



The CEO Water Mandate

Guide to Responsible Business Engagement with Water Policy

November 2010

EXECUTIVE OVERVIEW



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Disclaimer

All of the views expressed in this report are those of the CEO Water Mandate and do not necessarily reflect those of German Society for Technical Cooperation (GTZ) or the German Federal Ministry for Economic Cooperation and Development.

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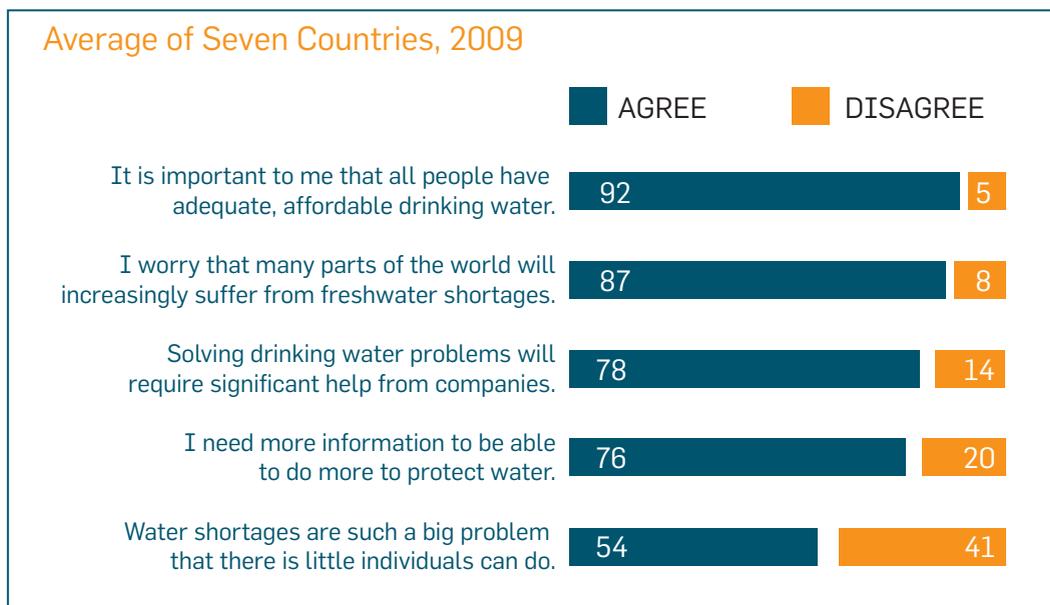


Emerging global water trends and business risk: the case for action

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 (seven of which were selected for a “deep dive” assessment) 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.

FIGURE 1: Attitude toward water issues



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

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 mean there may not be enough of this important resource to meet domestic, agricultural, ecological, or industrial needs. Companies understand that, if present trends continue, both direct and indirect risks from water overuse and abuse are such that isolated action will not work. Ensuring water security will require leadership from governments and for civil society and companies to play a constructive role in public policy dialogue and implementation.

Even companies that do not foresee water challenges may be at risk because of stricter regulations or through new challenges imposed by climate change. As these challenges and demands escalate, governments will be forced to tighten controls 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—particularly problematic when company operations negatively affect basic human and environmental needs or contravene legal requirements. Such problems 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 developing 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 site their facilities in locales with adequate and reliable sources of water and 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; many risks stem from external factors, such as local environmental conditions and public water policy and management. Among many other roles, water policy sets out how water use is prioritized and how allocation decisions are made in the face of limited supplies, establishes water prices, sets quality standards and safeguard measures to control pollution, and builds and maintains the infrastructure that delivers

water services. Even if “formal” public water policy is adequate on paper, in practice, it can suffer from low levels of priority and funding and a lack of implementation and enforcement. These conditions, 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 public institutions often lack adequate resources and impoverished communities and sensitive ecosystems are highly 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 basic human and environmental needs, and the flexibility required to respond 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 participation in decision-making by all stakeholders, including business.

