

Knowledge and Innovation Support for ADB's Water Financing Program

# Water Stewardship Program

Greg Koch, July 2018

The views expressed in this paper/presentation are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank (ADB), or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy of the data included in this paper/presentation and accepts no responsibility for any consequence of their use. Terminology used may not necessarily be consistent with ADB official terms.

# ADB's Objectives

- Enhance its partnerships in the water sector to leverage resources and enhance water management and sustainability in its Development Member Countries (DMCs).”
- ADB recognizes the recent, rapid growth of corporate water stewardship (CWS) and therefore also seeks to leverage CWS toward helping DMCs achieve Sustainable Development Goal (SDG) 6 related to water sustainability.
- Better engage other, nontraditional partners such as nonprofit organizations and emergent financial actors in the water space, such as the insurance/reinsurance sector.
- ADB's Water Sector Group (WSG) is developing their Strategic Partnership Plan for the next three years, under the One ADB Water Approach and seek to develop a Water Stewardship Program (WSP) integral to this Strategic Partnership Plan.

# Developing a Water Stewardship Plan is Timely

- Private sector seeks greater impact through CWS: CWS efforts have seen significant growth but many initiatives outside direct operations lack the scale and scope to fully mitigate business risks at the watershed level.
- SDG 6 and IWRM is not possible without the private sector: Sustainable Development Goal 6.5 calls for integrated water resource management (IWRM) at all levels, by 2030. While many governments have solidly advanced IWRM toward achieving water security, this has largely been achieved without routine and structured participation from the private sector.
- SDG 17 calls for partnerships: The 2030 agenda also calls explicitly for a rekindling of the global partnership (SDG 17, “Partnerships for Goals”) and incentivizes the move from a fragmented to an integrated, multi-stakeholder approach to development. The private sector, as one of the biggest water users, is a vital component of this global partnership.
- The private sector can’t wait for government to do it alone: Furthermore, it is increasingly called on by traditional state actors to contribute its full breadth of enabling solutions (non-financial and financial) seeing water and related challenges are too complex and daunting for governments to solve alone.

# Corporate Water Stewardship (CWS)

**CWS** is an approach that allows companies to identify and manage water-related business risks, understand and mitigate their adverse impacts on ecosystems and communities, and contribute to and help enable more sustainable management of shared freshwater resources.



