

An Investor Guide on Basin Water Security Engagement: Aligning with SDG 6

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Executive summary

The exceedance of local, regional or planetary boundaries (Steffen et al. 2015) due to the lack of action to protect and sustainably manage natural resources, such as water, can pose a great threat to our economy and society. Globally, the severity of droughts, floods and other water-related risks is gaining attention from policymakers, businesses, civil society organisations and investors. The 2020 Global Risk Report authored by the World Economic Forum (WEF) lists water crises¹ as one of the top risk in terms of impact (WEF, 2020). While water-related risk are being recognised by many investors, not many investors take into account the effects of their investment and financing decisions on water quantity and quality in the longer term or engage actively with investee companies. Investors have the possibility to play an active role in contributing to solving the water crisis at scale.

Water is highly ranked within the United Nations (UN) 2030 Agenda for Sustainable Development, with a dedicated Sustainable Development Goal (SDG) 6 and several other multilateral environmental agreements focusing on water. Solving water-related problems means that several of the SDGs are addressed. However, due to the complexity of water-related issues, the tools, approaches and resources available are not yet sufficiently developed to engage the private sector in aligning with such goals (South Pole, 2018).

There are many responsible investment strategies, such as exclusion, best in class or environmental, social and governance (ESG) integration. As engagement is one of the most effective strategies to influence investees, this guide focuses on how institutional investors can have a positive impact on basin water security by engaging with their investees. It is aimed at investors, asset owners and asset managers across various asset classes who want to understand how engagement on water can be effective. It is designed as a practical step-by-step framework with case studies and resources such as tools, methodologies and data sources.

This guide offers investors:

- **a definition and common principles** to which investors should adhere in order to be aligned with basin water security and ultimately SDG 6;
- **a reference framework**, ‘understand-design-act’, for engaging with investees, focused on positively impacting basin water security; and
- **additional tools and resources** to use for engagement with investees on water-related issues.

Other responsible investment strategies are not considered in this guide. It is, however, recommended that the engagement strategy is complemented by an investment strategy that builds on the approach and recommendations in this guide.

The guide focuses on how investors can engage with investees to achieve SDG 6 through basin water security. However, water is a shared resource and investors and companies cannot achieve these targets on their own. 60% of freshwater flows come from transboundary rivers, therefore achieving SDG 6 requires collaboration between policymakers, scientific and technical experts, NGOs as well as local communities.

Advanced investors catalyse positive impact on shared water resources

The climate crisis is also a water crisis.

- Globally, 90% of **all natural disasters are water-related**. The water crisis and associated risks are expected to accelerate due to climate change, increased demand for freshwater as well as population and income growth; the effects will be felt by civil society, private companies and investors alike.
- **Water risks are strongly interlinked with other environmental risks**. If water risks are not addressed properly, climate and biodiversity risks could accelerate. Therefore, addressing water risks helps to mitigate biodiversity risks and achieve the goals of the Paris Agreement as well as the Convention on Biological Diversity (CBD).²

The water crisis is financially material.

- **Entire industries are highly dependent on large quantities or high-quality water** – disruption to freshwater resources can put investments in these industries at risk. “The food, textile, energy, industrial, chemicals, pharmaceuticals and mining sectors account for and wield influence over 70% of the world’s freshwater use and pollution” (CDP, 2019).
- Even though 76% of companies report being threatened by physical water risks, these companies continue to exploit local water resources (CDP, 2019).
- In 2018, **financial losses of USD 38.5 billion were experienced** by companies reporting to CDP (2019) due to water-related risks.
- Subsequently, **water risks are manifesting as financially material for a wide range of asset classes**. All types of institutional investors, irrespective of size, as well as asset managers, pension funds and even sovereign wealth funds, may be exposed to water risks through their investees (UNPRI, 2018b, Ceres, 2015).

¹ Defined as “a significant decline in the available quality and quantity of fresh water, resulting in harmful effects on human health and/or economic activity” by the WEF (2020).

