The CEO Water Mandate

Framework for Responsible Business Engagement with Water Policy
June 2010

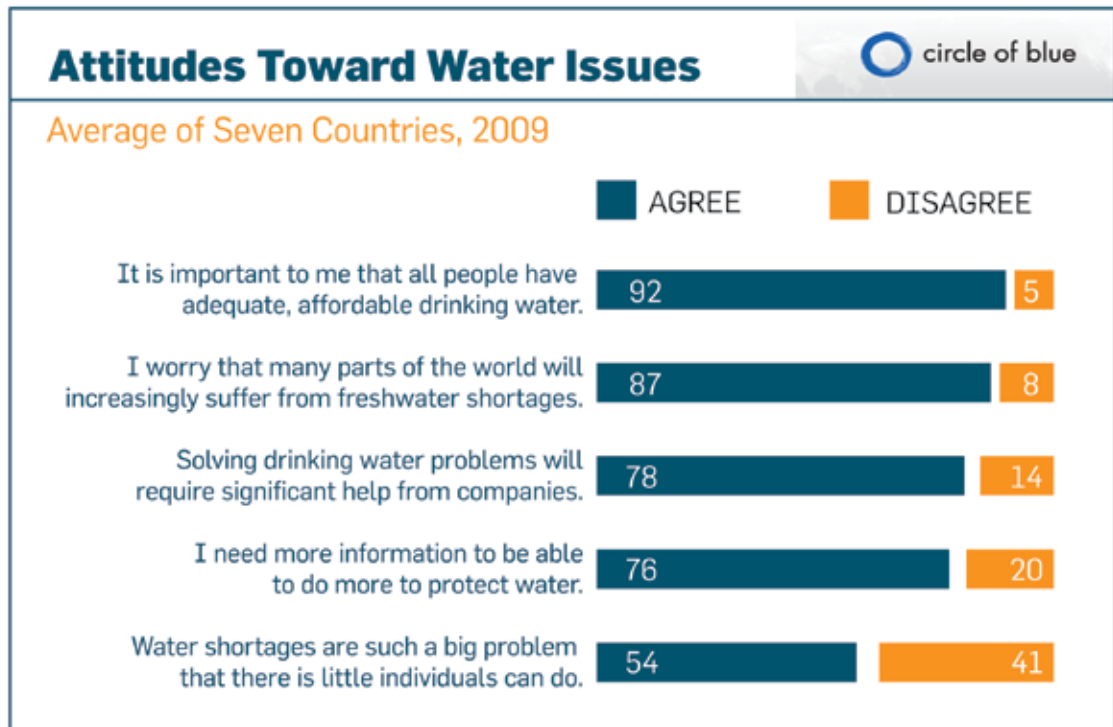# Emerging Global Water Trends and Business Risk: The Case for Action

Today, people around the world identify water issues as the most serious sustainability challenges facing the planet. A 2009 GlobeScan and Circle of Blue survey of 32,000 people from 15 countries found that more than 90 percent perceived "water pollution" and "freshwater shortage" as serious problems, with 70 percent of those surveyed deeming those issues to be "very serious." Furthermore, for the first time in recent history, the survey found that concerns about access to water and water pollution have outpaced concerns about other well-recognized sustainability challenges such as global climate change, natural resource depletion, and biodiversity loss.

These data represent the views of consumers or clients of corporations from around the world and are important and motivating perspectives for global companies to consider. Of particular interest is that the same respondents who voice increasing concern about the myriad water challenges also suggest that companies have a clear role and obligation to find solutions. (See figure below.)

It is difficult for companies to mitigate water-related business risks if they only look internally, as many risks stem from external factors established by the public sector and controlled through water policy.

Attitudes Toward Water Issues

circle of blue

Average of Seven Countries, 2009

AGREE   DISAGREE

Statement	AGREE	DISAGREE
It is important to me that all people have adequate, affordable drinking water.	92	5
I worry that many parts of the world will increasingly suffer from freshwater shortages.	87	8
Solving drinking water problems will require significant help from companies.	78	14
I need more information to be able to do more to protect water.	76	20
Water shortages are such a big problem that there is little individuals can do.	54	41

Source: Water Issues Research, GlobeScan and Circle of Blue, 2009

Companies that make the strategic decision to proactively manage water-related risks (and seek business opportunities) are motivated primarily by the aim to:

1. Ensure business viability by preventing or reacting to operational crises resulting from inadequate availability, supply, or quality of water or water-dependent inputs in a specific location.

