PACIFIC INSTITUTE

Joining Forces

INNOVATIVE CO-FUNDING TO ENHANCE CORPORATE WATER STEWARDSHIP IMPACT IN THE COLORADO RIVER BASIN

Executive Summary

MAY 2023

IN PARTNERSHIP WITH AMP Insights

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PACIFIC INSTITUTE
REIMAGINING WATER FOR A CHANGING WORLD

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Founded in 1987, the Pacific Institute is a global water think tank that combines science-based thought leadership with active outreach to influence local, national, and international efforts in developing sustainable water policies. Its mission is to create and advance solutions to the world’s most pressing water challenges. From working with Fortune 500 companies to disenfranchised communities, the Pacific Institute leads local, national, and international efforts in developing sustainable water policies and delivering meaningful results.

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ABOUT THE PACIFIC INSTITUTE

The Pacific Institute envisions a world in which society, the economy, and the environment have the water they need to thrive now and in the future. In pursuit of this vision, the Institute creates and advances solutions to the world's most pressing water challenges, such as unsustainable water management and use; climate change; environmental degradation; food, fiber, and energy production for a growing population; and basic lack of access to fresh water and sanitation. Since 1987, the Pacific Institute has cut across traditional areas of study and actively collaborated with a diverse set of stakeholders, including leading policymakers, scientists, corporate leaders, international organizations such as the United Nations, advocacy groups, and local communities. This interdisciplinary and independent approach helps bring diverse groups together to forge effective real-world solutions. More information about the Institute and our staff, directors, funders, and programs can be found at www.pacinst.org.

ABOUT AMP INSIGHTS

AMP Insights is a small management consulting firm working with clients on some of the most vexing water and natural resources management issues in unique, creative and energizing ways. AMP has expertise in all facets of water resources management consulting and provides strategic advice, analysis and capacity-building to corporations, agencies, non-profits, irrigation districts, cities and foundations. The firm provides clients with expertise in economics, law, policy, hydrology and ecology. Engagements vary from on-the ground transactional work, to planning and assessment studies for local governments, to facilitating stakeholder-led strategic planning efforts, to strategic program assessments for environmental non-profits and foundations, and high-level legal and economic assessment of enabling conditions for markets. More information about AMP Insights can be found at www.ampinsights.com.

ABOUT THE AUTHORS

Davíd Pilz

Davíd's first experiences with natural resources came at the age of five and involved a shovel, a tarp, an earthen irrigation ditch, and a couple hundred acres of hay that needed water. Growing up in the high desert of Albuquerque, New Mexico and the remote beauty of northwestern Colorado, and steadily moving north and west to his current home in Bend, Oregon, Davíd has been immersed in water, land, and natural resources issues throughout his life and career. After graduating from the Colorado College and Lewis and Clark Law School, David worked for ten years at the Oregon Water Trust and The Freshwater Trust, the nation's first water trust. Today, he works with clients across the West and beyond, with a focus on program strategy and design, legal and policy analysis of water, land, and natural resources issues, and communication strategies.

Sarah Kruse

When she was young, Sarah's father promised her that some job existed that combined her love of the outdoors and mathematics. While this seemed impossible to her as a child in rural Ohio she managed to do just that. After graduating with a degree in economics from the College of Wooster, Sarah served as a Peace Corps volunteer working on agroforestry in Paraguay. She then returned to the US and completed her Master's in Economics and Ph.D. in Agricultural, Environmental &

Development Economics at The Ohio State University. For the next seven years, Sarah served as an economist at Ecotrust, a research and community development organization in Portland, Oregon. Today she works to identify and analyze linkages between economic, environmental and social systems to create out-of-the-box solutions for a diverse group of clients around the globe.

Amy McCoy
When Amy was four years old, her grandfather asked her to describe where she lived. Like an aspiring young poet, she answered "where the mountains touch the sky." Growing up in the shadow of Colorado's Rocky Mountains, Amy has always been fascinated by the intersection of water, land, human cultures, and language. After a stint on the East Coast earning a BS in Environmental Biology at Yale University, she returned to western North America for a PhD from the University of Arizona and seeded her career as a consultant. Amy is a founding partner of AMP Insights, where she applies strategic research and creative communications to the confounding social, legal, and practical challenges of water scarcity and climate change. She also serves as an Adjunct Research Scientist with the University of Arizona Southwest Center and participates in a wide range of ecological, climate, and water-focused research collaborations. Amy lives in Colorado Springs, Colorado, along the creeks and mountain trails of her childhood.

