Roundtable 5- Financing

Top-line key messages:

Potential game changing ideas for interactive dialogues:

- Reframe the economic cost of the water crisis and cost of inaction to invest in water yield dividends
- 2. Reference set of **linkages of finance across sectors** climate/ carbon, food security, biodiversity— "all hands in" approach needed

Benefits:

- Access to credit
- Avoid future liabilities through finances and investment
- Refocus discussion from asking for more funding to making sure funds are invested in a smart way and disbursed in a way that supports the SDGs

Catalyzing ideas:

- Rules and regulations for SDG6 aligned financing
- Roles and models for public and private activities and partnerships
- Making investment in nature-based solutions a priority
- Financial innovation and institutional reform for water, leverage private finance
- Investment in strengthening the enabling environment
- Redefine roles of Multi-lateral Development Banks (MDBs)

Source: High-Level Summary of Stakeholder Dialogue of the Preparatory Meeting for the UN 2023 Water Conference

16:15-17:40 Roundtable 5. On Financing: Conference Room 2

- Private public financing models
- Business case for investment in sustainable water and climate solutions

Moderator: Ms. Anna Dupont (OECD)

Key speakers:

- Mr. Jason Morrison (Head, UN Global Compact CEO Water Mandate)
- Mr. Sudipto Sarkar (interim Manager of the 2030 Water Resources Group WB)
- Mr. Jeff Seabright (Founder IMAGINE, Netpositive) virtual participation
- Mr. Matthias Berninger (EVP BAYER)

Rapporteur: Ms. Kelly Ann Naylor (senior water consultant)

Summary of the Roundtable Discussion

The fifth Roundtable focused on the final accelerator of the UN-Water SDG6 Global Acceleration Framework: *Financing*. The moderator, **Ms. Anna Dupont** (OECD), opened the session with the perspective that the discourse on financing water is changing. First, the economic case for water management has been established, positioning water as a solution to the multiple crises and water security as a condition for sustainable development. Second, she highlighted that the global dialogue, policies and initiatives on climate action and sustainable financing are growing more urgent and intensive, and that there is increasing recognition of the linkages to water. However, while promising, such developments also face limitations, uncertainties, and ambiguities.

Financing is still mostly planned, targeted, and disbursed based on principles from the last century and water arrangements rest upon the invalid assumptions that water supply is relatively stable, predictable, and can be managed locally. Yet, the water crisis is global and there is evidence that the water cycle is changing.

She stated that the objective of the Roundtable is to hear from the global community, with marginalized voices at the table and emphasized that the aim of the session was to crystalize "key starting points" for the game changers on financing and harvest initiatives for change that will be delivered as part of the Water Action Agenda at the UN 2023 Water Conference in March.

Orientation inputs from Key Speakers

Four speakers shared their perspectives on the nature of the financing challenges for water and offered catalyzing ideas alongside concrete examples of game changers and promising initiatives.

Mr. Jason Morrison, the Head of UN Global Compact CEO Water Mandate, expressed that there is close alignment between the SDG6 Global Acceleration Framework and the corporate water stewardship paradigm and role that the business community can play to support progress on water. He shared three tangible game changers being done now by the leading companies in the Water Resilience Coalition, which is a CEO-led initiative committed to reducing water stress by 2050 through collective action in water-stressed basins. The first is an ambitious commitment to reach "net positive water impact" in water-stressed basins where they operate, defined as water quantity, quality, and accessibility for vulnerable communities through operations, supply chains as well as "outside the factory fence" working with local partners on basin-wide initiatives. The second game-changer is "collective positive impact", with a commitment to "net positive water impact" in 100 water-stressed basins by 2030 that will be achieved through co-financing and transparent, real-time monitoring and tracking of progress that will be posted on an open-source platform. And third, the Coalition will soon announce its first financing instrument valued at \$150m to provide WASH access for communities inside the basins. He emphasized that this is an "all hands-on deck" situation, and that there is ability to scale this initiative to more companies.

Mr. Sudipto Sarkar, the Interim Manager of the 2030 Water Resources Group in the World Bank, explained that the water crisis largely is an economic crisis, and that if the water crisis is not handled properly, it will affect the economic development of countries- impacting human capital, diminishing food and energy security, and making countries more vulnerable to climate change. The economic costs of inaction need to be communicated to Ministers of Finance and the Economy, not only to Ministers of Water. Secondly, he highlighted the need to maximize finance for development – both public and private. From the public side, the needs are large, and resources are limited, so there is a need to prioritize, support vulnerable groups, and improve the governance of the sector. The private sector can complement the role of the public sector, but there are barriers. Private sector will need to step up to bring solutions and work with public sector to overcome barriers. The World Bank is working on a paper, "Maximizing finance for development." And finally, there is a need to have a greater voice on linking climate adaptation to investment in water. Climate financing can be used to de-risk investments in water as a "game-changer", and there is a need to try this in a few countries to demonstrate it in practice.

