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Water and Sustainable Development
From vision to action
UN WATER

Business contribution to managing climate and water risks: Tools and lessons learned

Session report, 16 January 2015

Session Structure

The session began with an overview presentation by Paul Reig, WRI, the session convener, introducing the main practical challenges, cases, tools and lessons learnt by the business community. The succeeding panel discussion took place around the questions prepared by the convener. The panellists included: Cate Lamb, CDP Water and Katalin Solymosi, Inter-American Development Bank (IDB). In answering, the panellists made reference to their case study and highlighted those tools related to finance and economic instruments, capacity development, technology, and governance that are innovative/valuable for the SDGs implementation.

1. Implementation challenges for managing risks

The threats of climate and water risks

Water crises and extreme weather events were identified in 2014 by the World Economic Forum community as two of the top 10 global risks. This is not surprising, given the severe impacts of having too little water, or too much. While impacts are often local, water security is now recognized as a systemic global risk.

Coordinated approaches to risk management

Because of the global nature of these challenges, no single government, sector of society, or company can ensure a water secure future on their own. Business leaders are starting to realize that long-term profitability and business continuity will not depend on how water is managed within a company, but rather on ensuring water security within a watershed and across the value chain, for them, and for all other businesses, people, and the environment. Coordinated collective action is needed to find new and sustainable ways to protect water resources and mitigate risks in a rapidly changing world. This coordinated approach can be achieved through engagement in water stewardship.

Implementation challenges to practical responses

Widespread engagement in water stewardship has yet to take place, in part because of a poor understanding of the complex nature of climate and water-related risks, and in part due to a number of specific challenges.

• Long-term investments in sustainable water management and climate and water risk mitigation are often perceived as risky and financing is therefore scarce. Such projects have longer payback periods, are subject to technology risks, and stakeholders often lack the knowledge and financial capacity to make such investments.

• Integrating water stewardship into standard business activities and building internal and external capacity to take actions to scale at the watershed level to reduce climate and water-related risks is a challenging and complex process, and foreign to most companies.

• Developing effective corporate and public water policy is difficult because the collection and disclosure of water-related information is inadequate. The financial impact of climate and water risks on sectors and companies is unclear, in part because information on water use and impacts is spotty and partial. Adequate information is needed to support the required decision-making and policy development to mitigate both climate and water-related risks.

2. Addressing the challenges: Developing and using tools

There are different tools and other resources used by the business community which may be useful to address implementation challenges above and deal with the threats of climate and water-related risks.

Cases discussed

Technology: Paul Reig, World Resources Institute, WRI

The Aqueduct Water Risk Atlas is a global water risk-mapping tool, which enhances understanding of water risks in ways that enable society to address them more effectively. It maps aggregated scores of 12 key water indicators in 15,000 watersheds around the world. The data and methodology behind Aqueduct are documented and available for download. Aqueduct aims to help companies, investors, governments, and communities better understand where and how water risks and opportunities are emerging around the world.

Governance: Cate Lamb, Carbon Disclosure Project, CDP

The CDP global environmental disclosure system enables investors, companies and governments to mitigate risks from the use of energy and natural resources and identify opportunities from taking a responsible approach to the environment. CDP's water program aims to lead companies towards effective corporate water stewardship. Key questions are posed to corporations about their risk and response to water challenges through the CDP platform enabling greater understanding of the private sector's impact on water resources worldwide, while driving transparency of water issues, facilitating informed decision making and encouraging action to mitigate water risks and impacts. In 2014, it was used by 573 investors, with USD 60 trillion in assets and 14 multinational companies.

Financing: Katalin Solymosi, Inter-American Development Bank (IDB)

The IDB presented its Strategic Program for Climate Resilience in the Jamaican Sugarcane Industry. In line with Jamaica's national Strategic Program for Climate Resilience to safeguard water resources, IDB's Structured and Corporate Finance Department (SDF) has started an initiative to promote water efficiency measures and technologies among small

farmers in the company's supply chain through a loan to a private sector client in the sugar industry. Some of the potential investments identified by the IDB are drip-irrigation and fertilization practices and mechanized harvest on state and third-party suppliers' land; wastewater treatment investments at processing plant level; training/capacity building to create more employment opportunities for youth and women as well as to avoid illicit cane burning; and financial literacy and agribusiness management practices to enable the participation of all types of farmers.