Cora Snyder
Cora Snyder is a Senior Researcher at the Pacific Institute, where she leads applied research projects on urban water efficiency, onsite water reuse, corporate water stewardship, and public water policy, with a geographic focus on the Western United States. In particular, much of her work supports the California Water Action Collaborative and the UN Global Compact CEO Water Mandate. Cora's past work has focused on environmental water markets, Western US water law, LEED green building certification, and behavioral science techniques to encourage residential water conservation. Cora holds a bachelor's degree in Environmental Studies with a minor in Spanish from the University of California, Santa Barbara (UCSB). She also holds a Master's in Environmental Science and Management (MESM) from the Bren School at UCSB.

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Key Definitions

Corporate Water Stewardship (Water Stewardship)

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 (de Souza et al. 2020).

Financing

A funding approach that provides funds that must be repaid; for the purpose of this white paper, only mechanisms with low or zero interest rates are considered.

Funding

Monetary support for water stewardship projects either via a loan (financing) or grant (no repayment obligation).

Grant

A funding approach that provides funds to support water stewardship with no repayment obligation.

Innovative Co-Funding

The use of a flexible funding stream like a corporation's water stewardship budget in concert with other funding sources (co-funders) to drive impacts that the corporation and co-funders' individual sources alone might not achieve.

Water Risk

The effect of water-related uncertainty on an organization's objectives. "Water risk for businesses" typically refers to the ways in which water-related issues can undermine business viability. It is commonly organized into three interrelated categories (Schulte and Morrison 2014):

- Physical: too little water, too much water, water that is unfit for use, or inaccessible water.
- Regulatory: changing, ineffective, or poorly implemented public water policy and/or regulations.
- Reputational: perception that a corporation does not conduct business in a sustainable or responsible fashion with respect to water.

Executive Summary

The Colorado River Basin is experiencing acute water supply limitations. As the scale of the water crisis intensifies, all water use sectors are at risk, with threats to the economic, social, and ecological stability of the basin. Companies that operate or are exposed to water supply risks in the basin are engaged in addressing some of these challenges through corporate water stewardship efforts. While it cannot solve the basin's immense challenges alone, corporate water stewardship can have a meaningful impact at local as well as watershed scales. This report is focused on one way to increase impact: leveraging corporate spending by pairing it with other existing and emerging funding streams, referred to here as co-funding.

The intended audience is practitioners—people working within or consulting for companies—who are looking for ways to increase the impact of their corporate water stewardship spending. A secondary audience is public or philanthropic water funders, water project leads and policymakers in the basin.

The premise of this paper is that co-funding with existing and emerging funding mechanisms can help corporations tackle more complex problems at more meaningful scales in the Colorado River Basin and beyond. Corporations often have more flexibility than other funders, particularly federal and state agencies, in deciding how to spend their water stewardship budgets. This flexibility is an important asset, allowing funding to be deployed strategically. This white paper defines innovative co-funding as the intentional and focused use of corporate water stewardship funding alongside other funders and funding sources in new ways that expand the impact of corporate spending.

The premise of this paper is that co-funding with existing and emerging funding mechanisms can help corporations tackle more complex problems at more meaningful scales in the Colorado River Basin and beyond.