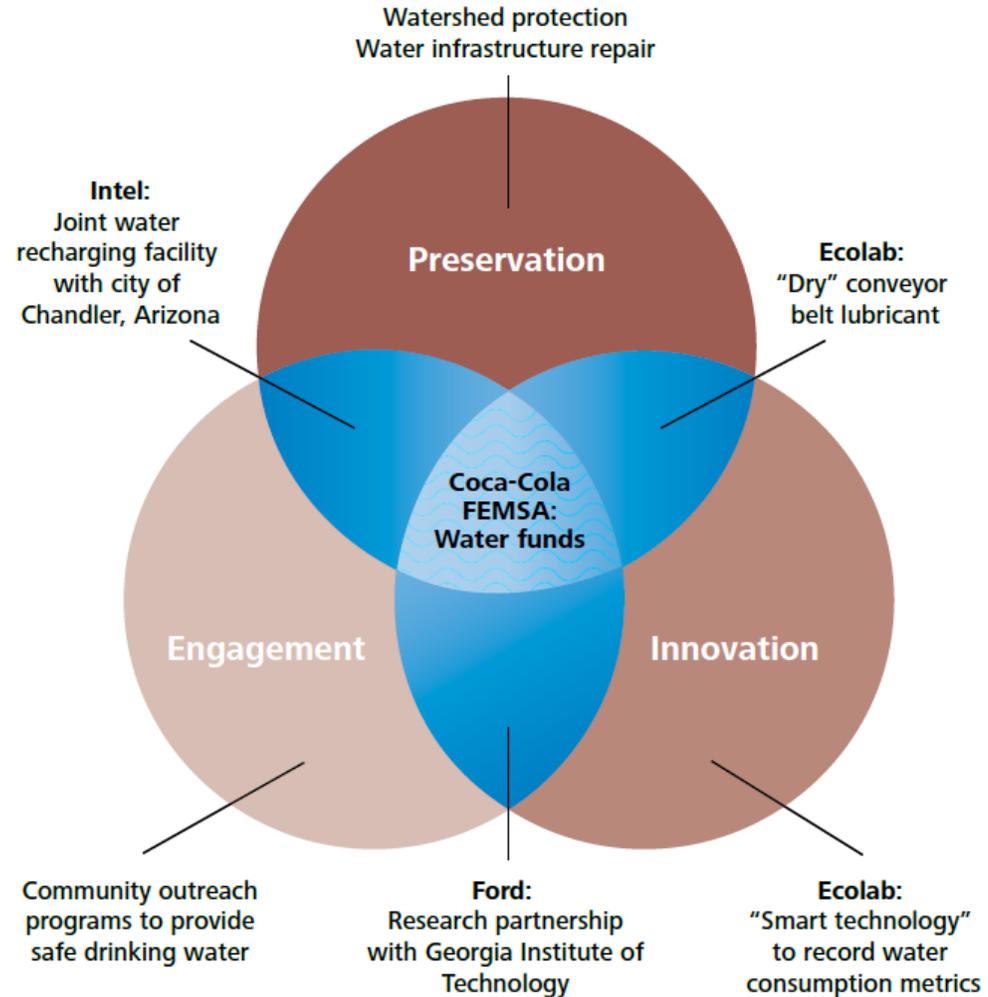
# Business and Water Risk

	 <b>Supply Chain</b>	 <b>Operations</b>	 <b>Product Use</b>	 <b>Financial Impact</b>
 <b>Physical</b>	Water scarcity drives up input prices (~2%-20%)	Increased capital expenditure on water treatment, extraction or alternative technologies raises costs	Non-availability or scarcity of water required for using product or service limits growth	<ul style="list-style-type: none"> <li>• <b>Lost revenue</b></li> <li>• <b>Higher costs from:</b> <ul style="list-style-type: none"> <li>– Supply chain</li> <li>– Changes in production</li> <li>– Capital expenditure</li> <li>– Regulatory compliance</li> <li>– Increasing price of consuming or discharging water</li> </ul> </li> <li>• <b>Delayed or suppressed growth</b></li> <li>• <b>Potential higher cost of capital</b></li> </ul>
 <b>Regulatory</b>	Suspension or withdrawal of supplier's water license or discharge permits disrupts supply chain	Reallocation to more urgent needs during drought disrupts operations	Restrictions on use of particular products or services due to water intensity raises costs or checks growth	
 <b>Reputational</b>	Responsibility "by association" for suppliers' water pollution damages brand or reputation, hinders growth	Competition with household demands, or pollution incidents, damages brand or reputation, hinders growth	Public outcry regarding water intensity of product damages brand, reputation, hinders growth	

1 - "Watching Water," JP Morgan Chase Global Equity Research, April 2008.

# Risk Mitigation

- **Incorporate water risk** into ‘traditional’ corporate risk management processes
- **Quantify the “real” value** of water to the business
- **Understand the energy-water nexus** and its potential business implications, set targets across the value chain
- **Increase focus on engagement and innovation**
- **Look for opportunities** in the overlaps
- **Make a public commitment** to water stewardship
- **Practice “radical transparency”** about water and seek opportunities to collaborate – or clear the (internal) path for collaboration



# Response grows with increased risk



## No strategy

- Water scarcity not acknowledged as an issue
- All resources treated equally
- Cash flows heavily weighted
- Market price of water governs decisions



## Efficiency strategy

- Water scarcity as a driver of cost
- Consider cost of acquisition and use of water
- Heavily weight profitability risk
- Focus on water conservation
- Set internal water efficiency goals



## Risk Strategy

- Manage water scarcity risk at the facility or business-unit level
- Pursue stakeholder engagement to improve water access
- May calculate full cost of water
- May participate in public policy formulation
- Ad hoc investment in technology innovation
- "Social license-to-operate" risks heavily weighted



## LICENSE-TO-GROW STRATEGY

- **Quantify *value of water***
- **Proactively drive business "ecosystems and aligned action"**
- **Innovation - develop product/service offerings that address water scarcity**
- **Manage water scarcity as a platform for growth**
- **Participate in water-related policy development**

