

Discussion highlights

9th meeting of the Roundtable on Financing Water
7-9 February 2023, Geneva

Key recommendations for the Water Action Agenda (1/2)

1. Make water a higher priority in the international agenda

- 1.1. Make water a top priority in the agenda of the G20 (at the same level of urgency as climate).
- 1.2. Create Just Water Partnerships, gathering countries that are voluntarist to push the Water Action Agenda, and also International Financial Institutions (IFIs), philanthropies, etc.
- 1.3. Set clear targets for the restoration of the hydrological cycle at the global level, and freshwater ecosystems at regional level.
- 1.4. Change the narrative about financing water: financing water is critical to solve multiple crises (energy security, food security, etc.), including the climate crisis (better link water with mitigation and adaptation in the international agenda).
- 1.5. Ensure that trade policies contribute to resilience against water risks globally and do not worsen water scarcity or pollution in water-stressed regions.

2. Strengthen (international and national) legal frameworks around water

- 2.1. Develop accountability mechanisms for multinational companies polluting and damaging natural resources, particularly in the Global South.
- 2.2. Consider granting a legal status to water bodies, which comes with rights (as several countries already do).
- 2.3. Support the recognition of indigenous people as stewards of water bodies as well as vast areas of land that produce (green) water.
- 2.4. Assess and redirect subsidies that undermine the ambition of restoring the hydrological cycle and that fail to reach the ones who most need them.

3. Unpack the water value chain with (innovative) financing mechanisms

- 3.1. Fine-tune and promote the Finance Water Action Pathway, designed to set high-level vetted milestones for the financial sector.
- 3.2. Develop innovative capital market instruments to create more investment opportunities in the water sector at each stage of the water value chain.
- 3.3. Scale up existing financial mechanisms granting access to capital markets to sub-sovereign entities, low-income households and underserved communities; promote collaboration in river basins.
- 3.4. Develop tools to assess whether projects from other sectors (urban development plans, agriculture, energy...) are aligned with climate, water and resilience policies.
- 3.5. Address obstacles to financing nature-based solutions and natural farming, valuing their long-term co-benefits.
- 3.6. Promote and illustrate models of small-scale financing that bring together the needs of communities and the financial organisations.
- 3.7. Harness untapped funding sources such as cost of externalities of major users (i.e., apparel industry).

Key recommendations for the Water Action Agenda (2/2)

4. Bring water issues into negotiations on the international financial architecture

- 4.1. Multilateral development banks could pay more attention to financing global public goods, including the hydrological cycle, while regional and national development banks focus on regional and local projects.
- 4.2. The IMF could consider issuing new Special Drawing Rights (SDRs) for resilience and water; these new SDRs would not reflect countries' quota but the vulnerability of countries to climate and water.
- 4.3. Implement debt-for-water swap, freeing up fiscal space for countries of the Global South to finance water.
- 4.4. Make IFIs' disbursements conditional to delivering positive outcomes for the hydrological cycle.
- 4.5. Consider creating a "Blue Fund", an International Fund for Water Security, out of climate financing.

5. Address the double materiality of water-related risks

- 5.1. Develop tools, metrics and data on water-related risks, their financial impacts, and the exposure and vulnerability of financial institutions (to assess their exposure and monitor their impacts on water).
- 5.2. Make disclosure of exposure and vulnerability to water risks mandatory, for corporates and financial institutions.
- 5.3. Support regulation from Central Banks on the double materiality of water risks, including via the inclusion of water in the agenda of Network for Greening the Financial System.

6. Address the issue of WASH affordability

- 6.1. Launch a global monitoring of affordability to access to WASH since affordability is one of the normative criteria of the human rights to access to safe WASH.
- 6.2. Undertake national affordability assessments, triangulating different data sources and making policy recommendations.
- 6.3. Initiate cross-sectoral conversations on interpreting affordability.

Session 1 – The hydrological cycle as a global common good. What does this mean for finance?

There is new evidence that the hydrological cycle should be considered as a global common good, based on the work from Johan Rockström, Director of the Potsdam Institute for Climate Impact Research (PIK) and his team. While it is ignored by mainstream water economics and water management, green water¹ is a foundational feature of the hydrological cycle and fundamental to Earth system dynamics. It is critical for supporting and regulating most terrestrial biosphere processes, including energy, carbon, water and biogeochemical cycles. New data shows that the hydrological cycle is drifting away from a safe operating space for our communities and economies². Green water travels long distance and connects countries across world regions. Johan Rockström introduced the concept of precipitationshed³. This is important to understand the dependence of the global economy on water, and the interdependencies between countries. For instance, evidence shows that Northern China is dependent on atmospheric rivers coming from Eastern Europe, the Caucasus or Central Asia. Every country relies on up-wind countries (similar concept to upstream watershed) for at least 50 percent of its rainfall.