Presented by the CEO Water Mandate, *Guide to Responsible Business Engagement with Water Policy* 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 Guide is to make a compelling case for responsible water policy engagement and to support it with insights, strategies, and tactics needed to do so effectively. In this context, the Guide 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. This Guide 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.

Motivations for addressing water-related business risks

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

- 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.
- 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.
- Assure investors, financiers, and other stakeholders that water risks, particularly those occurring beyond the factory fence line, are adequately addressed.
- 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.

Corporate engagement with public policy has traditionally been understood as direct policy advocacy and lobbying. This Guide, 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: 1) responsible internal management of water resources within direct operations and supply chains in line with policy imperatives (i.e., legal compliance) and 2) 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 secures social equity, economic growth, and environmental protection; the overarching goal is to maintain water supply and quality for various needs over the long term. It also stresses the importance of institutional sustainability, whereby those tasked with water management have the resources and legitimacy required to fulfill the task and stakeholders who may be affected participate in water management decisions.

This Guide also promotes the belief that, in many parts of the world, sustainable water management efforts will benefit from corporate engagement, provided that this involvement is grounded in the concepts of equity and accountability and the principles elaborated in this document. This Guide'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 public policy performance.

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 this CEO Water Mandate Guide is to offer engagement principles, strategies, and tactics that will help companies navigate these challenges.

Tailored to both large- and small-scale commercial water users, this Guide 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, this 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.

Types of Engagement

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
- Operating infrastructure (e.g., wastewater treatment) for community and municipal uses
- Working with communities to improve access to water services
- Assisting with finance of local water supply and sanitation infrastructure

Because all levels of government influence water policy, this Guide supports engagement across a range of scales. It identifies five primary scales for water policy engagement.

1. Internal operational or supply chain management:

Companies facilitate internal and supplier actions that comply with regulatory specifications (e.g., permits for discharges and abstractions) and are in line with broader water policy objectives (progressive demand, pollution-load reduction, proactive pollution control, and environmental improvement). This practice 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. These outcomes support the license to operate and preparing the company for broader policy engagement.

2. Local engagement:

Companies can work with municipalities, communities, and other stakeholders to make operational improvements to preserve environmental quality and ensure the reliability and adequacy of local water supplies and sanitation. This engagement 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 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 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:

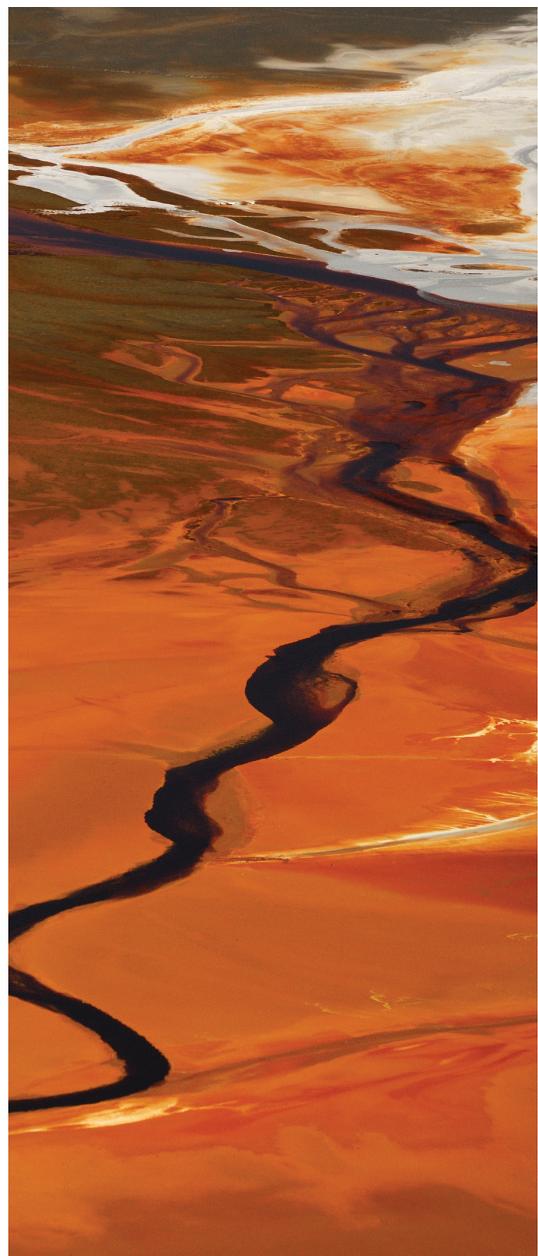
In collaboration with other stakeholders, companies can become involved with water and related policy development, implementation, and oversight to ensure that appropriate legislative and institutional arrangements are in place and functional. This engagement can address broad, strategic water resource management issues, such as national reforms or regional or basin plans that