INCREASING VALUE AND COLLECTIVE ACTION



# SWOT Analysis

<b>Internal factors</b>	<b>Strengths</b> <ul style="list-style-type: none"> <li>• Typical scale of ADB water projects (i.e., appropriately large, respecting the size of issues faced), long-term commitment to water security solutions, and close government involvement.</li> <li>• Project due diligence, vetting, investment planning support, oversight, and success rate (85%+).</li> <li>• Data, knowledge, tools, and staff expertise; ability to share and promote innovative technologies.</li> <li>• Efforts at government capacity building, peer-to-peer exchanges and how this helps create a better water governance environment (creating/strengthening the enabling environment for water governance).</li> <li>• Entry points to, and ability to leverage, regional economic commissions, green/climate adaptation funds, and other bilateral and multilateral donors.</li> </ul>	<b>Weaknesses</b> <ul style="list-style-type: none"> <li>• ADB is a late-comer to the CWS arena and relatively unknown to the private sector.</li> <li>• The typical duration of a water project can be as long as eight years, from conception to final execution (can be mitigated with 'placeholders' for future private sector participation designed in early project stages).</li> <li>• Varying levels of appetite and capacity among ADB country offices to engage the private sector on water.</li> <li>• Strong tendency to think of private sector partnerships on water to be solely privatized water/sanitation services (a la Suez, Veolia).</li> </ul>
<b>External factors</b>	<b>Threats</b> <ul style="list-style-type: none"> <li>• Reluctance/suspicion of the private sector as a partner in water by some governments</li> <li>• The private sector expects timely results, clear metrics/KPIs; they are much less forgiving than many other actors ADB is experienced with.</li> <li>• Concern (possible outcry) by some actors (e.g., NGOs) of corporate agenda/policy capture and the 'privatization' of water resources.</li> <li>• Fear among leading CWS business that ADB's efforts are going to be 'yet another CWS platform that wants private sector funds so that they can convene councils, host meetings, execute their work without truly partnering with the private sector.'</li> </ul>	<b>Opportunities</b> <ul style="list-style-type: none"> <li>• Private sector seeks greater impact of their CWS efforts (i.e., larger-scale projects and government participation toward real solutions), recognize they can't wait for government to do it alone, and also realize they need a skilled intermediary.</li> <li>• The SDGs are being embraced by the private sector in varying degrees but SDG 6 and SDG 17 on partnerships provides an opportunity to ADB.</li> <li>• ADB can leverage the concept of quantitative risk assessments to help companies build a stronger business case for CWS and a higher likelihood to partner with ADB.</li> <li>• While perhaps thought of as a threat, decreased funding from donor countries provides an opportunity/impetus for ADB to seek new partners in the private sector.</li> </ul>

# Strengths

- Typical scale of ADB water projects (i.e., appropriately large, respecting the size of issues faced), long-term commitment to water security solutions, and close government involvement.
- Project due diligence, vetting, investment planning support, oversight, and success rate (85%+).
- Data, knowledge, tools, and staff expertise; ability to share and promote innovative technologies.
- Efforts at government capacity building, peer-to-peer exchanges and how this helps create a better water governance environment (creating/strengthening the enabling environment for water governance).
- Entry points to, and ability to leverage, regional economic commissions, green/climate adaptation funds, and other bilateral and multilateral donors

# Weaknesses

- ADB is a late-comer to the CWS arena and relatively unknown to the private sector.
- The typical duration of a water project can be as long as eight years, from conception to final execution (can be mitigated with 'placeholders' for future private sector participation designed in early project stages).
- Varying levels of appetite and capacity among ADB country offices to engage the private sector on water.
- Strong tendency to think of private sector partnerships on water to be solely privatized water/sanitation services (a la Suez, Veolia).

# Threats

- Reluctance/suspicion of the private sector as a partner in water by some governments
- The private sector expects timely results, clear metrics/KPIs; they are much less forgiving than many other actors ADB is experienced with.
- Concern (possible outcry) by some actors (e.g., NGOs) of corporate agenda/policy capture and the 'privatization' of water resources.
- Fear among leading CWS business that ADB's efforts are going to be 'yet another CWS platform that wants private sector funds so that they can convene councils, host meetings, execute their work without truly partnering with the private sector.'

# Opportunities

- Private sector seeks greater impact of their CWS efforts (i.e., larger-scale projects and government participation toward real solutions), recognize they can't wait for government to do it alone, and also realize they need a skilled intermediary.
- The SDGs are being embraced by the private sector in varying degrees but SDG 6 and SDG 17 on partnerships provides an opportunity to ADB.
- ADB can leverage the concept of quantitative risk assessments to help companies build a stronger business case for CWS and a higher likelihood to partner with ADB.
- While perhaps thought of as a threat, decreased funding from donor countries provides an opportunity/impetus for ADB to seek new partners in the private sector.

