

The Global Risks Landscape in 2021

BEC's Director - Sustainability and ESG Advisory, Dr Nadira Lamrad, shares insights from the World Economic Forum's Global Risks Report 2021.

Every January, ahead of the annual meeting of business, political, academic and other leaders in Davos, the World Economic Forum releases The Global Risks Report (the "Report"), a roundup of the global risk landscape and an analysis of the potential impacts posed by these risks. The Report is based on the results of an international survey of leaders of varying expertise, however, as business was the most widely represented organisation type, it is safe to assume that these risks accurately reflect business concerns in addition to those of governments and civil society. In 2020, before we understood the full extent of COVID-19, environmental risks dominated the agenda for the first time, coming in as the top 5 risks in terms of likelihood and 3 of the top 5 in terms of impact. This reflected and validated BEC's consistent message over the years – environmental risks are business risks.

In anticipation of the release of the 2021 Global Risks Report, questions arose as to the effect of our collective pandemic experience on the outcome of the survey.

The socio-economic consequences of COVID-19 were certainly deeply felt around the world and the intimate familiarity of these impacts were likely to influence the

perceptions of the global risk landscape. Indeed, the 2021 Report does reflect this reality with Infectious Diseases shooting up the ranks from relatively unlikely in 2020 to

Global Risks Landscape 2021



Top Global Risks by Likelihood



Top Global Risks by Impact



■ Economic ■ Environmental ■ Geopolitical ■ Societal ■ Technological

Source: World Economic Forum Global Risks Report 2021

the 4th top risk in terms of likelihood and from 10th to the top risk in terms of impact. Still, it was encouraging to see that environmental issues continued to top the agenda coming in as 4 of the top 5 risks by likelihood and 3 of the top 5 risks by impact.

It is notable that the 2nd most impactful and most likely risk is Climate Action Failure defined as the failure of governments and businesses to enforce, enact or invest in effective climate-change adaptation and mitigation measures, preserve ecosystems, protect populations and transition to a carbon-neutral economy.

Interconnected Risks for a Complex World

The nuance demonstrated in the Report was very encouraging as one criticism of conventional risk assessments (incidentally, also the commonly adopted approach to identifying ESG risks and enterprise risks) is the tendency to view risks as singular and disconnected plotted on a two-dimensional scale of impact and likelihood. However, we know that risks are interconnected and that these linkages result in complex outcomes. That is, risks can be positively or negatively correlated, the strength of that correlation is important in identifying material risk

clusters, and the timeframe within which these risk clusters become critical is relevant for building effective short-, medium- and long-term strategies for enhanced resilience.

For example, this Report, as in earlier reports, included a look at correlations between risks. In previous years, survey respondents identified 3 to 6 pairs of strongly connected risks. However, this year, survey respondents were asked to rank order the three risks they consider to be the most concerning for the world and select the risks that would be driving the most concerning risks in the next 10 years. In other words, they were asked to help identify risk clusters with a specific timeframe in mind.

It is not surprising that Climate Action Failure is considered the top risk but the virtue of the interconnected approach to risk assessment really shines when examining this risk cluster (image below). The strongest drivers of Climate Action Failure are Human Environmental Damage, Interstate Relations Fracture, Resource Geopoliticisation, Biodiversity Loss and Multilateralism Collapse, the latter of which is a relatively low risk issue according to the conventional two-dimensional scale. Yet, once an interconnected approach is


adopted, Multilateralism Collapse becomes much more important. Indeed, if this issue is not addressed and prevented, tackling Climate Action Failure would be extremely challenging.

How can BEC help?

Contact the BEC ESG Advisory team to:

- **apply this approach to transform your sustainability materiality assessment process into a management decision-making tool that integrates ESG into your Enterprise Risk Management framework**
- **conduct a comprehensive TCFD climate transition risk scenario analysis**
- **develop your short-, medium- and long-term sustainability strategies for business resilience**

