

Seminar, World Water Week, Stockholm

**Risks and opportunities for
financial institutions in water**

23 August, 2006

Participants:

Agneta Branmarti - The Swedish Bankers Association, Alberto Pacheco - UNEP Regional Seas, Anders Risberg - The World Bank, Britt-Marie Lundh - Ekobanken and BML Sustainable Business AB, Christina Löfman - Länsförsäkringar, Claus Conzelmann - Nestlé, Deane Dray - Goldman Sachs, Eva Haden - WBCSD, Franz Knecht - CONNEXIS Strategy Consultants (Switzerland), Gregory Koch - The Coca-Cola Company, Grit Martinez - Net Impact, Heidi Mayhew - UNEP FI, Jakob Granit - Senior Water Resource Management specialist, James Bentley - ICF International Consulting, James Winpenny - Wychwood Economic Consulting Ltd., Lennart Piper - Swedish Industry Association, Linda Kamsvåg - Länsförsäkringar, Peter Maksimenko - COWIconsult International Ltd, Rada Olbina - European Bank for Reconstruction and Development (EBRD), Sarah Forrest - Goldman Sachs, Tatiana Efimova - OECD, Valerie Weinzierl - World Economic Forum, Vibeke Rechar - KfW Group

Welcoming remarks and presentations:

Franz Knecht, CONNEXIS (Moderator), welcomed participants and presented the aims and objectives of the seminar

Alberto Pacheco, UNEP Regional Seas, presented information on the following areas:

- The role of UNEP in engaging the financial community to address water-related issues.
- The mainstreaming of Environmental Social Governance (ESG) issues in capital markets
- The UNEP FI Principles for Responsible Investment

Deane Dray, Goldman Sachs, gave a presentation 'Water, pure refreshing, defensive growth'. The view from a more and more sustainability aware investment banker's perspective. Points focused on included:

- Opportunities for investments across the water sector (industries with promising high value adding technology and access to the high demand markets, firstly Democratic Republic of China)
- Principal trends driving investments in the water sector and the companies investing in the sector (investors are asking for sustainable development related information, which was not the case 2 years ago)
- Goldman Sachs' Environmental Social Governance framework for investing in the global water sector.

Britt-Marie Lundh, Ekobanken and BML Sustainable Business AB, gave a presentation on environmental-related risks and opportunities for the financial sector in Sweden. Key points highlighted:

- The potential environmental risks financial institutions are exposed to when lending to companies
- The necessity to raise awareness on the risks and opportunities for financial institutions in water
- The benefits for financial institutions to integrate environmental social governance issues in to their operations with a focus on profitability
- Attitudes of the financial sector in Sweden towards environmental issues. Examples of how Ekobanken finances projects in water and sustainability

Jim Winpenny, Wychwood Economic Consulting Ltd., Presented the findings of the issues paper 'Financing water: risks and opportunities. Areas focused on included:

- Financial institutions' exposure to water-related risk when dealing with different sub-sectors, from water-intensive users to those that have a water footprint along the supply chain
- Possible ways for financial institutions to mitigate exposure to water-related risk by influencing client behaviour
- What tools/ guidelines are available for financial institutions to mitigate water related risk

Discussions on water-related risk for financial institutions and the businesses they back

The following key points were raised:

- When examining how companies address water-related issues there are a number of questions which should be considered: How well do big business understand risk? Do companies look at the value they are adding to water in regions? Where do the risks lie? (i.e. tourist industry in Spain)
- Although there are sustainability indicators available for measuring risk, there is a low level of awareness on how to implement these
- From the financial sector perspective, diagnostic tools and indicators are needed for effectively measuring companies with a water footprint
- There is debate surrounding water allocations and how these should be prioritised: Should allocations be prioritised towards companies which can ultimately contribute to building infrastructure and sustainable development for improving supplies to communities/ or should individual users be given priority?
- With large infrastructure projects (i.e. the World Bank hydropower project in the Nile river basin) risks are huge. Lessons tend to be learnt from past failures rather than specific tools. Raising private sector awareness in water and communication of the risks are essential.

- Pricing water correctly was considered a factor that can bring about increased water efficiency. There is a strong relation between water supply and costs. The agricultural industry needs to make better use of water (Australia was given as a particular example).

Key recommendations and suggestions for engaging the financial sector in identifying and mitigating water-related risk include:

- Opening up dialogues between community and the private sector are a way of avoiding potential clashes between community and commercial interests. Sharing experiences are important for balancing different interests within the water sector.
- On the commercial side, Nestlé gave an example of how they are working to address water related challenges by working with farmers on issues of water quality and sustainability to help agriculture become more efficient.
- An evaluation of diagnostic tools is needed for putting risk assessment processes into practice. Diagnostic tools need to be comprehensive and easily implementable (i.e. the at Amnesty business website has published *Human Rights Guidelines for Companies*, a simple diagnostic tool for business).
- In order for companies to address these issues the market must be measurable. Work with NGOs to study markets to attach a value to these. (i.e. the ecosystems Marketplace: <http://ecosystemmarketplace.com/index.php>).
- Measures and guidelines are needed for water footprints that can hit a companies' balance sheet. These measures should also integrate the different needs and take into account the challenges of different stakeholder values in water.
- The risks associated with large water infrastructure projects in emerging markets are many, but properly prepared and implemented the rewards from these projects are potentially significant - both economically and financially. The IFI and donor community have gained valuable experiences from previous exposure to the sector and now have at their disposal a number of instruments and tools to mitigate some of the most pertinent risks, thus increasing the prospect of attracting private sector sponsors and commercial financing. In this respect, raising awareness in the private sector about the emerging market investment potential may support the scaling up of water infrastructure project development.
- It was suggested that ranking companies and publishing lists on company performance in environmental, social and governance (ESG) issues, can have a significant influence over a companies' behaviour. The process of asking companies to explain how they deal with issues, encourages companies to put more thought into their current practices and approaches towards these.
- Inviting stakeholders to participate in intense discussions on water footprints can be an effective way to identify the key issues and potential ways of addressing these. (I.e. the World Economic Forum's Anti-corruption Initiative has invited a number corporates to to exchange ideas and share experiences. The results have successfully contributed to ranking stories). There is a need to open dialogues for identifying and addressing specific issues.

- One possible approach for identifying water-related risk is to come up with stories, looking at the geographical context to suit the sector. Private case studies that can be implemented by different financial institutions are a way of benchmarking companies.

Next steps:

From the results of discussions three possible approaches were suggested as tools for involving the financial service sectors and its' institutions to identify and mitigate to contribute actively to water-related sustainability aspects.

1) A set of stories based on case studies: stories are strong motivators as they show fact based situations, risks and opportunities, and help to identify challenges and business dilemmas. They can be collected efficiently and published/disseminated at low cost as well as are attractive topics for cooperation with the business and NGO community.

2) Diagnostic tools and indicators: they are often key factors for structured improvement approaches, benchmarking and goal identification. As other initiatives like the new guidelines on Social Responsibility ISO 26000 (SR) to be published 2008 and applicable corporations and all organisations, or the Global Compact or GRI dive into it as well.

3) Stakeholder dialogues for the facilitation and balancing of different stakeholders' interests. Bringing civil society and the private sector together to ensure both commercial and community needs are taken into account

Based on the recommendations a detailed proposal based on each of the three options mentioned will be circulated to participants for discussion and further development.

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