2. Ensure their local legal or social license to operate and gain competitive advantage by demonstrating to stakeholders and customers that the company uses a precious natural resource responsibly, with minimal impacts on communities or ecosystems.

3. Provide assurance to investors, financiers, and other stakeholders that water risks, particularly those occurring beyond the factory fence line, are adequately addressed.

4. Uphold corporate values and commitments related to sustainable development by contributing to the well-being of the catchments, ecosystems, and communities in which the company operates.

Historically, access to water has been an important strategic concern for many companies, but recent global trends show increased threats to the supply, quality, and reliability of water resources and services, adding substantial immediacy and pressure for business to improve the way it manages water risk. In some regions, growing demand and competition for this important resource mean there may not be enough water to meet societal, environmental, agricultural, or company needs. Companies understand that if present trends continue, both direct and indirect risks from water overuse (with the main indirect risk being shortfalls in food production of up to 30 percent due to water shortage) are such that isolated action will not work. Robust solutions will require leadership by governments, and companies want to be a constructive part of the public policy dialogue leading to comprehensive and coherent solutions.

Even companies that do not foresee water challenges may be at risk due to stricter regulations or natural- or climate change-induced variability in weather conditions. Governments are increasingly forced to impose limits on water use and wastewater discharge to prevent depletion and degradation of resources. At the same time, growing awareness of these challenges has increased society's expectations of companies' water-related performance. Companies or their suppliers are likely to suffer damaged reputations if they are perceived as mismanaging scarce water resources. This is particularly apparent when company operations negatively impact basic human and environmental needs or contravene legal requirements. All of these factors can reduce investors' and consumers' confidence in a business or sector.

In response, corporate water initiatives such as the UN Global Compact CEO Water Mandate have emerged to redefine the way businesses respond to water challenges. In addition, leading companies have begun to develop strategies to mitigate water-related risks and capitalize on opportunities. Some companies are investing in operational efficiencies such as closed-loop production processes or water recycling. They are siting their facilities in locales that can assure adequate and reliable sources of water, and they are increasingly working with their suppliers to improve water management practices. They are also instituting corporate-wide policies that reflect the growing importance of water conservation and stewardship.

However, it is difficult for companies to mitigate water-related business risks if they only look internally, as many risks stem from external factors established by the public sector and controlled through water policy. Among many other roles, water policy determines allocations in the face of limited supplies, establishes water prices, sets quality standards to address pollution, and builds and maintains the infrastructure that delivers water services. Even if "formal" public water policy is adequate as written, in practice, it can suffer from low levels of priority and funding and a lack of implementation and enforcement. This, in turn, can exacerbate water scarcity, pollution, and infrastructure problems, creating or amplifying social, environmental, economic, and business risks. These issues are of particular concern in emerging economies and developing countries, where management institutions often lack adequate resources and where impoverished communities and sensitive ecosystems can be more vulnerable to the consequences of unsustainable water management practices.

Businesses, government, and civil society share an interest in reducing water-related risks through common solutions. These include a focus on long-term viability, the prioritization of water allocation for those least able to cope with scarcity, and the flexibility to incorporate varied responses to the challenges of a dynamic resource system. In the end, solving water problems requires not only better public policy and stronger institutions, but also inclusive and meaningful stakeholder involvement in decision-making.

Here, the CEO Water Mandate presents a "Framework for Responsible Business Engagement with Water Policy" that provides a way for companies to address risk and capture opportunities stemming from external conditions that cannot be achieved through changes in internal management alone. The goal of this Framework is to make a compelling case for responsible water policy engagement and to support it with a forthcoming Guide that will provide the insights, strategies, and tactics needed to do so effectively. The Guide will be issued in advance of the Conference of Parties 16 in Mexico in November 2010. In this context, the Framework equates effective water policy engagement—that which integrates environmentally sustainable, economically viable, and socially equitable water management approaches—with responsible engagement.

Defining Responsible Corporate Engagement in Water Policy

Water policy issues reside in a complex and nuanced landscape. Water policy itself is often understood strictly as the legal structure that underpins water management and governance. The Framework takes a more holistic view of water policy that encompasses all government efforts to define the rules, intent, research, and instruments for managing water resources. It considers not only the legal and regulatory dimensions, but also the planning around water allocation and the implementation practices by water managers and other stakeholders in support of the management system. And while not defined as water policy per se, there are also a variety of other policy issues—including economic development, trade, land-use planning, agriculture, and energy policy—that affect water policy and management.