Mr. Matthias Berninger, the Senior Vice President of Public Affairs, Science and Sustainability at BAYER, started his intervention by sharing the concept from "*More from Less*" (McAfee, 2019) that big change can happen when four forces move together in the same direction: capital, innovation, regulation, and participation. He mentioned rice production as an example of a potential area where this could be tried – combining financing instruments to reduce water use and carbon emissions. He emphasized the need for combining and not competing across sectors, while making sure water is included in all sector plans. Investments in forests is another example, where those who invest in nature conservation, compensation for emissions, and long-term water supply can all pull together in the same direction to have an integrated outcome and positive impact. Public finance is under huge pressure from the pandemic and hunger crisis

related to the Russia-Ukraine war, so there is a critical need to combine water with food security and hunger discussions and other areas like carbon removal. He insisted that rather than competing, it is necessary for other key areas to think about water when designing their programs.

Mr. Jeff Seabright, the Founder of IMAGINE, Netpositive, highlighted that there is a huge financing gap across all SDGs, not just water, and that the financing gap for water is not only infrastructure, but also in decentralized and nature-based solutions. For his first game changer, he reinforced the need to link the climate resilience and adaptation agenda more tightly to the water agenda. He referenced the commitment made at COP26 to double the resilience and climate adaptation funding from \$20b to \$40b per year by 2025, which should increase flows to the water sector. Second, he mentioned that blended finance can crowd in private capital with concessional financing to drive the investment that is needed. He noted that more companies are getting involved not as corporate social responsibility, but because water is material to their business. He stressed the need to engage businesses in the problem-solving agenda for blended finance. There are different manifestations of blended financing and there are many tools such as guarantees, insurance, off-take agreements, local currency mobilization or hedging, aggregation of small investments. He announced that a global blended finance alliance will be launched at the G20 in Bali, which can be an opportunity for water investment to be more systematically considered in *Financing for Development* initiatives.

Dialogue with Stakeholders

In the second part of the Roundtable discussion, the floor was opened for interventions from stakeholders both in-person and virtually. Time permitted for 13 interventions from a diverse range of stakeholders representing financing institutions and funds, non-governmental organizations and networks, women, trade unions, business, utility operators, UN entities, and academic institutions.

Several stakeholders provided perspectives on the nature of the water and sanitation financing challenges and risks.

Many stakeholders highlighted the <u>large-scale and urgent need</u> for increased investment in the water and sanitation sector to meet the water-related targets of the SDGs and other important global agreements like the Paris Accords. Many noted that with climate changes affecting the water cycle, the risks of not investing in water are immense, with dire consequences for people, societies, economies, and the environment.

Water investments currently account for a very limited portion of the total available global capital. Several stakeholders highlighted that there are <u>significant barriers and constraints to investing</u> in the water and sanitation sector for both public and private sector, inaccurate perceptions of risks, and that key data are missing. Another mentioned that the current way the finance sector approaches water is overly administrative, projectized at country-level, and lacks a long-term planning perspective.

Often investments made in projects by <u>other sectors do not adequately account</u> for their potential adverse impacts on water by increasing water demand, reducing water quality, or degrading eco-systems. Other stakeholders noted that some existing investments are ineffective and poorly targeted, <u>overlooking critical areas</u> like river basins, wetlands, densely populated coastal zones. and nature-based solutions that lack access to capital financial markets, and <u>not reaching those in greatest need</u>, furthering inequalities. One stakeholder mentioned the need to look critically at the economic models and challenge the assumptions and risks of the current and proposed approaches.

Stakeholders provided orientations and shared catalyzing ideas on how to close the financing gap for different elements of the water and sanitation sector.

The need to strengthen the <u>linkages of finance across sectors</u>—climate/ carbon, food security, biodiversity was frequently mentioned by stakeholders as a major "game changer". One stakeholder specifically mentioned that water is to adaptation as energy is to mitigation and another stressed the importance of

linking the implementation of National Adaptation Plans with integrated water resources management. One stakeholder emphasized need for assistance to engage with sectors such as agriculture and mining.

Many interventions highlighted the central importance of <u>strengthening the enabling environment</u> and increased political will¹ to make the water and sanitation sector more attractive for investments and a priority lending sector. There was a call to reform policy and financial architecture to facilitate and provide incentives for sustainable water cooperation. Stakeholders shared some specific examples including joint, multi-sectoral development and investment plans at basin level.

Several stakeholders offered suggestions on <u>new ways of thinking and concepts</u> that will be required to make investment in water more viable. Stakeholders claimed a more diverse range of financing instruments could be used. One intervention recommended to change the discourse by using a broader definition of the "value of water", to invest in mapping out fiscal and other systems, and to develop a set of financing principles based on water risk information to ensure positive trade-offs for water-related policy targets and the funding of projects that contribute to water security. The concepts of "virtual water" or "water footprint" were identified as tools that could be useful to build a bridge between where water is used and where it is consumed. Another stakeholder recommended to treat water as a new asset class for water reuse and sanitation aligned with ESG impacts, Paris Climate Accord, and contribute to SDGs acceleration. It was mentioned that solutions need to consider a "source to sea" and "sea to source" paradigm.