3. Lessons learnt from implementing the tools

During the panel discussion, participants from the business community shared Lessons from their experience in utilizing available tools that can help address water-related risks and ensure water availability for all users (and the environment) under complex, shifting conditions for the implementation of the post-2015 agenda for water. The panellists answered the following questions:

• Are longer payback periods, technology risks and high levels of uncertainty associated with investments in water-related climate resilience a barrier to the type of commercial financing that will be required for countries to meet the SDGs for water?

• What actions can be taken, and what tools are available, for governments and companies to help overcome these barriers and incentivize investments to help countries meet water SDGs?

• Open access web-based platforms allow for much greater transparency and access to information worldwide. In what ways can greater corporate water disclosure and transparency more broadly, help governments meet SDGs?

Cate Lamb, CDP, highlighted the importance of **disclosure and transparency** through the supply chain for the private sector. The transparency both in terms of the data collected and the process to collect the information has the role of triggering the right action. In effect, risk comes from silence and the need to infer the actions used for sustainability. From openness should come clarity and efficacy.

Katalin Solymosi, IDB, focused on financing and investment decisions, pointing out that projects often suffer from lacking a convincing **business case**. To this purpose, it is important to think and calculate beyond the water box (e.g. total crop productivity for investment in agriculture), to have a proper risk assessment (understanding of total business value at risk) and to have a total lifecycle cost approach (capital expenditures plus operating expenses). Good examples exist, as in the case of IDB, where a staged process is followed with using donor finance at a first stage to build the business case (including demonstration of technical feasibility, detailed cost/benefit analysis) before private capital is injected for the eventual project realization.

Business cases for investment are often suffering from the fact that the **price of water** is seldom reflects its true cost. A fairer pricing of water for use in household, agriculture and industry is recommended, without putting at stake the human rights to food and water.

The right **regulatory framework or pressure** from international buying groups requiring sustainable certified products are examples of the right type of incentives for investments in sustainable technology. Cases of reverse incentives however do also exist, where e.g. SD projects are missing deadlines for investment decision due to stricter and more time-consuming review and compliance rules compared to traditional projects.

The potential to increase in water use efficiency goes **beyond the traditional water/irrigation box**. The example, properly combining the management of fertilizer and water was mentioned to further increase both water and nutrient use efficiency, thereby generating benefits for both the environment (avoid leaching, less land use) and for the farmer's economy (lower fertilizer and water cost). The example of an IDB project in Jamaica on shifting from flood irrigated into drip irrigated sugarcane illustrates the importance of a total crop productivity approach, by including the investment in mechanical harvesting allowing to ban environmental harmful cane burning.

4. Issues highlighted during the open discussion

Water governance and risks

The government of the Netherlands, emphasized that instability is a problem in the water sector, impacting not only business but also governments. The existence of a reliable **Water Governance Index** was identified as a potential facilitator for quicker and easier investment decisions, as existing indices as developed by OECD or World Bank are of a too coarse granulometry.

Carlo Galli, Nestlé, highlighted the need to consider **water governance at the catchment level**. In order to achieve food security, it is necessary not only to produce more with less, but also to consider and check the aggregated impact and availability of water resources at the catchment level.

Corporate stewardship is more than a process, is a philosophy

In line with Cate Lamb noted that moving towards supply chains and stewardship thinking is a philosophical shift for business. There is a skills gap within organizations, and training webinars and other tools to understand how to assess risks are needed.

5. Conclusions: Advancing with successful knowledge exchanges

Broader holistic approaches to risk management while stretching risk management to other aspects of water, such as climate, the environment, governance, and so on, are essential to enhance the role of business in contributing to the SDGs.

Moving from water management to stewardship is a strategic priority. This is a philosophical shift for business, many of whom are still grappling to make a business case based upon price and return on investment. As a result, the perception of water problems within business has led to fragmented, uncoordinated responses that must be replaced by integral, coordinated and planned responses. Promoting transparency on key corporate data points, such as the potential business value at risk within each river basin is key. This information will support the business in realizing what they stand to lose should they chose not to engage in collective action within the river basins they operate in, buy from or sell to.

Session Photos

Panel discussion, from left to right: Paul Reig, WRI, Cate Lamb, Katalin Solymosi, IDB.

Katalin Solymosi, IDB. presents the Strategic Program for Climate Resilience in the Jamaican Sugarcane Industry.