SESSION NOTE

Financing Water-related Investment

30 October 2019, 14:00-15:30

The challenge of water security is global and growing. As populations, cities and economies develop, greater pressure is being placed on water resources and the exposure of people and assets to water risks are increasing. Further, as the climate changes, the frequency and severity of extreme climatic events are projected to increase.[1] Rising water stress and increasing supply variability, flooding, inadequate access to safe drinking water and sanitation, and higher levels of water pollution greatly expose communities and businesses to a variety of risks and costs, affecting economic growth.

The impacts of water insecurity can propagate through multiple channels, such as disruptions in industrial operations or supply chains, and can translate into a material financial risk for investors, negatively affecting the long-term value of their portfolios. Notably, a recent report from De Nederlandsche Bank (DNB), the Dutch central bank, warned that Dutch pension funds, insurers and banks have combined investments of EUR 97 billion exposed to risks related to water scarcity.[2]

While there is typically a strong economic case for investments that contribute to water security, this all too often fails to translate into a compelling financing case. The sector faces multiple market, policy and governance failures that hold back further investment. Water resources and water supply and sanitation services are usually under-valued and under-priced in most parts of the world – even where water is scarce and safe and reliable water services are lacking.[3] Further, many financial actors may be unaware of the financial risks related to water insecurity or the opportunities for investment.

Improving water security will require an unprecedented scaling up of financing for investments into the development and management of water resources and water services. Historically, public finance has played a central role in financing water investments and it is likely continue to do so well into the future. Yet, in light of the constraints on public finance and substantial investment needs, leveraging contributions from other sources of finance (in particular, domestic commercial finance) with different risk appetites will be needed in order to scale up investment.[4]

At the same time, recent developments are encouraging corporate and financial actors to more systematically account for the risks and potential opportunities related to water. For example, the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures

[1] Intergovernmental Panel on Climate Change (IPPC) (2014), "Climate Change 2014 Synthesis Report Summary for Policymakers", Intergovernmental Panel on Climate Change, www.ipcc.ch/pdf/assessment-report/ar5/syr/AR5_SYR_FINAL_SPM.pdf.

[2] De Nederlandsche Bank (2019), *Values at Risk? Sustainability risks and goals in the Dutch financial sector*.

[3] OECD (2018) Financing Water: Investing in Sustainable Growth, Policy Perspectives.

[4] OECD (2019) Making Blended Finance Work for Water and Sanitation: Unlocking Commercial Finance for SDG 6.

support the reporting of physical risks related to climate change, many of which concern impacts on water resources and exposure to water-related risks. Certain institutional investors have prepared guidance for companies in their portfolio to encourage them to integrate water-related risks into their strategic planning, risk management and reporting efforts. Sustainability-linked loans and funds, including those with a focus on water, are gaining traction.

This panel will explore two key, inter-related dimensions of the water financing challenge: (1) how to scale up financing flows to close the gap for water-related investments and (2) how the financial sector can better manage risks related to water insecurity and capitalise on opportunities to improve water security.