# Non-traditional Partners to Engage

- 2030 Water Resources Group

- This is the only platform (in ADB's territory) that engages across government, civil society and the private sector in a multilateral fashion, with the objective of country-level execution toward closing water gaps and achieving water security through water policy reform and concrete projects.
- The biggest opportunity for ADB is to join 2030 WRG's active engagement with governments, as well as becoming a project financier and implementor for large-scale projects identified by local 2030 WRG coalitions.



- Alliance for Water Stewardship, CEO Water Mandate, World Business Council on Sustainable Development

- The three most advanced and largest CWS platforms engaged with a diverse set of corporations across the private sector
- Opportunities:
  - Introductions/connections with individual corporations to explore partnership opportunities
  - Each have varying degrees of country-based chapters, sometimes through broader platforms (e.g., CEO Water Mandate through UN Global Compact) which can provide entry points ADB's country offices
  - Collaboration between to strengthen engagement by the private sector on water governance and knowledge products (ADB's intimate knowledge of the water governance present state and future plan: the country level will be particularly beneficial to business).



The CEO Water Mandate



ALLIANCE FOR  
WATER STEWARDSHIP



wbcasd

# Prioritized Industry Sector Engagement

Industry sector	Level of awareness of water stress/risk and level of response by the industry sector and major corporations in that sector	Specific examples (Note: See Annex 8 for the long-list of possible partners as these examples are only illustrative of the category)	Priority for ADB engagement (high, medium, low)
Beverage (beer/wine and non-alcoholic)	Awareness: High Response: High	Coca-Cola, PepsiCo, Diageo, Carlsberg, Heineken, AMBEV Brazil, AB InBev, Crown Beverages, Suntory	High
Food producers	Awareness High Response: High	Unilever, Nestle, Danone, PepsiCo, Monsanto, Cargill, Tate & Lyle, British Sugar, Mars Corporation, Wilmar International Limited, Tongaat Hulett, Bunge Limited	High
Personal care products	Awareness: Medium Response: Low	Proctor & Gamble, Colgate-Palmolive Company	Medium
Pharmaceuticals	Awareness: Low Response: Low	GlaxoSmithKline, Merck	Medium
Private sector finance (patient capital, blended finance, etc.)  Note: See Annex 6 for early research exploring the role in water of the insurance/reinsurance industry	Awareness: Medium and rapidly increasing  Response: Low but rapidly increasing	Tropical Landscapes Finance Facility  <div data-bbox="1490 1153 2305 1343" style="border: 1px solid black; padding: 5px; width: fit-content; margin: 10px auto;">             Partial list. Report includes complete list, and specific long-list of corporations in ADB geographies           </div>	Medium

# Recommended Project Types for CWS Partnership Peri-Urban and Rural Safe Water Access

---

- Excludes corporations (e.g., Veolia, Suez) that engage in such privatized concessions of municipal water/sanitation services
- Note also that this project type excludes sanitation; though important in achieving water security and SDG 6, sanitation projects (due to difficulties (time, expense, operating costs, supply chains) in securing long-term proper treatment of fecal sludge waste in most geographies) are avoided by the private sector
- Peri-urban and rural areas are attractive to the private sector as they are typically underserved in general and efforts to improve water supplies are more visible and attributable to private sector support.
- One modality for partnership is ADB loan to a government agency for central water supply, treatment and mains distribution with private sector support for household connection and awareness raising on hygiene and water service fees. IDB has used this approach to much success in Latin America ([Lazos de Agua](#)).



# Non-revenue water management (NRW)

- Industries facing absolute reductions in water supplies (hindering operations and growth) will typically invest considerably in water efficiency and reuse programs within their direct operations.
- While such efforts can be effective in freeing up water that would be ‘wasted’ to allow for growth, such investments compete with other, needed capital improvements and the capacity for project management, and are largely invisible to external stakeholders, including the government.
- Some industry has even experienced water tariff increases after efficiency efforts as the government utility no longer has the ‘guaranteed’ income from the formerly higher water use by industry.
- Participation in NRW programs, especially by a collective of industries (a preferred modality by business as it spreads the burden of support and somewhat levels the competitive space), can have much greater impact, are more visible, and place the program management and execution on the government and its partners.