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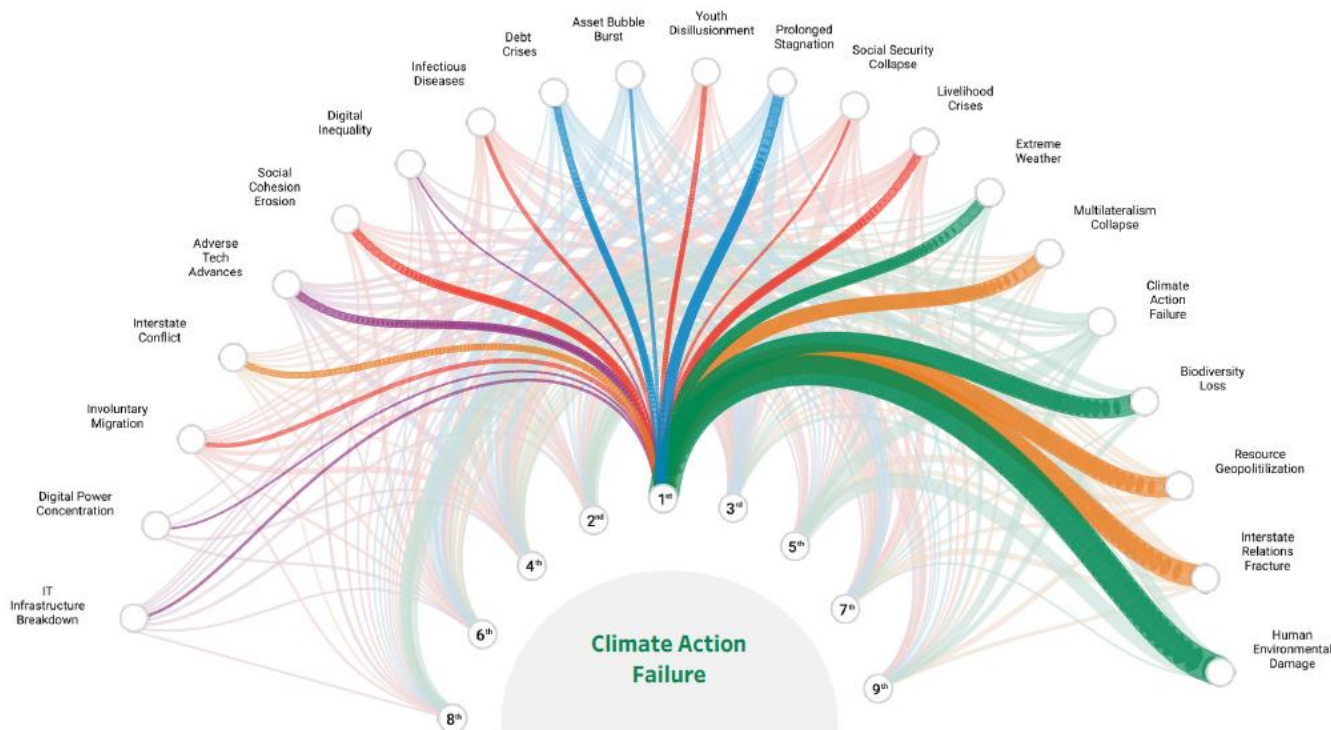
<https://bec.org.hk/en/esg>

The Global Risks Network 2021

Which global risks are driving Climate Action Failure?

Click on a Risk title below (Press ← to reset the view)

Extreme Weather	Debt Crises	Social Cohesion Erosion	Infectious Diseases	Climate Action Failure	Livelihood Crises	Biodiversity Loss	Prolonged Stagnation	Human Environmental Damage
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Survey respondents were asked to rank order the three risks they consider to be the most concerning for the world. Respondents were then asked to select up to five risks they consider will be driving their top concerns over the course of the next 10 years, with no particular ordering. See Appendix B for more details. To ensure legibility, the names of the global risks are abbreviated; see Appendix A for full names and descriptions. Read more about the methodology:

<http://reports.weforum.org/global-risks-report-2021/methodology>

World Economic Forum Global Risks Perception Survey 2020



[Explore other risk clusters included in the Global Risks Network](#)

[Read the World Economic Forum's Global Risks Report 2021](#)

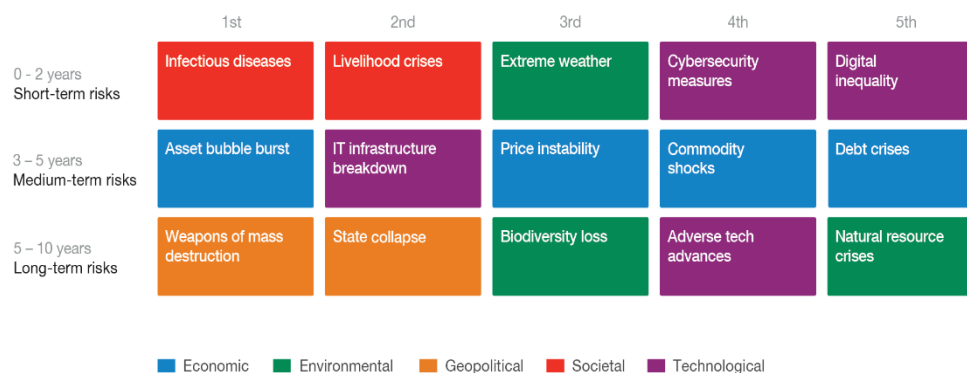


Understanding that the timeframe may impact which risks may emerge and abate, the Report also includes a new question on the potential timeframes in which these risks may manifest. In the short-term, the only environmental risks that appear on the list are Extreme Weather (3rd) and Human Environmental Damage (10th). I suspect this is a reflection of two developments. First, we witnessed record breaking extreme weather events over 2020 including wildfires, typhoons and hurricanes, heavy rainfall and flooding, and severe droughts. Second, we also saw the emergence of greater awareness and action around circularity, and particularly around plastic waste, over the past few years.