This scientific evidence suggesting that the hydrological cycle is a global common good is a game-changer for water economics, and it implies a rethinking of financing water, including the accounting of financial resources and expenditure on water. Panellists suggested to develop national water accounts, following the model Tracking Financing to WASH⁴. However, accounting for investments related to other sectors (such as agriculture, energy...) impacting water would be a real challenge. Furthermore, higher-income countries are increasingly dependent on natural resources (including water) from lower-income countries via globalised supply chains (for instance, research suggests that around 40% of Europe's water footprint lies outside its borders⁵). This issue could also be reflected in water accounts and in trade agreements governing multinational operations.

The restoration of the hydrological cycle is a condition for sustainable development and climate resilience. Therefore, the active role of nature and water resources should become a central argument in debates around prioritising investments for water sectors (including nature-based solutions). The [living planet index](#)⁶ shows that, since 1970, there have been an overall decline of 69% in nature and wildlife population globally, and a decline of 83% for freshwater species. The current economic system does not recognise the true value of nature and water resources. Some economists and investors advocate for the recognition of water resources as an asset class (natural capital, to be included in economic analyses), in order to help recognise their value to the economy and better protect them. This could also help to correct imbalances between sectors (agriculture and industry being extremely water-intensive, pushing water to the aegis of planetary boundaries). The Water Action Agenda should

¹ Green water is defined as terrestrial precipitation, evaporation and soil moisture.

Wang-Erlandsson, L., Tobian, A., van der Ent, R.J. et al. A planetary boundary for green water. *Nat Rev Earth Environ* 3, 380–392 (2022). <https://doi.org/10.1038/s43017-022-00287->

² Indeed, the latest IPCC assessment shows that since we entered the industrial era, vapour in the atmosphere has increased (with about 7% increase of moisture in the air for each degree of global warming), leading an increase in terrestrial precipitation and extreme events (droughts and floods). This fluctuation of the hydrological cycle could reduce the ability of the biosphere to absorb carbon. Restoring the hydrological cycle (and investing in water) is a condition for sustainable development and climate resilience.

³ A precipitationshed can be considered the “watershed of the sky” and identifies the origin of precipitation falling in a given region

⁴ TrackFin (Tracking Financing to WASH) is a methodology to identify and track financing to the WASH sector at the national or sub-national level in a consistent and comparable manner. The tool produces WASH accounts which can be used by governments for national benchmarking, cross-country comparisons and to provide an evidence base to better plan, finance, manage and monitor WASH services and systems.

⁵ Ercin A.E., Chico D. and Chapagain A.K. (2016) Dependencies of Europe's economy on other parts of the world in terms of water resources, Horizon2020 - IMPREX project, Technical Report D12.1, Water Footprint Network

⁶ The Living Planet Index (LPI) is a measure of the state of the world's biological diversity based on population trends of vertebrate species from terrestrial, freshwater and marine habitats.

put clear targets for the restoration of the hydrological cycle at the global level, and freshwater ecosystems at regional level.

The question of **intergenerational equity** in relation to roles and responsibilities in the degradation and the restoration of the hydrological cycle should also be included in the debate.

Session 2 – How to define development, in relation to the planetary boundary on freshwater?

Restoring the hydrological cycle requires new perspectives for development, aligned with the ambition to restore a safe operating space for our communities and economies. Session 2 explored alternative development pathways, which consider water as an organising principle. It also discussed how to trigger a paradigm shift for water, tackling the challenge of development within planetary boundaries and closing the gap between the values of water and the valuations we ascribe to it.

Indigenous communities recognise that water is at the heart of our lives (and economies) and point to the need to shift from an extractive to a regenerative approach to water resources. They consider that water is alive, cannot be possessed and is an entity with its own rights. Concretely, this could entail developing legal frameworks to protect water resources, as several countries already do. A representative of Indigenous communities pointed out that damage to water resources is mainly the responsibility of countries of the North, while countries of the South are more vulnerable to their degradation, particularly indigenous communities which are protecting natural resources. There is some value to include responsibilities of the Global North and multinational companies in the debates on financing water.