can improve the reliability of the supply and make access more equitable. 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 engagement 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 also set a progressive agenda toward sustainable resource management and use from local to global scales. The link through the CEO Water Mandate to the United Nations provides an opportunity to make global policy engagement more relevant and results oriented.

This Guide recognizes and stresses that the management of water is a government mandate, though water-related risks are shared between government, business interests, communities, and the environment. Corporate actors need to determine where to set their individual "responsibility boundaries" and match their engagement to the environmental, political, and social contexts they are operating within. While each set of conditions will dictate tailored engagement responses, this Guide seeks to provide engagement principles, strategies, and tactics that will help businesses contribute positively to the global water challenge.



Facilitating equitable processes through which all affected parties can come together and contribute to mitigating shared risks is a powerful tool for combating this century's emerging water issues.

Roadmap to using this Guide

This Guide describes how companies can contribute to water-related public policy goals and support policy that is developed and effectively implemented for the benefit of all water users. It is founded on the belief that equitable processes that bring together affected parties will be a powerful tool for reducing shared water risks and combating this century's emerging water issues.

This Guide offers practical measures for companies wishing to improve water management in the catchments in which they operate, while providing insights about the challenges of engaging with external stakeholders on water policy issues. Its principles, concepts, practical steps, and case studies are intended to facilitate companies' responsible engagement with water policy. We believe this engagement is a critical component of advancing sustainable water management and will benefit governments, communities, and ecosystems, while helping companies reduce business risks and seize opportunities.

Principles for responsible water policy engagement

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

Principle 2: Respect 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. Acting consistently with this principle includes business commitment to work within a well-regulated (and enforced) environment.

Principle 3: Strive for inclusiveness and partnerships. Responsible engagement in water policy promotes inclusiveness and equitable, genuine, and meaningful partnerships across a wide range of interests.

Principle 4: Be pragmatic and consider 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: Be accountable and transparent. 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.

Section 1 of this Guide defines public water policy, sustainable water management, and the nature and objectives of responsible engagement. In Section 2, the Guide explores the concept of shared risk related to water and the motivations and opportunities to engage. Section 3 defines five core principles for responsible engagement. Section 4 details practical steps of engagement and identifies potential pitfalls and how to avoid them. It also explicitly addresses concerns about potential policy capture and other unforeseen negative outcomes, including concerns that: 1) companies will not cooperate with government in good faith to reach equitable and sustainable water management, 2) private sector involvement inevitably leads to other voices being drowned out, or 3) for-profit companies fundamentally have no role in the governance of water resources that belong to the commons. This Guide rejects and strongly discourages any type of engagement that could be construed as inequitable or non-inclusive, asserting that inclusive and sustainable water management is the most effective way to mitigate long-term risks.

The guidance in this document is tailored primarily to medium-to-large-scale private water users, as opposed to private water service providers. That said, some of the principles and recommended practices presented in this Guide may be applicable to a diverse set of business sectors.



The CEO Water Mandate

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.