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World Water Week 2019

***SIWI Business Leaders' Breakfast:  
Driving Water Resilient Business  
Transformation***





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Government of the Netherlands



# 1. Introduction

As water increasingly becomes a recognized operational risk for some segments of the corporate sector, a growing number of companies are looking at how to improve water resilience as part of their efforts to reduce their overall exposure to climate change risk.

In light of this, Business Leaders' Breakfast, held during World Water Week 2019, arranged by Stockholm International Water Institute (SIWI) in cooperation with the Government of the Netherlands and 2030 Water Resources Group brought together high-level decision-makers from the public and private sectors and civil society to share priorities, experiences and best practice. Aligning with the theme of World Water Week – “Water for Society: Including all” – the informal and interactive event sought to support environmentally and financially sound broad-based cooperation in water.

It enabled participants to explore practical examples of how private sector actors are stepping up efforts to build, scale, and finance, climate-resilient business models that contribute to inclusive and sustainable development for all.

This report provides an overview of the main themes discussed during the event. These include building resilience into operations and water use; opportunities for generating income through water-resilient business practices; and financing more robust, forward-thinking and adaptive approaches to resilience building.

A follow-up event will be held at World Water Week 2020 which will offer participants the opportunity to consider progress made on the conclusions of this report, as well as tackle issues that emerge in the intervening period.

## 2. Executive Summary

Opening the Business Leaders' Breakfast, SIWI Executive Director Torgny Holmgren underlined the need for the private sector to play a greater role in water resilience, noting that water remains "largely a public affair." He urged the formation of the necessary mechanisms and approaches to ensure that public and private sectors work together more effectively to drive change.

**"This is not about public, private, or NGO. This is not about individuals versus institutions. This is about creating an enabling environment together," Henk Ovink, Special Envoy, International Water Affairs for the Kingdom of the Netherlands.**

Usha Rao-Monari, Senior Advisor, Blackstone Infrastructure Group, urged public and private sectors to explain to investors what is needed to "address issues and define solutions". Investors know what the issues are. What they need to know are what practical steps they can take, who they could work with and what potential outcomes are, she said.

"People have done a fantastic job of raising awareness around the issue of water. But as a financier, I've got 10 million dollars, I want to do something with it in water, but what shall I do as a finance person? Please don't talk to me about visions. What is the end result? What are the real things I can get my head around? How would you bring finance into the sector at scale?

"Water still doesn't have the caché of climate change; water has not reached that level – but crises are fast catching up. Once you make decisions at times of crisis, you're unlikely to make good decisions."

### Real-world solutions

Multi-stakeholder involvement – bringing in government, financial institutions, businesses and local stakeholders – is critical to improving water resilience. Companies looking to attract investment in water mitigation need to present a comprehensive business case, one that is transparent about risk and potential returns, and that highlights the benefits of an intervention, rather than expressing interventions in terms of mitigating negative impacts.

Relatively straightforward steps can have decisive impacts on water use: changes in manufacturing techniques, regulatory guidance for local employees, participatory programmes for staff members have all been shown to be effective. Operational autonomy for local production plants has also been demonstrated to be an effective way to improve water resilience.

Artificial intelligence and blockchain technologies have a role in supporting the development of more targeted and responsive solutions, as well as helping drive necessary shifts in perceptions.

### Remaining challenges

Water and water scarcity are already part of the risk management tools that company boards use. Challenges lie in making water scarcity tangible and measurable and to make water risk stand out in relation to other risks. Businesses need to be encouraged to ask, for example, how water risk will hit their share prices or market growth – and they need to be provided with Key Performance Indicators (KPIs) that would enable this change.

Currently, many water narratives are abstract and expressed in the medium and long term. People working with water need to switch to the short-term mindset typically inhabited by corporate decision-makers. Similarly, it is necessary to talk about solutions that already exist in ways that are readily understandable to others.

Better governance and the wider use of financial incentives to encourage water resilience initiatives also have an important role in realizing equitable water access for all.

## Conclusions

Many participants expressed optimism for the future, sensing that momentum associated with water resilience is approaching a tipping point in the relatively near future. However, much needs to be done if water resilience is to become widely understood and thereby addressed.

Improved water resilience will require greater co-operation between the public and private sectors. There are many technologies, policy instruments, and financial models that have successfully improved water resilience at the local level. More are set to emerge in the future. However, their implementation remains patchy and few have been introduced at scale. Flawed governance, poorly articulated business cases that fail to attach a financial value or operational risk to water resilience have severely hampered the wider introduction of existing solutions and approaches.