Corporate engagement with public policy has traditionally been understood as direct policy advocacy and lobbying. The Framework, however, defines it more broadly, as initiatives that involve interaction with government entities, local communities, and/or civil society organizations with the goal of advancing two objectives: the responsible internal company management of water resources within direct operations and supply chains in line with policy imperatives (i.e. legal compliance), and the sustainable and equitable management of the catchment in which companies and their suppliers operate. In this context, "sustainable water management" refers to the management of water resources in a manner that addresses social equity, economics, and environmental issues in order to maintain the supply and quality of water for a variety of needs over the long term. It also incorporates the importance of ensuring that stakeholders potentially affected by these issues can participate in water management decisions.

The Framework also promotes the belief that, in many parts of the world, sustainable water management efforts could benefit from corporate engagement, provided that this involvement is grounded in the concepts of equity and accountability. The Framework's definition of policy engagement broadens the scope of possible actions by including activities such as working with local communities to inform internal water policies, cooperating with civil society organizations to help ensure that environmental and basic human needs are met, and supporting other stakeholders' work such as academic organizations' research on new technologies and management practices.

Responsible business engagement with water policy is built on core principles (see below) that are fundamental to companies' efforts to advance sustainable water management—and mitigate water-related business risks. These principles aspire to address the goals, objectives, and approaches to responsible engagement.

Effective and Equitable Approaches to Engagement

Not all companies have a clear approach to responsible business engagement with water policy and management. And even if a general approach has been defined, translating concepts into practical action can be daunting. Indeed, many companies would benefit from practical guidance on possible entry points for engagement, how to set clear boundaries, and how to avoid pitfalls. The purpose of the CEO Water Mandate's Framework and forthcoming Guide is to offer engagement principles, strategies, and tactics that will help companies navigate these challenges.

The Guide is tailored to both large- and small-scale commercial water users. It emphasizes that the management of water remains a governmental mandate, and that responsible engagement requires that private-sector actions align with public policy objectives. The Guide further recognizes that companies will face water management regimes along a broad continuum from highly functional to dysfunctional, and that company decisions related to the scope, nature, and degree of engagement must vary accordingly. Finally, the Guide addresses common pitfalls of water policy engagement, such as avoiding inappropriate monopolization of policy discussions. In doing so, it provides direction for companies to avoid these hurdles through pragmatic, inclusive, and transparent advancement of sustainable water management.

Due to the highly iterative and dynamic nature of water policy engagement, the Guide provides an operational framework organized around the four main stages of a continual-improvement cycle: planning, implementing, reviewing, and responding. And because all levels of government influence water policy, the Guide supports engagement across a range of scales. It identifies five primary scales for water policy engagement and offers practical activities that can mitigate risk and encourage business opportunity:

1. **Internal operational or supply chain management**: Companies facilitate internal and supplier actions that are compliant with regulatory specifications (e.g. permits for discharges and abstractions) and in line with broader water policy objectives (progressive demand and pollution-load reduction, proactive pollution control and environmental improvement). This reduces risk by protecting against remediation costs following water-related incidents, protecting compliance records, improving internal efficiencies, and reducing competition and conflict among users in a catchment, thereby supporting the license to operate and preparing the company for broader policy engagement.

2. **Local engagement**: Companies can work with municipalities, communities, and other stakeholders on operational improvements to the reliability and adequacy of local water supplies and sanitation. This supports improved community health and efficient operations of external actors (including local businesses), and also promotes the inclusion of corporate and local stakeholders in decision-making.

3. **Regional, catchment-scale integrated water resource management**: Engaging with water resource management authorities and other stakeholders to support effective water allocation, pollution control, environmental protection, flood and drought management, planning, and development control at both strategic and operational levels has multiple benefits. Companies can derive value by directly supporting physical catchment improvements and basin management projects and by participating in or initiating multi-stakeholder platforms to support and oversee judicious basin stewardship. Such measures can

Companies engaging with governments and other stakeholders to advance sustainable water policies and management take a variety of approaches:

- Encouraging efficient water use across a catchment

- Contributing to the development of effective and equitable policy and regulations

- Supporting research, advocacy, and monitoring

- Aiding environmentally and socially responsible infrastructure development

- Sharing or gathering data related to water resources

- Establishing or engaging in participatory platforms and other democratic processes for water governance decision-making or oversight

- Advancing public awareness of water resource issues

- Working with communities to remedy or prevent water resource problems

- Assisting with rehabilitation finance in failure of local water supply systems

secure equitable and reliable access to water resources of adequate quality for all users. In particular, the influence of business water users in the oversight of basin management (through seats on basin management boards, for example) can lead to greater efficiency, transparency, and accountability.