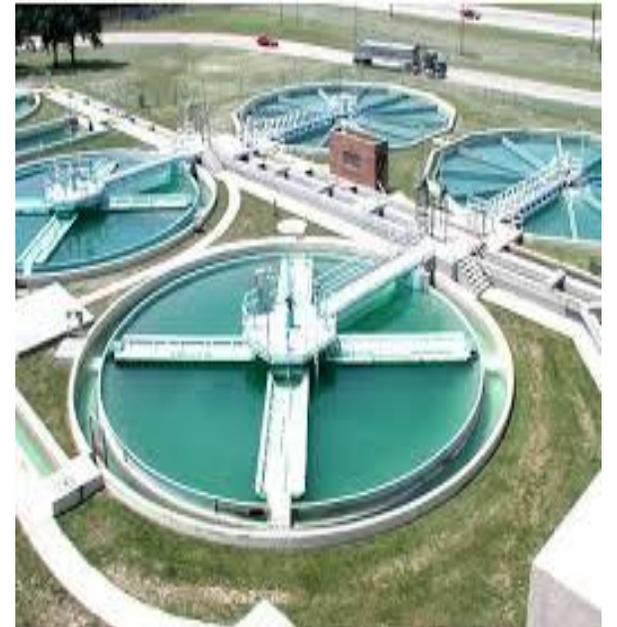
# River basin planning coupled with infrastructure

- Basin planning is attractive to industry as such efforts point to long-term planning to achieve water security, build government regulator capacity, establish a common fact base of water conditions and future scenarios, and include infrastructure improvements for more near-term benefits.
- To the extent such planning and execution mitigates flood risk and increases water storage, key climate adaptation issues, the private sector can quantify the value in reducing their risks.
- Such projects also provide the opportunity for watershed conservation (e.g., non-native species eradication, reforestation, biodiversity preservation) which many corporates gravitate to given the influence of their NGO partners (e.g., WWF).
- A project modality could provide a carve out for specific sub-projects funded by a given industry, industry sector, or a group of industries co-located within a sub-basin of concern.



# Larger-scale urban water and sanitation

- Partnership with ADB and local governments on urban water and sanitation (improvement of existing or new systems) could be attractive to corporates that have defined a long-term business risk stemming from the reliability of safe water supplies and waste treatment, due to their reliance on water (their business) and their business model (i.e., they are non-export and their market is contiguous to their operations and therefore growth depends on water sustainability)
- In such situations, the capital investment (at risk of becoming 'stranded') in factories and equipment is at risk, along with future business growth and profits.
- A modality to explore involves the partial contribution of upfront CAPEX by one or more corporates in the form of a grant (lessening the loan amount and providing a strong show of support to the government and community) coupled with a long-term tariff agreement for water supply and waste treatment (proving a 'guarantee' of a portion of the operating costs)



# Next Steps

Timeframe	Objectives
Short-term (August 2018 - December 2019)	<ol style="list-style-type: none"> <li>1. Upon completion, formally vet and adopt the initial WSP approach.</li> <li>2. Begin awareness raising internally with relevant HQ and country staff, determine willingness, and identify high priority geographies and possible projects.</li> <li>3. Evaluate possible training needs and develop/execute capability building program, as needed.</li> <li>4. Signal WSP intent in CPMs and CPS.</li> <li>5. Begin external awareness-raising with key CWS platforms (e.g., AWS, GIZ, 2030 WRG) and prioritized corporations, leveraging existing relationships and promotion opportunities (e.g., Stockholm World Water Week, Asia Water Forum).</li> <li>6. Engage three to five high priority corporations to develop a relationship, exchange information, and explore partnership opportunities.</li> </ol>
Medium-term (January 2020 - December 2021)	<ol style="list-style-type: none"> <li>1. Finetune the WSP based on learnings to date.</li> <li>2. Formally embed private sector engagement opportunity review in CPMs and other planning processes</li> <li>3. Develop two to three specific projects for joint execution with the private sector (from short-term item 6) in the range of USD250,000 to USD500,000 each.</li> <li>4. Engage an additional eight to ten corporations to develop a relationship, exchange information, and explore partnership opportunities.</li> </ol>
Long-term (January 2022 +)	<ol style="list-style-type: none"> <li>1. Develop and additional six to eight specific projects for joint execution with the private sector (in the range of USD500,000 to USD1,000,000+ each.</li> <li>2. Continue engagement of corporations to develop relationships and explore partnership opportunities.</li> </ol>

# Feedback and Discussion