

Community of Practice

Financial institutions and Natural Capital (CoP FiNC)

Summary of the ninth meeting on the 24th of March 2016

-Water-

Opening

The 9th meeting of the CoP FiNC is on “water”, an important ecosystem service and took place at Heineken. It is the ambition of the largest brewery of Europe to become climate neutral. During his participation in the [Community of Practice Business & Biodiversity](#) (p. 63/64) Heineken initiated the [Green Circles Programme](#) on energy, water, raw materials and biodiversity for a climate neutral supply chain and circular collaboration with partners in the region. Relevant for this session is the [Water Summit of the White House](#) and World Water Day (3/22/2016) where it was said: “As climate change affects water supplies, and population continues to grow, it will become increasingly important to develop and implement innovative, long-term strategies. It is important to raise awareness of water issues and potential solutions and actions to help build a sustainable and secure water future.”

Perspective of two investors

ACTIAM | Water objectives & strategic implementation: Globally water scarcity is increasing. People depend on water and industry needs water (and a licence to operate). ACTIAM’s water strategy will be implemented across different asset classes: Corporate bonds & Equity, Government bonds, Green bonds, Direct Real Estate and Impact investment.

The overall objective of ACTIAM’s water strategy is to help achieve SDG 6. Sub objectives are:

1. Reduce water value at risk through [ESG Integration](#). ACTIAM is setting up a method to structurally integrate water risk drivers, (using [CERES](#)) in its investment decisions. Aim is to be able to set quantitative water goals by the end of this year;
2. Improve water disclosure, water management and water stewardship through [Voting & Engagement](#). (60-80 companies in period 2016-2020);
3. Accelerate transition by investing in change (green bonds, [impact investment](#), positive selection).

A big problem for investors is the availability of data on corporate water risk, which is defined as follows (CERES model):

1. Water dependency (operations and sector and product specific);
2. Water security (location specific, physical, regulatory);
3. Company response (water management, water stewardship).

Robeco | Applying Water Risk tool for integration/engagement: Sustainability is fully integrated in the credit research process of Robeco credit analysts. In cooperation with the Natural Capital Declaration a [Water Risk Evaluation tool](#) is developed and integrated into the ESG analytical method. The ESG data is directly linked to financial outcomes. The Water Risk tool informs engagement and delivers valuable input for ESG integration in investment cases.

The Water Risk Evaluation Tool provides Robeco with the material effect on credit rating (e.g. from good to moderate) as well as insights in the shadow price of water (i.e. the total economic value of water).

Robeco also works with [Principles for Responsible Investments](#). Lessons learned by Robeco until now are: Avoid spending time of investors on the question what to include in the investment case. Make the Water Risk Tool more tangible and better than ‘just a red flag’. Next step is to integrate the tool in present modelling and thus make it practical and reality for the investment analyst.

Perspective of two banks

ING | The diverse sectoral challenges of water: In November ING published the report ‘[Too Little, Too Much](#)’ on water. Only 0,1 % of the global water is available as fresh water. The global demand for fresh water is expected to grow by 2% annually in the coming decades. It will lead to serious constraints for agriculture, industry and municipal water usage (tap water in homes). Water stress (too little) and flood risk (too much) poses challenges. One out of two countries is prone to water stress. These same countries harbour the vast majority of water intensive industries: 88% of coal mining, 80% of textile production and 74% of global agriculture. Global water intensity has the highest rate for the agricultural sector, with a global average of 844 litres water for every value added US\$ (note: the Dutch Greenhouses use an average of 7 litres/US\$). The

challenge for Heineken lies in the supply chain for crops, which use much more water than breweries do. At the same time flood-prone zones need better protection. Seven countries, including the United States, China and India, are prone to flooding as well as water stress.

Improved water efficiency in agriculture and responsible water usage by corporations will be key to secure adequate water availability in the future. ING uses data from [WRI/Aqueduct](#) and [Aquastat](#). Country infographics can be downloaded from the [ING website](#).

ING Sustainable Finance | Financing the transition to sustainable business: There is a clear need for sustainable business. Environmental challenges require businesses to act on climate change, resource scarcity and water distress. ING believes that sustainable business is better business. Circular Economy is booming and more and more clients are thinking of the idea. ING is trying to make a business case for mainstream sustainability. In 2007 ING started carbon offsetting, in 2014 ING embedded sustainability in its strategy, and last year ING issued its first Green Bond (€ 800 Mln) and is now translating what ING can do after the Paris Climate Change Conference (p. 16).

FMO | Portfolio water risk mapping: Water is the biggest future business risk according to the [World Economic Forum](#). Clients in emerging markets are extra vulnerable. Target of FMO is to have 40% green new investments by 2020. Sustainability Bonds are increasingly including water management. For water risk-mapping FMO is taking a phased approach:

1. Identify water risk hotspots and build a more systematic approach to water risk assessment within FMO's investment process.
2. Identify water efficiency (impact) opportunities and build an approach to identify green opportunities in resource efficiency without a lot of data collection at client level.
3. Potentially set water footprint reduction target for 2030.

Three risk categories (physical, regulatory and reputational risks) have four risk drivers: blue water scarcity, drought, flood and pollution which were assessed at three risk levels: low, medium and high risk. FMO tested several water risk tools, but an optimal water risk-screening tool does not exist for its needs to capture both water risk and footprint without significant data collection. Aqueduct and an internal simplified tool FMO developed with WFN turns out to be the most user-friendly to identify water risk during the investment process. Challenges for next steps are:

- How to know which risk screening tool to rely on if indicators differ?
- Lack of data (locations and impact at client level)

Further interpretation is needed (in dialogue). The ultimate question is how FMO can engage with clients using a screening tool and whether foot-printing without actual data collection is really possible? Integration of water risk mapping into financial institutions is challenging for the entire portfolio.

Overall conclusions and observations

Main theme's that were addressed are:

1. **Why?** Why would you want to map your relation to the water as a financial institution? What is the sense of urgency?
-> To lower downside water risks, to avoid investing in 'losers', regulatory regime on water will strengthen the coming years.
2. **How?** Which tools to use and where to get the right data to determine dependency on and risks related to water?
-> By ESG screening, by using specific methods to find water hotspot projects (Aqueduct etc.) and then more detailed engagement with clients (using data of the Water Footprint Network etc.), via shadow pricing.
3. **What** to do? What to do once you know risks and opportunities?
-> Work on disclosure of water data by clients, investing in change (bankable projects with better water management and efficiency), better communication with risk / portfolio departments, set a water impact target for 2030.
4. **How to work together?** How to move forward collectively?
-> Collection of data on water dependency, security and company responses and integration in present risk models.

Participants elaborated on these theme's and came up with ideas for concrete joint actions, such as awareness raising, water accounting, data collection and central sharing, Green Bond development, combining water with other developments such as health, pricing of water and establishing good global water management to prevent future conflicts.