To tackle the challenge of development within planetary boundaries, water should be considered as a connector (not a sector). Restoring the hydrological cycle to a safe and just operating space is part of the solutions to multiple crises: climate change, food security and energy security, biodiversity loss... This is yet to be acknowledged by the international community, particularly governments, economists and investors. Transformation will require a rethink of the economy, the political economy and political ecology. The enabling environment is particularly important, as there are many perverse incentives to over-consume water, for instance to deliver food security; poorly designed and mistargeted subsidies need to be phased out.

Investors have a role to play in unpacking the water value chain. To attract investments and allocate each risk to the right capital, a range of financial instruments (equity, grants, guarantees, concessional loans) can be combined into a variety of financing structures at different stages of the value chain, e.g.: project-based (SPVs), direct equity / debt funds, fund-of-funds, structured financed vehicles, on-lending. For instance, the Green Climate Fund (GCF) intends to shape markets in favour of climate and water goals, as it is positioned as a risk taker in the climate finance landscape. Mobilising investments by strengthening domestic capital markets and climate financing institutions, the fund includes a paradigm shift potential (degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment) among its investment criteria.

Innovative practices could allow to implement the new paradigm for water at the local level, combining multiple benefits and proving robust to shifting conditions. Natural farming⁷, as implemented in the drought-prone regions of Andhra Pradesh, is a concrete example of how to implement a new paradigm for water: harnessing

⁷ Natural farming: holistic land management that leverages the power of photosynthesis in plants to close the carbon cycle, build soil health crop resilience, nutrition, density and enable water availability.

water from the air and from the soil, to help arid soils produce more in harmony with nature and offering smallholder farmer decent livelihoods. The method of natural farming also contributes to the fight against climate change, improving the resilience of land. These benefits enable governments to invest to reduce subsidies on fertilizers and water pumping.

Session 3 – Equity in financing water: enhancing access to finance for water

There is a concern that several financing mechanisms exacerbate inequalities and unfair exposure and vulnerability to water risks. Session 3 explored options to redress these inequalities, increasing access to credit to poor households, marginalised communities, and local authorities.

Human rights to water supply and sanitation should be at the centre of the debate on enhancing access to finance for water, as well as the potential transformative role of the judiciary. The human right to safe WASH has been recognised by the UN and its members as part of binding international law since 2010. States have the obligation to use the maximum available resources to comply with this law. Yet, international law does not always filter down to the regional, national or local levels. Indeed, 2.1 billion people are lacking access to safely managed water and 4.5 billion people are lacking access to sanitation. Legal frameworks for water should be strengthened, including for access to WASH but also to develop accountability from multinational companies polluting and damaging natural resources in developing countries. Legal frameworks could also recognise and protect the rights of people (including indigenous communities) living around strategic water sources and deserving priority investments if they lack access to safe WASH.

Defining, measuring and monitoring WASH affordability is key as affordability is one of the normative criteria of the human rights to access to safe WASH. Currently, there is no global monitoring of the WASH affordability and there is limited, if any, national monitoring of affordability in low- and middle-income countries. Many countries do have policies in place, but not quite half have targets for affordability. About two third do not have financial schemes for affordability that are widely implemented. Countries' policy responses to addresses affordability include tariffs structures, subsidised loans, general welfare payment, or vouchers. Questions on the measurement of affordability include how to account for non-financial costs, households not consuming the minimum level of service, or what is the threshold. Several concrete proposals were made on affordability during the session: *i)* to launch a global monitoring of affordability to access to WASH; *ii)* to undertake national affordability assessment, triangulating different data sources and making policy recommendations; and *iii)* to initiate cross-sectoral conversations on interpreting affordability.

Innovative financial structures can grant access to capital markets to low-income households and underserved communities. Access to finance to local government, non-sovereign entities, and regional transboundary entities, like river basin organisations, is critical because they are often at the forefront to provide access to water-related services down to the local level. Water Equity, the first asset manager focusing on affordable WASH, created by Water.org, developed innovative financial mechanisms (including credit enhancement mechanisms) to grant access to capital markets to households, SMEs, community-based organisations for WASH facilities at scale. It also provides capacity building and technical assistance to utilities, such as marketing campaigns.

