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Cate Lamb, Global Director, Water Security at CDP

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Evidence built over the last decade suggests that private sector disclosure of comparable and consistent water information is the foundation for transformative action to stem both the water and climate crises. Measuring and disclosing water-related risks, opportunities and impacts of economic activities is critical to support the transition to a sustainable economy. As can be seen with the normalization of climate disclosure, such information helps stakeholders including investors, banks, large buyers, policy actors, civil society and consumers make smarter decisions and increase their expectations of companies with respect to their performance.

This compels the private sector to act. Following CDP's highly successful and standardized process for reporting carbon emissions, over the last 12 years, its water programme has become the pre-eminent platform for corporate water disclosure and action. Every year, CDP sends a questionnaire to companies in sectors with the greatest impact on water issues. The questionnaire, which aims to collect data and catalyse action on water impacts and risks, is issued on behalf of more than 740 investors, banks and insurance firms (representing more than $130 trillion in assets). This year, it will be sent to over 7,000 companies and 1,200 systemically influential financial institutions all of whom have their responses publicly benchmarked and ranked by CDP each year. The data collected and associated scores are fed into the heart of decision-making platforms and corporate credit ratings.

Companies that have been consistently disclosing to CDP over the last 12 years:

- re-align growth projections, financial plans and public policy positions with the achievement of global water goals;
- they bring the basin into the boardroom by mapping and reporting the revenues at risk per river basin and putting a price on direct and indirect water risks and impacts;
- they increase investment in solutions from the millions to the billions;
- they establish targets on WASH, pollution and withdrawals and tie these into corporate governance mechanisms, such as CEO remuneration;
- they integrate water expectations into supply chain contracts and reward suppliers for their pursuit of better water stewardship; and
- they are benefiting from lower costs of capital due to the greater levels of trust realised by being transparent.

And as for the financial institutions themselves? We are seeing some action in this sector but it is far from sufficient to meet the challenge. For example, the Spanish bank BBVA has just issued the world's first Water Footprint Loan which offers a lower rate of interest to the energy company Iberdrola if the company maintains a CDP A Score and reduces water consumption by 40%.

But this is a mere drop and we need it to become a flood. With $148 trillion in assets under management, the banking sector alone is larger and more powerful than it has ever been and yet, until now, the world had no clue whether that money was working in favour of our water goals, or, as is most likely the case, undermining our ability to achieve them. Here again, disclosure holds the key. With the generous help of the Dutch Government, and support from WFN and Mercer, CDP has moved to close this gap and has invited 1,200 publicly listed financial institutions to disclose portfolio-related water risks and impacts for this first time last year.

We are currently diving into the response data and will be reporting out on progress in Q1 of next year. Although early days, I am hugely optimistic about this endeavour, however. In 2021, Banque de France published evidence of the effects of mandating French financial institutions to regularly report portfolio-related greenhouse gas emissions and associated climate risks. The institution found that holdings of fossil energy securities by those investors targeted by the reporting requirement fell by 40% once the law had been implemented, compared with those institutions not targeted by the law. A significant effect that, I believe, vindicates the pursuit of wide adoption of water-related reporting obligations.

But let me take a step back for a moment.

Agriculture and industry are collectively the single largest user, polluter and influencer of global water resources. As the consumption of goods in higher-income countries has grown beyond the abilities of those nations to produce and dispose of those goods, our dependence on natural resources and communities in lower-income countries via globalised supply chains has increased. For example, research suggests that over 40% of Europe's water footprint lies outside its borders and 50% of the UK's water footprint is from unsustainable sources. Changing how these supply chains function is critical to achieving SDG6.

From food production, finance and mining, to apparel manufacturing and high tech, the private sector sits at the heart of these supply chains and trade routes but these sectors have chronically undervalued, underappreciated and mismanaged freshwater. This has triggered damaging social impacts across the globe, with vulnerable communities being disproportionately impacted. How these companies choose to grow will make or break our ability to achieve SDG6.

To address challenges of the magnitude of water security, it is essential that we trigger a transformation in the way in which these companies grow. To harness the "power and ingenuity" of markets. Markets are the self-generating sources of financing and innovation that shape business models and transform economies, communities and environments. Properly harnessed, they can deliver on our global water goals at scale.