# 3. Real-world Solutions

## Multi-stakeholder involvement

The example of sugar cane production in India was used to demonstrate the potential of effective collaboration between private and public sectors. Historically, sugar cane production in India had been a highly water-intensive process. Sugar cane farmers struggled to obtain bank loans to invest in equipment to reduce water waste. A micro-financing solution was set up whereby farmers were granted loans that they were able to pay back after about 18 months, with local government agreeing to help subsidise the scheme because the cost of doing so was lower than direct subsidies.

Packaging solutions is key to getting projects off the ground. In this case, getting the water minister to sit down with the banks and sugar cane producers. Getting the right people to the table on such projects is critical.

Participants from South Africa, which also has a large sugar cane sector, indicated that there was a desire to learn from the approach adopted in India. However, doubt was expressed over the likelihood of this happening until central government provided leadership, for example, by getting South Africa's four main banks to back such a scheme.

## Global reach, local approach

A representative from Coca-Cola outlined how the global drinks manufacturer is transitioning to contextualised water targets for its 800 global production plants, watershed replenishment activities and agricultural supply chains, which is very complex but more impactful, even in remote areas. The group is now looking to go beyond efficiency gains and prioritise collective action for watershed health, pre-competitive collaboration and climate resilience as a way of 'futureproofing' its business and supply chains.

Echoing this, Jason Morrison from the CEO Water Mandate said that: “setting an enterprise-level ambition for water does not work until you understand what the local context is.”

Morrison spoke about the framework initiative he backs designed to help companies have a way in which their site-based staff and business units at a regional level understand what a water basin context is, prioritize the challenges that are most pronounced and understand “where are we now on that challenge versus where we need to be to address it and then set your level of ambition on that – intuitive but incredibly difficult to achieve,” he said.

## Understanding local contexts

Local site managers may not always have the skillsets necessary to make water-related operational changes. Investment is therefore often needed in people and skills to support site managers. In South Africa, one organization brought in a government official whose sole job it is to interpret results of hydrological studies and source vulnerabilities for local plants. This sort of advisory role is transformational at the local level.

Under the ‘Works for Taxes’ programme in Peru, private companies may use up to 50 per cent of their tax duties to invest in infrastructure, agriculture, and water sustainability. This scheme was the result of the policy engagement by 2030WRG and praised as a way of encouraging the private sector to invest in projects that result in shared benefits.

There is a need to establish partnerships along the value chain to ensure that all relevant stakeholders are included. There then needs to be a sound business case independent of public funding and preferably backed by best practice examples.

## Bonds: silver bullets or poisoned chalice?

Critics of “green” and “blue” bonds raised doubts over how suitable such vehicles are for developing economies, given that they increase such countries’ debt levels. However, others argued that there was a role for such instruments. Discussion centred on how to think of bonds as a way of communicating something about resilience.

## Simple measures that have major impact

Flat-pack furniture giant, IKEA, has substantially reduced its water footprint by simply changing a fabric used in their products, serving as an example of how relatively straightforward measures can have major impacts throughout large supply chains.

On an individual level, awareness about water scarcity issues among company employees can be raised through litter collection, waste sorting, and tree planting schemes to improve general environmental mindfulness. More generally, there is a need to educate and involve the general public in water issues.

## 4. Remaining challenges

### Narrowing the gap between public and private sectors speaking the same language

Concern was voiced over whether national governments have enough incentive to reform or enforce existing legislation, or introduce new laws, with competition to attract foreign investment leaving governance reform limited and slow.

Representatives from two pharmaceutical companies shared their experiences of reducing water use throughout their respective companies' supply chains. They identified a gap between government and corporate responsibility, with both saying that it is only possible to control the supply chain so far, until government legislation influences their actions.

Others indicated that obtaining funding for water resilience was not problematic, but that political will was lacking. Elected officials' terms of office were identified as a factor that reduced investment in medium- and long-term projects. Without government backing, wider business involvement in water resilience is likely to be hampered in the short term.

### Speaking the same language

How can businesses attract funding into resilience projects at scale? The key is to provide credibility for investors: to make the case that water resilience is a safe place for investment. Businesses need to ask themselves how they talk about water resilience. Currently, the language used by people working on water projects and those in the finance sector is very different – a difference that needs to narrow down.

Water and water scarcity are part of the risk management tools that company boards already use. The challenge lies in making water scarcity tangible and measurable and make water risk stand out in relation to other risks. Businesses need to be encouraged to ask, for example, how will water risk hit their share price values or their market growth.

Businesses need to translate what they understand as water risk into materiality analysis that CEOs, CFOs and others understand to enable them to take up the solutions that already exist and thereby increase investment in mitigating water risk to levels that will make a genuine difference.