A more efficient use of public finance could also improve access to finance for water. Indeed, many governments do not disburse their budget for water on time. In addition, the majority of public subsidies go to the top 20% or the better off. People who need public subsidies are not receiving them. A better distribution of public subsidies for water would be key. Finally, DFIs could put more effort in leveraging private capital and avoiding

competition with the private sector, through enhanced risk mitigating investment / credit enhancement structures, provided this is compatible with their balance sheet requirements.

Session 4 – Changing finance for water: the role of development finance

Discussions in recent international fora (G20, COP 27 on climate, COP 15 on biodiversity) highlighted the limits of the current international architecture for development finance and have called for a restructuring of the Bretton Woods institutions. On-going discussions on the reform of the global financial architecture are relevant for water finance. The water community would benefit from engaging in these issues.

Redirecting and reprioritising public finance could be an important source of funding for water, including via the leveraging of annual recurrent subsidies from governments. The challenges of financing water have more to do with the quality of finance available for water (and the mismatch between supply and demand) than with the lack of finance. Indeed, there is a significant amount of distorted and regressive subsidies, coming from the failure to value or price water appropriately, and encouraging water consumption and pollution instead of discouraging it. Governments could secure a certain amount of subsidies for the water sector each year, to reduce investment costs and give more comfort to investors from the capital market (cheaper rates). The MDBs could guarantee the commitment of governments to provide these annual recurrent subsidies for water, providing a partial risk guarantee.

Several additional **concrete propositions were made on the international financial architecture** during the session: *i)* Multilateral development banks could pay more attention to financing global public goods, including the stabilisation of the hydrological cycle to a safe and just operating space, while regional and national development banks could focus on regional and local projects. *ii)* The IMF could issue new SDRs for resilience and water; these new SDRs would not reflect countries' quota (which results in G20 countries being granted the bulk of issuances, and African countries around 5%) but the vulnerability of countries to climate and water or countries' level of ambition for climate and water. *iii)* The IMF could also issue SDRs and put them into a guarantee fund, in order to give access to capital markets to vulnerable countries (will go from 7 to 3% interest rate a year, the profit could be invested in water). *iv)* Many countries of the Global South are facing constraints to finance water due to their debt ceilings (70% of GDP), and budget deficit ceilings (3% of GDP). Debt-for-water swap could be implemented, contributing to financing water while addressing high-level of sovereign debt of emerging economies. *v)* Whenever a country is making an investment that has a positive impact on the hydrological cycle globally, that project could be able to access very concessional finance, or even grant financing. This principle could be applied for water and climate, even if a country is not poor (e.g., South Africa, Namibia, Botswana that have high GDP per capita). *vi)* Loans of public development banks could be conditional on all sectors treating water as seriously as climate. It would help to put water security at the same level as climate change in international negotiations. MDBs would have a big role to play to achieve this objective, and more importantly their shareholders (countries). *vii)* The World Bank will launch and pilot-test multi-stakeholder platforms (MSP) to support water-related reforms in countries, involving governments (ministries of water, economy, and finance), the private sector (commercial banks and private operators), citizens and MDBs. The idea is to take a comprehensive approach, not focusing on WSS only but taking into account other water-intensive sectors (industry, agriculture, energy...).

National development banks represent an untapped potential for the water sector. Many of them do not have the mandate nor the expertise to invest in water. This is partly due to the poor financial performance of stakeholders in the sector. To try to unfold this untapped potential, the [Water Finance Coalition](#) – a global coalition of public development banks working on water finance – is providing technical assistance to national development banks to include the water sector in their strategies and portfolios. They started a pilot with three of them in Africa, in Asia and in Latin America (using a coaching approach).

Session 5 – Changing finance for water: driving the behaviour of corporates and financiers

Financial institutions and regulators are increasingly aware of the financial materiality of climate and nature risks. A similar awareness about water is nascent and should be encouraged.

Evidence suggests that private sector disclosure of comparable and consistent information on exposure and vulnerability to water risks can change corporate behaviour. Indeed, companies that have been consistently disclosing to CDP over the past years are taking steps to align their actions with water security objectives, including (among others): i) mapping and reporting the revenues at risk per river basin, ii) establishing targets on WASH, pollution and withdrawals and tie these into corporate governance mechanisms, such as CEO remuneration, and iii) integrating water expectations into supply chain contracts and reward suppliers for their pursuit of better water stewardship. As for the financial institutions, they are starting to act. 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%. There is a considerable variation in the level of disclosure requirements across jurisdictions, and gaps in the definition and accessibility of the information disclosed, which need to be addressed. In their current form, the water reporting provisions make it difficult, if not impossible, for markets to price-in water-related impacts and risks; and hinder the consideration of an entity's impact on society and the environment in financial decisions.