Water-related transparency is a fundamental tool to harnessing this power and the reasons are straight forward. Less information means less certainty for investors. When a company is not transparent about how it is addressing water security issues, investors can never be sure about a company's real fundamentals and true risk. For instance, a firm's growth prospects are intrinsically tied to its ability to secure reliable access to a stable supply of water; to its efforts to eliminate pollution; not to mention its success in gaining and maintaining the trust and confidence of the local communities housing it. How the firm accounts for water issues in its growth strategies and whether it invests in solutions is vital information. It is difficult, if not impossible, to evaluate a company's investment performance and that of the financial institution fuelling it, if its investments in and governance of water security issues are hidden from view. The same can be said for financial institutions and their regulators and central banks. In this way, mandatory water disclosures enhance market stability, contribute to creating a sustainable financial system and align financial systems with national and international water security targets.

However, CDP recently published a landscape assessment of private sector water reporting requirements across the G20 and found a high degree of international, national and regional divergence in water reporting regimes – we judge this to be a major cause for concern but also of opportunity. The considerable variation in the level of disclosure requirements across jurisdictions, in addition to gaps in definition, comparability, accessibility, and assurance of the disclosed information, needs to be addressed. In their current form, water-reporting provisions:

- make it difficult, if not impossible for markets to price-in water impacts and risks;
- pose a barrier to ensuring financial decisions take account of an entity's impacts on the society and the environment; and
- are not yet commensurate with global or national water challenges.

At the same time, the policy, regulatory and supervisory structures that dictate how capital is allocated within the financial sector, do not mandate any consideration of water security issues in lending, investing or insurance decisions. Importantly, worsening water security poses a threat to the outcomes that they are mandated to achieve – financial system stability and the viability of individual financial firms. As such, it falls within the remit of Central Banks everywhere to enhance the role of the financial system to manage these risks and to mobilize capital for resilient outcomes. The policies set by central banks on macroprudential and microprudential issues will make or break our efforts to achieve a water-secure future. There is an urgent need for new and improved regulation to be successfully implemented across the world.

The absence of public reporting, at scale, by the private sector has reduced the ability of the world to adopt and scale positive water security interventions. Without a clear picture of who is involved, what is working and what is clearly not working – the markets remain unable to benefit from best practice and makes it virtually impossible for civil society organizations and regulators to adequately hold institutions to account. This means that the power of those institutions that could prevent the water security crisis from happening at all – the financiers – remains untapped.

A growing number of policy actors and financial authorities are considering how to incorporate environmental considerations into policy frameworks. The Network for Greening the Financial System (NGFS), a network of 66 central banks, has committed to mobilise financial institutions to look beyond purely carbon and consider wider environmental issues, stating last year that the destruction of nature and biodiversity poses a financial stability risk. We need to push on their open door, seize the opportunity and ensure that this new territory receives the swift and urgent attention it deserves.

The private sector has the potential to move trillions if properly guided and informed. Water-related disclosure is an absolutely essential ingredient that is unleashing this potential. For example, as a result of enabling those 1,240 financial institutions to voluntarily disclose water-related data via CDP last year has provided the world with new data upon which to act. This data is telling us exactly what further actions are needed to accelerate progress and shift capital. It makes it clear that smart and cost efficient interventions from organisations such as the OECD and broader civil society, not to mention regulators and educators can quickly unleash the power of these major players. For example, we now know that a current barrier to more effective water-related financial due diligence is a lack of a standardised methodology and associated guidance that banks, insurance companies and asset managers can adopt.

Whilst I am incredibly proud of what we have achieved at CDP, it is clear that keeping this gem of a solution in the voluntary realm is not going to cut it. It is time to take this to scale. It is why I humbly requested the Commission to strongly advocate for governments to mandate financial institutions and companies to regularly report portfolio-related water use, pollution and associated risks as quickly as possible. In the meantime, CDP is committed to continuing to put its data, network, disclosure mechanisms and expertise to work for a water secure world.

- Strengthen their National Sustainable Development Strategies for 2030 to ensure a planned and equitable transition to a water secure world by 2030 or sooner.
- Commit to ambitious, domestic short term water targets and outline a pathway, including clear water secure roadmaps, for each water-dependent sector.
- Implement domestic policies to deliver these targets, incentivize private investments in water solutions and ensure ambitious pre-2030 action through:
    - efficient mechanisms for pricing water risks and impacts,
    - the removal of environmentally harmful subsidies by set deadlines, and
    - the development of just transition plans for affected workers and communities.
- Commit to implementing mandatory water disclosure requirements aligned with international best practice recommendations, including Target 15 of the new Global Biodiversity Framework, that work for people and planet, ensuring comprehensive disclosures that are consistent, comparable, and decision useful.