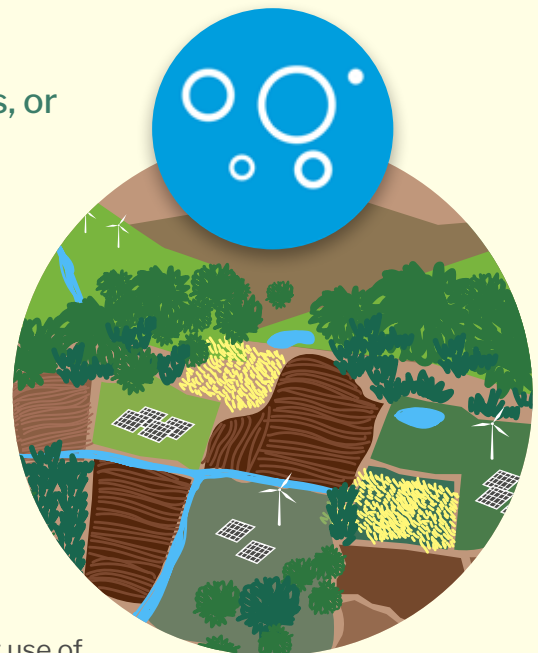


2 Redundancy

– are there back-up strategies, reserves, or ‘insurance’ policies for the provision of society’s basic needs for the avoidance of ‘single-point failure’?

Single-point failure: Refers to part of a system that, if it fails, will stop the entire system from working. Single-point failure is undesirable in any system with a goal of high availability or reliability.

The continued provision of vital goods and services such as water, energy, food, and medicine if the standard supply fails. For example, with the growing use of intermittent renewables as a source of electricity, utilities and private investors have started to invest more heavily in diverse types of energy storage. Utilities might also invest in energy storage to improve the reliability of power and manage supply/demand variations – as outlined in this [case study from Wellington Management](#), co-authored by GRP.



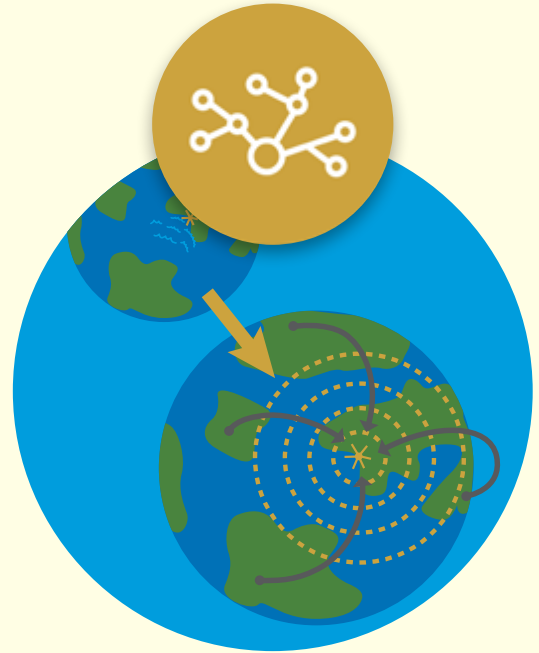
3 Connectivity

– is there a balance between dependence on global networks and self-sufficiency?

Global supply chain networks can help maintain an influx of resources, but over-reliance on these global supply chain networks can lead to mass shortages across the world.

For example, many companies that are heavily reliant on China for manufacturing are having to consider diversification to ensure resilience for a wide range of reasons relating to geopolitical, security, and human rights issues. Both companies and governments are now looking at ‘friendshoring’ and driving forward a slightly higher degree of self-sufficiency in strategically important and sensitive sectors.

Another example that has been highlighted by Russia’s invasion of Ukraine and the recent energy crisis is Europe’s dependence on Russian gas, as a result of which countries are focusing more on their own energy security strategies to boost self-sufficiency – to the benefit of domestic energy developers and generators.



4 Inclusivity & Equity

– is creating a more equal society being prioritised to reduce instability and conflict during shocks?

Ensuring human development, income levels, and access to resources are equal across a society. [Analysis from McKinsey](#) shows that, during the COVID-19 pandemic, more resilient companies achieved 10% higher total shareholder returns than their less resilient peers – due to flexible working habits and increased digitalisation.

Another [report from McKinsey](#) showed that organisations in the top quartile with gender-diverse executive teams were 21% more likely to experience above-average profitability than their industry peers.



5 Adaptive Learning

– are there systems and strategies in place to detect shocks, adapt, tailor responses, to learn and develop post-shock?