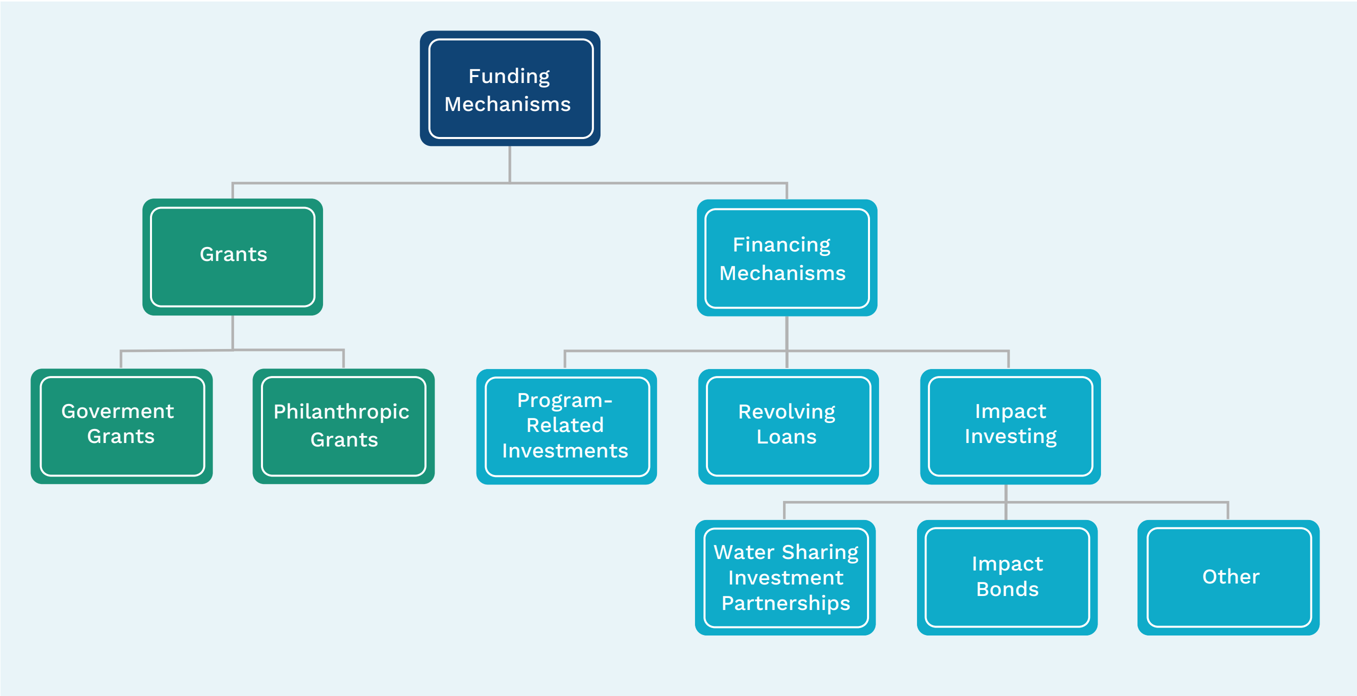
This report considers a limited set of existing and emerging funding mechanisms that fall into two categories: (1) grants which fund projects with no expectation of financial returns (including repayment of capital), and (2) financing mechanisms, which provide capital with the expectation of repayment with or without interest and/or an equity stake in the project. Financing mechanisms (which can involve public and/or private funders) discussed here include program-related investments, revolving loan funds, and various impact investing approaches.

TAXONOMY OF EXISTING AND EMERGING FUNDING MECHANISMS

Each of the existing and emerging funding mechanisms are defined to highlight opportunities for co-funding:

- **Grants** (both government and philanthropic) do not require a monetary return on investment and are the most common funding pathway for water stewardship projects. Grants are often awarded competitively, through broad or targeted calls for proposals.
- **Program-Related Investments** are loans from foundations to non-profits, for-profits, or other entities with the expectation of below-market or no financial returns. To qualify, the primary purpose of the loan must be to accomplish one or more of a foundation's exempt purposes.
- **Revolving Loan Funds** are pools of capital from which low interest loans can be made for projects; repayment of the loans and interest payments are then reinvested in the funds. The most common type of revolving loan fund is a state revolving loan fund, though this paper also highlights examples of private revolving loan funds.
- **Impact Investing** includes a range of financing approaches where one or more investors fund a project in return for repayment of debt on favorable terms or in return for an equity stake in the project. Two specific examples, water-sharing investment partnerships and impact bonds, are discussed to demonstrate the potential for co-funding with corporate water stewardship efforts.

Taxonomy of Existing and Emerging Candidates for Corporate Water Stewardship Co-Funding



After defining the mechanisms that are candidates for co-funding, specific co-funding strategies and a set of “blueprint” diagrams are presented. The discussion provides conceptual details on how corporate funding could be paired with the described mechanisms and is guided by the overall goal of highlighting how co-funding can drive greater impact. With this in mind, co-funding mechanisms are organized into five categories:

- Seed funding to get projects off the ground;
- Required match funding for grants;
- Non-required match funding to increase competitiveness of grant applications;
- Funding to increase total project investment; and
- Funding to repay loan principle.