² CBD is dedicated to sustainable development by pursuing the conservation of biological diversity, the sustainable use of the components of biological diversity as well as the fair and equitable sharing of the benefits arising out of the utilization of genetic resources. By 2020, CBD has been signed by 196 parties.



Contribute to solving the water crisis and drive financial performance through engagement.

- Engagement is argued by many to be the most effective way to catalyse change in companies' behaviour (Kölbel, Heeb, Paetzold & Busch, 2018).
- Triggering and accelerating meaningful, investee-driven change to protect local water resources through sustainable business models is key for addressing the water crisis, while enhancing the performance of companies.
- In addition, engagement also helps investors to obtain pertinent information on a company's water risks and stewardship beyond public disclosure, reducing the water risks to which investors are exposed and creating new opportunities for investees.

Definition of basin water security

This guide suggests a definition for basin³ water security that consolidates the ambitions and definitions of leading water initiatives⁴ and integrates them within an all-encompassing definition. Focusing on basin water security goes far beyond encouraging investees to be more water-efficient. It prompts investees to look beyond their fence line to analyse how they can make a long-term and positive contribution to the security of water basins. Basin water security in this guide refers to: ***fostering sustainable water quantity and quality of freshwater resources for all users in a water basin in the long-term.***

Who is this guide for?

This guide on engaging on basin water security is principally intended for investors, who want to be **catalysts for change.**

Whether an investor is at the very beginning of the journey towards reaching basin water security and wants to start engaging with investees on water management, or already has some experience with water-related engagement but wants to further accelerate the impact, this guide is relevant. The overarching aim of this guide is to support the financial sector in recognising and acting on basin water security to create positive impact, and to:

- activate investors to engage with their investees on basin water security;
- provide recommendations on how basin water security can be integrated into an engagement strategy to positively impact water management and ultimately contribute to achieving SDG 6 and solving the world's water crisis; and
- highlight case studies from selected investors already engaging in water-related issues and provide other resources for further reading.

³ Water basin refers to the geographical zone in which water is captured, flows through and eventually discharges at one or more points. The concept includes both surface water catchments and groundwater catchments (AWS, 2019).

⁴ SDG, AWS, CEOWM, CDP, Ceres

Practical guide on water engagement

The proposed ‘understand-design-act’ framework guides investors in the process of engaging investees on basin water security. It focuses on creating a positive impact through a comprehensive engagement approach.

While all three stages build on one another, each stage can also be integrated within an existing engagement strategy in an isolated manner. As an investor with an existing water engagement strategy, investors may only want to deep dive into the more advanced ‘act’ stage. Investors just getting started on water engagement, however, may find it useful to go through all three stages.



Understand

- Step 1:** Understand basin water security
- Step 2:** Identify high risk industries
- Step 3:** Identify laggards within those industries

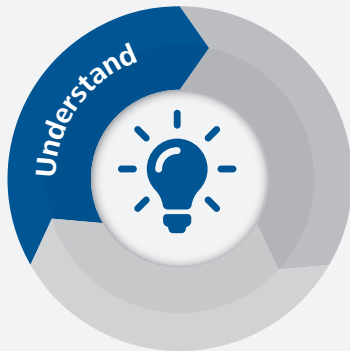
Design

- Step 4:** Commit to fostering basin water security in the engagement policy
- Step 5:** Develop the best-suited engagement strategy
- Step 6:** Define meaningful metrics and targets

Act

- Step 7:** Engage with investees
- Step 8:** Define priority basins with investees
- Step 9:** Measure impact and integrate lessons learnt
- Step 10:** Engage with investor networks

Understand



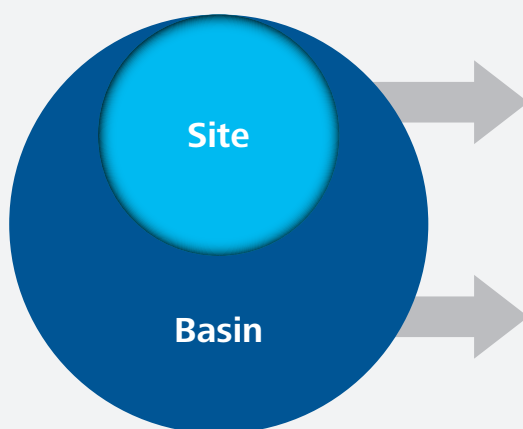
Steps

1. Understand basin water security
2. Identify high risk industries
3. Identify low and moderate performers within those industries