There is an urgent need for new and improved regulation from Central Banks to enhance to role of the financial system to manage water-related risks. Water-related disclosure of financial institutions is very limited. With the support of the Dutch Government, and support from WFN and Mercer, CDP has invited 1,200 publicly listed financial institutions to disclose portfolio-related water risks and impacts for this first time last year. Preliminary results indicate that, while financial institutions' awareness is low, risks are not insignificant. The Central Bank of the Netherlands (DNB) started to study the flood risks in the country from a financial stability perspective. Initial results are showing that there are implications for the financial systems (including credit risks), as evidenced by the overlap between the distribution of houses, loans and flood risks. The experience of DNB showed that there was information on flood risk, but data was missing to assess exposure and work was needed to generate data on stress. More generally, there are data gaps on exposure and vulnerability to water-related risks and their financial impacts. Central banks have a role to play as supervisors and regulators to understand micro and macro prudential risks and develop tools and stress testing. The Network for Greening the Financial System (NGFS), a network of 66 central banks, has pledged to mobilise financial institutions to look beyond carbon and consider wider environmental issues, stating last year that damage to nature and biodiversity pose a financial stability risk. The water community could work with the NGFS to integrate water in into its agenda.

Water investment opportunities are also a key driver of the behaviour of corporates and financiers. The CEO Water Mandate launched in 2020 the Water Resilience Coalition, gathering commitments from corporates to achieve a net positive water impact by 2050, particularly in water-stressed basins. By 2030, they are targeting 100 stressed basins, focusing on new solutions (including circular economy, digitization...).

The water community should get involved further in discussions around green bonds, taxonomies and carbon credits. The case of the San Francisco Green Bond programme (integrating water criteria) showed that better disclosure can lead to bond savings in the millions. Indeed, improved disclosure was released ahead of green bond launch, which was oversubscribed, saving 3 or 4 basis points.

Session 6 – Towards a transformative agenda on financing water

The outcome of the UN 2023 Water Conference will be the [Water Action Agenda](#), which will include transformative commitments from across sectors and actors. Session 6 aimed to draw the threads together and contribute a finance perspective to the Water Action Agenda.

In order to bring the financial sector into this effort, CDP, the OECD and the Water Footprint Network (WFN), funded by the Dutch Government Valuing Water Initiative, worked on a first of its kind Finance Water Action Pathway, inspired by the Action Pathway for Climate Action. The idea is to showcase existing commitments and best practices within the financial sector and develop a clear vision and pathway for action on water among financial institutions. It lays the foundation of an action plan, with distinctive responsibilities for a range of stakeholders in the water and finance communities, and beyond. To achieve the Vision by 2030, key levers of change were identified, such as addressing the double materiality of water risks, engagement with policy makers & regulatory bodies, as well as system transformation tools & capacity building.

In addition to the Finance Water Action Pathway, **the finance and water communities are preparing announcements and commitments to be made during the Conference**, such as the first corporate co-investment led by the CEO Water Mandate, the launch of CDP's report on disclosure of publicly listed financial institutions, World Bank's strategy on Maximising Finance for Development, EIB's new Water Sector Orientation.

In order to **make the UN 2023 Water Conference a watershed moment for the world** and to ensure the Water Action Agenda triggers change at scale to achieve a water secure future, the water and finance communities could join forces in order to:

- Try to **make water high in the agenda of the G20** (at the same level of urgency as climate), which would increase the chances to trigger change at scale.
- Bring the countries that are voluntarist to push the water agenda under a **Just Water Partnership**, as the engagement of countries is key to support our efforts to achieve a water-secure future.
- Develop data platforms and analytical tools to **track progress of the commitments** for the Water Action Agenda and to **develop accountability** of actors who committed.

The UN Conference is the opportunity to really **raise the ambition on water**. The global community can deliver on high ambitions in relation to water, as new science can guide action, technologies are available, and finance is here to be channelled where it creates most value in line with the ambition of restoring the hydrological cycle.

Looking forward, the **Roundtable on Financing Water meetings** - including the 10th meeting focusing on Africa to take place around autumn 2023 - could provide opportunities to explore practical ways to deliver on and finance the commitments made at the March UN 2023 Water Conference.