For example, economic and financial decision-making that is guided by multiple probable scenarios of the future (e.g. global warming), rather than assuming stability. **The Bangladesh Climate Change Trust Fund** is a trust established in 2010 to improve communities' resilience to climate change. This work has included research into flooding and storms which has led to sector-wide climate change integration into all local and national planning processes, in addition to collaboration with NGOs and the private sector. This collaboration could be replicated elsewhere, with private sector actors using research such as this to inform their investment decisions and determine where capital should be allocated.



Our vision for future resilience: Key asks

We have identified three core asks that need to be implemented to ensure that financial institutions are best equipped to build more resilient portfolios. They are:

a

Ensuring that resilience is more than bouncing back from a shock and returning to the status quo and that resilience definitions include **adaptation** and **transformation**.

b

Materiality assessments of how future risks such as global warming, rising inequality, human encroachment into wildlife habitats, integration of global markets and economies, etc. will **impact investments and supply chains**.

c

Greater allocation of capital to improving resilience in existing portfolios and future investments – particularly in the **Global South**, which is increasingly interconnected with the Global North – and to **mitigating** and **transforming** in response to these risks.

Actions

To help enable the achievement of these asks, actors within the private sector and capital markets can take specific actions, depending on the type of attribute they are looking to integrate into their resilience strategies:

Diversity/Redundancy: Investing in a more diverse portfolio of assets that function as buffers against shocks, rather than focusing exclusively on efficiency and optimisation in already-thriving industries. In short, investing in social and environmental buffers, ranging from emergency stockpiles of medical equipment and means of producing food to diverse energy sources, and safeguarding capacities in nature to withstand stress and shocks. This reduces excessive overreliance on certain regions and supply chains, ensuring that there are lifelines and contingency plans in place – in the event of global shocks – and potentially safeguards both company and planet. A diversified risk portfolio reduces the overall risk of the portfolio and lowers the premiums required, potentially making capital more accessible and cheaper in the Global South.

Connectivity: Greater knowledge transfer and collaboration between capital markets in the Global South and North. This should happen alongside greater local-urban collaboration and networks to bolster self-sufficiency during shocks. Investors must recognise the interconnectedness of capital markets and avoid diverting too much capital from less resilient regions/sectors. This will increase their ability to prepare for and cope with shocks, and alleviate the knock-on ramifications on their own supply chains – particularly for investors who are heavily reliant on supply chains in the Global South.

Inclusivity & Equity: Inclusivity must be fostered at a micro level within companies and communities, and at a national level. Investing in and empowering local communities that are leading interventions in response to shocks will amplify community connectivity and promote social learning. This, in turn, will increase efficiency and productivity within investors' supply chains, while mitigating social risks such as labour unrest and migration.

Adaptive learning: Integrating the likelihood of shocks into short and long-term investment decision-making, by carrying out materiality assessments that account for probable future scenarios. This lowers the risk for portfolios and may provide a competitive advantage.

Examples of resilience best practice

Case Study 1

Mountain Harvest, Uganda

National and local level

Inclusivity and Diversity

Mountain Harvest facilitates the ethical trading of organic coffee by working with 850 farmers across Uganda, providing access to global markets and ensuring they receive fair prices and immediate payments for their premium produce.

These farmers often live in communities whose livelihoods are jeopardised by extreme weather events as a result of climate change. Not only does Mountain Harvest ensure stable incomes for farmers who can reinvest this into their communities, but it also promotes the diversification of crops and use of regenerative agriculture to bolster their resilience.

Mountain Harvest also focuses on recognising the value of ‘invisible workers’ – often women who receive little financial compensation for their work – by providing them with consistent income and meals.



Case Study 2

McCormick's Grown for Good Framework


Global and local level

Inclusivity and Redundancy

Under the Grown for Good Framework, McCormick & Company aims to increase the resilience of over 35,000 farmers by 2025 - measured by increasing skills and capacity, income, access to financial services, education, and nutrition and health.

McCormick purchases vanilla beans as cured (which are higher value) rather than raw from the growing communities, ensuring the farmers receive a higher purchase price which improves their income and livelihoods. McCormick also builds or rehabilitates local schools and libraries in remote vanilla-growing communities in Madagascar, therefore improving access to education for children from farming families. This is alongside their investment in regenerative farming and water conservation.





GRP is made up of 70+ organisations that have joined forces to advance climate resilience. We believe that resilience underpins sustainable development in an increasingly unpredictable world.

GRP is registered as a non-profit organisation in South Africa and co-hosted by the Stockholm Resilience Centre at Stockholm University.

www.globalresiliencepartnership.org