Step 1: Understand basin water security

Company water risks are a combination of both site water management factors and external water basin factors. For example, even if a company is highly water efficient (site-level water management), it may still run into costly operational interruptions if the basin experiences regional groundwater or surface water shortages (external basin risk factors). While most companies have site-level efficiency measures in place, they

hardly address the root causes of the water crisis at the basin level. As a corporate water steward, this is a critical shift – moving from conventional site water management to contributing to basin water security through proactive measures. A responsible investor understands this and further enables this shift. These types of actions that are focused on addressing shared water challenges and driving action on a local level informed by the context of the basin contribute to SDG 6.



Investors' conventional water engagement

- Focusing on water policy-setting, risk mitigation and site water efficiency

Investors' new state-of-the-art engagement

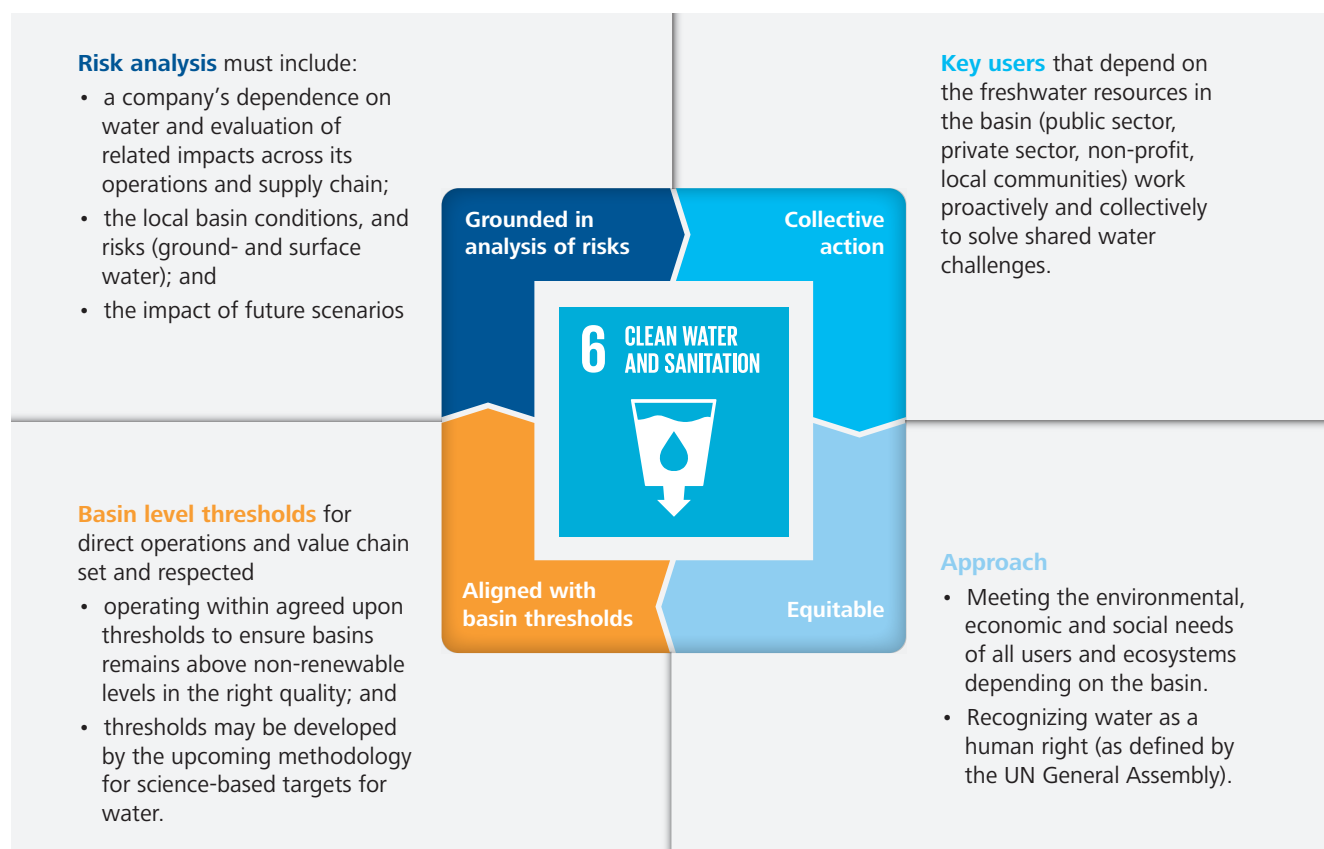
- Focusing on root causes of water risks
- Improving the state of water resources in a basin – striving towards basin water security
- Sustainably reducing water risks for investees and aligning with SDG 6 by addressing basin water risks