New partnership models and roles of key actors were mentioned by several stakeholders as essential elements to mobilizing new, additional sources of financing and using existing financing more effectively, in a way that articulate sustainability, justice and equity. Another stakeholder mentioned that governments need to be more proactive in engaging with local lending providers while CSOs are promoting behavior change to support households to invest in more sustainable sanitation outcomes. Many stakeholders mentioned the need for concrete solutions to overcome barriers for private sector partnerships and blended finance models to leverage private capital, and another called for increased focus on quality public-public partnerships. Partnerships between IFIs were noted as being crucial to detect finance gaps and address market failures. Several stakeholders highlighted the need for more inclusive platforms to make sure that those affected by water investments are involved in decision-making and that all knowledge systems, including indigenous, are taken into consideration.

Stakeholders pointed out several <u>areas that need greater attention and action</u>, notably addressing sustainable financing solutions for water and sanitation access in conflict-affected, fragile, and other humanitarian settings that are most vulnerable and off-track on SDGs. It was also emphasized to make sure that water and sanitation finance is gender-responsive using benefits sharing protocols, and targeted to achieve equitable outcomes, leaving no one behind. It was stressed that making investments in nature-based solutions is a priority.

Some stakeholders mentioned promising new initiatives that are underway.

Two stakeholders shared information about a new joint initiative on <u>Blue Peace Bonds</u>, which builds on recommendations from the Global High-level Commission on Water and Peace, to use water cooperation and Blue Peace Bonds to access capital for non-sovereign entities like local governments and river basin organizations. This approach is being tested by a group of partners in the Gambia River Basin.

Another stakeholder highlighted that <u>access to credit</u> is a bold game-changer and shared an update on efforts underway to build a global capital market that accelerates universal access to water and sanitation through lending for household level access to water supply and sanitation and a <u>Water Equity Fund</u> that invests in water infrastructure in emerging markets. The main groups reached are women living in poverty and repay loans on time with a very high success rate.

¹ A comment heard in the plenary aptly stressed that political will is ineffective in the absence of some form of societal will, the real driver for change.

Several interventions stressed the importance of supporting platforms that facilitate exchange of expertise and learning. A <u>Water Finance Coalition</u> has been established to specially target public finance and development banks to finance more water projects world-wide. It was also noted that <u>water operator networks</u> are also active and effective in sharing resources between utilities on financing including, for example, on how to claim carbon credits.

Stakeholders are already preparing commitments on Financing for the Water Action Agenda

Finally, several stakeholders mentioned that their organizations are already preparing new financing instruments and initiatives that will be launched as part of the Water Action Agenda at the UN 2023 Water Conference in March next year.

A pending question remains about <u>how to scale-up what works</u>: while initiatives abound, from public authorities (national and local), development banks, corporates, or civil society organizations, up-scaling and deployment at scale remain an issue when the enabling conditions are not in place.

Wrap-up and Conclusion

The session was wrapped up by the moderator with a final round of reflections from the key speakers. Overall, the speakers reflected that they were encouraged and optimistic from the discussion after hearing that already several "game changing" proposals are being developed, including concrete examples of some initiatives that are already underway.

This is a critical moment in time with the convergence of the urgency of the water crisis and climate disruption, and with the opportunity offered by the UN 2023 Water Conference to set a new course towards 2030. As time, funding and execution are all below required levels at the mid-point of the SDGs, meeting the water and sanitation targets and the related financing challenge will require an "all hands on-deck" approach.

The various stakeholder interventions noted that there is a role for both public and for private sector investment in water, but it will be important to get the roles right – specifically the critical role of the public sector in putting in place a favorable enabling environment. The interventions were largely hopeful that it will be possible to work together for a common solution, based on mutual accountability and understanding that a whole of government and whole of society approach will be required. It will be important to be honest about where the deficiencies have been, and necessary to continue to work out the models and creative mechanisms whereby exposure and vulnerability to water risks are mitigated at scale.

The moderator thanked the key speakers and stakeholders for the thought-provoking discussion on water Financing and informed that the conversation will continue over the coming months and in the next meeting of the Roundtable on Financing Water, 7-9 February 2023 in Geneva (for more information on the Roundtable, please visit https://www.oecd.org/water/roundtable-on-financing-water.htm).

List of Stakeholder Organizations that contributed to the Roundtable on Financing

Interventions made during Roundtable 5:

- European Investment Bank
- Green Climate Fund- GCF
- Agua Global
- UNCDF
- Geneva Water Hub
- Caribbean Water and Sewerage Association (CAWASA)
- Global Water Partnership
- Asociación Colectivo Mujeres al Derecho
- Thomas Schumann Capital
- Water.org
- UNEP
- World Vision
- Public Services International

Statements submitted in writing and available on the website link – Roundtable 5:

- Thomas Schumann Capital
- Trade Union Federation Public Services International
- Agua Global
- Colectivo Mujeres al Derecho
- Danone and Water Equity
- Geneva Water Hub
- Global Climate Fund
- Global Water Partnership
- Water Operators' Partnerships in the Caribbean
- Water.org
- World Vision