4. **National dialogues and policy advocacy:** In collaboration with other stakeholders, companies can become involved with water and related policy development, implementation, and oversight to ensure that appropriate legislative and institutional arrangements are in place and functional. This can address broad, strategic water resource management issues such as national reforms, or regional or basin plans that can improve the reliability of the supply and equitable access. This work can also strengthen policies that reduce pollution and excessive water use, and target financial investment priorities.

5. **Global initiatives:** Business can engage with government, bilateral and multilateral development agencies, international finance institutions, and NGOs on international advocacy and research and development toward best practice in water management. This can help avoid physical or social shocks and stresses and secure widespread water security through the facilitation of robust new laws and standards. Engagement and leadership at this level not only promotes the company's reputation, it can set a progressive agenda toward sustainable resource management and use from local to global scales. The link through the CEO Water Mandate to the UN provides an opportunity to make global policy engagement more relevant and results oriented.

In conclusion, this Framework offers a practical vehicle through which companies can contribute to water-related public policy goals and support policy that is developed and implemented in a way that is effective, equitable, and inclusive for all water users. It is founded on the belief that facilitating equitable processes through which all affected parties can come together and contribute to mitigating shared water risks will be a powerful tool for combating this century's emerging water issues.

Principles for Responsible Water Policy Engagement

Principle 1: Intent to advance water management that is sustainable. Responsible corporate engagement in water policy must be motivated by a genuine interest in furthering efficient, equitable, and ecologically sustainable water management.

Principle 2: Respecting public and private roles. Responsible corporate engagement in water policy entails ensuring that activities do not infringe upon, but rather support, the government's mandate and responsibilities to develop and implement water policy. This includes business commitment to work within a well-regulated (and enforced) environment.

Principle 3: Inclusiveness and partnerships in engagement. Responsible engagement in water policy promotes inclusiveness and meaningful partnerships across a wide range of interests.

Principle 4: Pragmatic and integrated engagement. Responsible engagement in water policy proceeds in a coherent manner that recognizes the interconnectedness between water and many other policy arenas. It is a proactive approach rather than responsive to events and is cognizant of, and sensitive to, the environmental, social, cultural, and political contexts within which it takes place.

Principle 5: Accountability and transparency in engagement. Companies engaged in responsible water policy are fully transparent and accountable for their role in a way that ensures alignment with sustainable water management and promotes trust among stakeholders.

Using the CEO Water Mandate Elements to Organize Engagement Activities

All of the information in this Framework is conceptually and practically consistent with the six elements of the CEO Water Mandate. Indeed, endorsing companies and others can use the Mandate as the platform for organizing actions that contribute to public water policy and management. These actions can be understood in terms of their contribution to the broad policy goals embodied in sustainable water management:

Direct operations and supply chain management is the innermost level of policy engagement, focusing on improving plant performance and water-use efficiency to reduce physical water risk and to ensure a credible basis for higher levels of water policy engagement.

Watershed/catchment management and community engagement focuses on improving local- and regional-level water-resource policy development and implementation. It involves reaching out to local organizations and key stakeholders and initiating or participating in integrated regional catchment planning and management (using joint participatory platforms such as basin water boards and national water boards) to advance policy goals.

Collective action is founded on the premise that the scale of many water challenges is too great for individual companies to effectively address alone. Partnerships with key stakeholders are geared toward developing a clear and shared understanding of priority needs and interests; of issues that create risk for companies, governments, and communities alike; and of company and stakeholder actions that should result in mutual benefit.

Public policy advocacy can play out at all levels of water-policy engagement, using sustainable water management as a compass point to aspire to. Responsible policy engagement can consist of direct advocacy on a range of key public policy issues such as water pricing, demand-side management, green infrastructure development, the human right to water, and the promotion of sustainable communities through improved access and infrastructure, among other issues.

Transparency is both a principle and an operational component of responsible water policy engagement. Disclosure of a company's intent in policy engagement, as well as the outcomes of the engagement itself, helps ensure alignment with specific water policy goals and sustainable water management more generally.