Roles of Corporate Funding by Funding Mechanism

		STRATEGIC CO-FUNDING ROLES FOR CWS				
Existing and Emerging Candidate Mechanisms for Co-Funding		Seed funding	Required match funding	Non-required match funding	Funding to increase total investment	Funding to repay loan principle
GRANT	Government	●	●			
GRANT	Philanthropic	●		●		
FINANCING	Program Related Investment				●	●
FINANCING	Revolving Loan Funds				●	●
FINANCING	Impact Investing				●	●

ROLES OF CORPORATE FUNDING BY FUNDING MECHANISM

Next, a set of evaluation criteria are developed, which are meant to provide corporate staff and others with a simple approach to evaluating the fit of the different candidates for co-funding based on four criteria:

- **Feasibility:** the degree to which opportunities exist to utilize the mechanism in the near-term (i.e., the next five years);
- **Leverage:** focusing on the likelihood that using a particular mechanism will result in more impact than if each of the co-funders were to invest the same amount on their own;
- **Complexity:** or the ease with which a mechanism can be deployed or combined with corporate funding; and
- **Scalability:** the potential for replication and growth in the near-term.

Before making recommendations, a set of challenges to successful co-funding are discussed. These include:

- **Missing links between corporations and projects at the right time***:* To ensure funding success, corporations need to be linked with proponents implementing water stewardship projects *at the right time*. When a funding gap occurs at the project design and planning phase, it can mean missed opportunities to submit proposals for private or public funding, either because of a lack of capacity to write large, complex grant applications, or because a project proponent cannot find a commitment of funding for matching requirements.
- **Missing links between corporations and potential co-funding partners:** To date there are limited opportunities to link corporations with potential co-funders, especially federal funding programs.
- **Technical monitoring and accounting challenges:** Monitoring and accounting are at the heart of corporate water stewardship. Without adequate, tailored monitoring and accounting, corporations cannot make credible, transparent water benefit claims backed up by data, and they cannot track progress toward lowering their water risk or offsetting their or their suppliers' water impacts. These challenges include allocating benefits and credits across co-funding partners, claiming credit when corporate water stewardship funds are used for project seed funding, timing and amount of revenue generation for projects with financing elements, measuring project impact, valuing water benefits, and high-capital requirements for water infrastructure projects.

Investments in near- and long-term water stewardship are urgently needed to respond to the rapidly growing water supply crisis in the Colorado River Basin. Corporate water stewardship can play a role in this response in a number of ways.

- The basin is in dire need of strategic investments to achieve long-term water supply sustainability.
- Co-funding requires a shift in how corporations think about corporate water stewardship spending—from a focus on offsetting impacts from specific practices or links in a supply chain to partnering with funders and project proponents whose focus is on place-based and watershed-scale benefits.
- Corporations often have greater flexibility in deciding how to spend their water stewardship budgets than other funders, particularly federal and state agencies. This makes them ideal sources for matching funds or cost-sharing to unlock opportunities that, but for the corporate spending, might remain unfunded or leave benefits on the table.
- Flexibility also means that corporations should consider providing seed funding to make sure that no good project fails to get off the ground. Funding projects at early phases does come with risks of project failure. Unlike paying for completed projects or packaged benefits like watershed credits, some projects that receive seed funding may not be successful. However, this strategy has significant upside and could create opportunities for corporations to expand their impact and secure the right to fund the implementation phase of projects for which they provide seed funding.
- The major challenge facing co-funding is broadening and deepening the links between corporate staff and both project proponents and potential co-funders.
- Co-funding water stewardship projects requires carefully measuring and valuing water benefits and proportioning credit based on funding amounts and additionality (ensuring that, but for dollars provided by a given funder, specific benefit(s) would not have accrued).

As of early 2023, federal funding for water, environmental restoration, and climate change responses is at an unprecedented level. Corporations should immediately focus on finding opportunities to co-fund alongside these massive infusions of federal dollars. Corporations should also continue to develop and deepen their networks of project proponents and potential co-funders. Finally, corporations should consider increased involvement with project and funding strategy at the local and watershed scale. Instead of engaging at arm's length and seeking only to buy water benefits from shovel-ready projects, corporations could engage with impact investors, foundations, utilities, NGOs, and others to help design funding mechanisms from the ground up. Knowing that a corporate funding partner is committed to a watershed or a project could provide the confidence a group of investors needs to move forward with a new venture; the same knowledge could spur a foundation to expand investment or to turn to innovative tools like program-related investments.

The need in the Colorado River Basin now and into the foreseeable future provides the impetus for experimentation and innovation. Creative co-funding mechanisms are a natural fit in this context. They represent a meaningful way for corporations to expand their impacts beyond offsetting water use for specific business practices and provide a pathway to invest in water benefits at new and expanded scales.

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