In the long-term, more chronic concerns emerge, namely, Biodiversity Loss (3rd), Natural Resource Crises (5th) and Climate Action Failure (9th). However, one interesting outcome is that in the medium-term, no environmental risks are listed in the top 10. This is surprising considering that if we continue on a business-as-usual trajectory, it is expected that the physical impacts of climate change, which include extreme weather, would be even more pervasive over time. Perhaps, since survey

Global Risks Horizon

When do respondents forecast that the following issues will pose a critical risk to the world?



Source: World Economic Forum Global Risks Report 2021

responses were collected from 8 September to 23 October 2020, this outcome may reflect the optimistic outlook on the trajectory of climate action following China’s pledge to become carbon neutral by 2060 on 22 September 2020.

Asked to identify the top “blind spots” where the global response falls short of the risk’s potential impact and where a coordinated global response has the most potential to prevent or mitigate said risk, respondents pointed to Climate Action Failure yet again.

A Green Recovery

Given the experiences of the past year, the Report devotes a lot of space to COVID-19. Early in 2020, as the world came to a standstill, data emerged showing the significant reduction in global CO₂ emissions totaling 9% in the first half of the year. However, we were warned that this was a short-term trend which would reverse as soon as economies began to recover from the temporary lockdowns. Much discussion in sustainability circles was devoted to decoupling growth from

emissions and adding green provisions to government stimulus packages and recovery plans. While international organisations and development banks highlighted the need to 'build back better' through a 'green recovery', the Report mentions that only 4 of the largest economies have included green provisions to their stimulus packages. This is likely to change with President Biden's climate plan, which is linked to the administration's economic recovery plan, and with the implementation of the Next Generation EU recovery package which directs almost 40% of USD830bn to green initiatives.

While these debates continue, the reality is that structural gaps exacerbated by the crisis, such as income inequality, access to health services and digital literacy, have narrowed the pathways to future well-being due to lost economic opportunities and higher barriers to social mobility. Survey respondents identifying risks that will become critical threats in the short-term (0-2 years) also reflected these concerns selecting Livelihood Crises (2nd), Digital Inequality (5th), Youth Disillusionment (8th) and Social Cohesion Erosion (9th) in the top 10. Social Cohesion Erosion and Youth Disillusionment are also

listed in the top 5 "blind spots" where the global response falls short of potential impacts.

One of the major opportunities identified in the Report is the potential of the green recovery as an approach to facilitate inclusive and sustained value creation which addresses both short- and long-term risks. In the short-term, the green recovery requires the investments necessary to prepare for and enable a transition to a low-carbon and sustainable economy. This would provide the foundations to ensure today's youth and reskilled/upskilled workers are well poised to reap the benefits of growth in new and emerging industries of a sustainable future. They foster a business environment conducive to investments in smart, clean and inclusive growth that improves well-being while addressing long-term climate risks.

COVID-19: Lessons Learned for Better Governance

The Report authors also thought through the lessons of the COVID-19 experience that can be applied for better risk preparedness and enhanced resilience. As explained earlier, a holistic and systems-based approach to risks looks at the

interconnections between the risks, their direct and indirect impacts, potential spillover effects, vulnerabilities and blind spots. Therefore, the mitigation strategies that aim to address risks would be more robust and mindful of the wider implications of any tradeoffs.

The Report recommends investing in high-profile "risk champions" to encourage leadership and co-operation. Indeed, in any organisation, including businesses, forward-looking progressive leadership to develop strategies for resilience and drive action is crucial for success. This is especially true in today's increasingly volatile world. Equally as important is nurturing a culture of leadership and innovative problem solving.

Finally, as we have seen with the vaccine development process, when governments engage with the private sector on large-scale challenges with the appropriate policies and governance in place, it is possible to spark rapid innovations. We can adapt successful aspects of these public-private partnership models to help accelerate climate action.



About Business Environment Council Limited 商界環保協會有限公司

Business Environment Council Limited 商界環保協會有限公司 (“BEC”) is an independent, charitable membership organisation, established by the business sector in Hong Kong. Since its establishment in 1992, BEC has been at the forefront of promoting environmental excellence by advocating the uptake of clean technologies and practices which reduce waste, conserve resources, prevent pollution and improve corporate environmental and social responsibility. BEC offers sustainable solutions and professional services covering advisory, research, assessment, training and award programmes for government, business and the community, thus enabling environmental protection and contributing to the transition to a low carbon economy.

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