More reliable and up-to-date data points are needed to build business cases and attract financing. Climate change has succeeded in becoming part of companies' risk calculations because it is built on a data narrative. Water is a "subset" of climate but not clearly articulated.

On the investor side, financial institutions are gradually shifting from being the scrutineers to be the scrutinized – a crucial change as once these institutions become more accountable for the implications of their lending or their investments to water security or to climate change, the trickledown effect that has on the rest of the market is considerable.

The opportunities created by greater public awareness and understanding of climate risk – and the shareholder and wider public pressure that results – should be seized. However, is the water sector

ready with the right answers for investors, banks and capital markets when they realize that water resilience is a problem? What, for example, is the carbon footprint equivalent for an investment portfolio?

What is missing is the right level of awareness at the relevant decision-making level and a feeling of how much this is worth or the urgency in terms of money; water costs are just too low at present; they are not sufficiently material to be prioritized. Narratives are currently too local, and therefore fail to have an impact at board level. Those working with water resilience need to explain why water is material to the growth prospects of a company, and this is worth investing in to make your business part of a water security strategy.

CEO and company board agendas are very much determined by urgency, so risk mapping tends to focus on risks that are materialising soon and hard – what is going to impact my business the most? This is where and how messaging about water needs to be directed.

Currently, many water narratives are very abstract, very medium- and long-term. People working with water need to switch to the short-term mindset typically inhabited by corporate decision-makers.

**“The way we talk about water risk is fundamentally wrong. We need more future-looking risk tools to ‘see around corners’,” said John Matthews, AGWA.**

It is considerably harder to involve private sector actors in remote and rural areas than in city-based initiatives. A primary policy challenge remains in how to attract investment to areas where it is needed such as wastewater treatment in municipalities, areas that historically have tended to rely on public financing. Investors expressed concern that one reason for this dynamic has been companies’ tendency to raise too modest amounts of funding for these types of project.

For companies such as Coca-Cola and brewers with a very direct connection to water, prioritising water is obvious. However, for other companies, while water is important, it is more likely to be considered as an asset among many others.

A growing number of institutions see infrastructure as a new type of asset. If political risk is sufficiently low or stable, this provides a sufficient return.

## Healthy competition?

Attracting investment is also hampered by the limited amount of collaboration between commercial competitors. Representatives from clothing retailers spoke about the importance of creating partnerships throughout the supply chain to ensure projects do not become “isolated” to one part of the supply chain, thereby limiting their effectiveness.

## 3. Conclusions

How can CEOs put numbers and values on water risk? Number and values that translate into material indicators such as brand value, share price and market growth. KPIs for water resilience are desperately needed as part of the shift towards a more circular economy, and a way for companies to quantify their water resilience efforts in financial terms.



Water resilience solutions must be presented in ways that are more understandable for investors. Solutions need to be less academic, less abstract, and more material. Infrastructure as an asset class is growing extremely fast. And while it may not offer high returns, it does offer stable returns over the long term – so the market is there.

More effective regulation is needed to “raise the bar” for the way companies work with water strategies. The pace of legislation and policy implementation needs to accelerate, and governance at local level needs to improve. Governments should require businesses to track relevant data; charge companies for groundwater use and pollution; and increase the opportunity cost of regulatory non-compliance.

Regulatory authorities should define and track water resilience KPIs, for example setting targets for reductions in water use. This could be achieved by, for example, starting with easier targets for water efficiency with rapid returns on investment to build momentum.

Certification of value chains to promote industry-wide rather than company-specific solutions is another approach. Emphasize water resilience as a corporate value and integrate it across operational structures. Measures such as these would act in a similar way to the SDGs, providing a “compass” by which to evaluate and direct progress.

Discussions around water need concrete ideas and examples from young innovators and entrepreneurs that can be taken to market and brought to scale to bridge the gap between the traditional water sector and business. Further to this, the gap between finance and technology needs to be bridged, perhaps with the emergence of a role of a water broker.

The creation of forums for public and private sector actors to discuss water-related issues in more detail would reduce the “fear” between the two and support moves towards a mutually sustaining situation where governments empower companies and companies empower governments.

## Looking ahead?

Improved water resilience will require greater co-operation between the public and private sectors. Collective goal setting around water remains in its infancy but initiatives are being taken to promote activity in this area. And while awareness of water as a major sustainability issue is limited, this is changing.

There are many technologies, policy instruments, and financial models that have successfully improved water resilience at the local level. More are set to emerge in the future. However, their implementation remains patchy and few have been introduced at scale. Improved governance, better articulated business cases that manage to attach a financial value or operational risk to improving water resilience can critically promote the wider introduction of new and existing solutions and approaches.