The definition and the four principles of basin water security are fully aligned with [SDG 6](#) and its targets. In order to achieve basin water security, companies need to fully align with the four key principles listed below. They form the basis for understanding

basin water security. The corresponding information should be disclosed transparently by the investees in ways that are impact-oriented and measurable.

“Fostering sustainable water quantity and quality of freshwater resources for all users in a water basin in the long-term.”

The definition of basin water security



Four principles of basin water security

Step 2: Identify high-risk industries

Beginning to identify the high-risk industries that are exposed to material water risks, and the [low and moderate performers within those industries](#), is recommended in order to start engaging with them. These companies will be more willing to act as they are facing material water risks. Furthermore, they will achieve a greater positive impact as they are currently low and moderate performers.

Corporate water risks consist of a combination of a company’s operational water risks, basin water risks and water management response.

- **Operational water risks** are inherent to the nature of a business and related to the dependency on water.
- **Basin water risks** include physical (such as water stress or floods), reputational and regulatory (or political) risks, and relate to the hydrological context of where companies and other water users tap into the same resources.
- **Water management response** refers to how a company manages and mitigates those risks.

While all companies may be exposed to water risks, some industries are more prone than others, due to their water dependency and geographic distribution. Industries that require a lot of water to produce their products may be more exposed

to water risks and should be prioritised because they have more leverage and incentive to act.

Identifying high-risk industries can be done in several ways. Industries that usually belong to the list of priority industries are companies with agricultural supply chains, and companies in the food and beverage, apparel, energy, mining and chemical and pharmaceutical sectors ([Alliance for Water Stewardship](#), [Interfaith Centre on Corporate Responsibility](#), [United Nations Principles for Responsible Investment](#), [ACTIAM](#), [CDP](#)). South Pole has developed a methodology that accounts for the materiality of physical water risks and the footprint and geographic location of industries. Other options for identifying high-risk industries include [CDP's sector summaries](#)⁵, [Ceres industry water risk database](#), [AWARE](#) and the [SASB Materiality Matrix](#).⁶ The Ceres industry water risk database builds on the water information from the SASB Materiality Matrix.

Step 3: Identify low and moderate performers within those industries

Once the investor has identified the priority industries, the next step is creating the target list. Investees that are exposed to water risks but have taken little to no action on water management pose a material risk. At the same time, these companies also present an opportunity for making a strong impact through engagement efforts. Therefore, the engagement should focus on

low and moderate performers to raise their performance to the level of their leading peers. Target companies should, however, demonstrate awareness and a willingness to take action on water-related topics. Companies that have high ESG ratings prior to engagement are more likely to comply with engagement requests (Source: Kölbel, Heeb, Paetzold & Busch, 2018).

The ideal investee to engage is a company that is aware of environmental sustainability issues but has not yet taken action specifically on water. The overall ESG performance of the company, as well as any actions that have been taken on water management, should be analysed. Useful tools for identifying whether companies have taken action on water include [CDP's water-related reports](#), sustainability reports and Ceres' '[Feeding Ourselves Thirsty Rating](#)' report for the food and beverage industry.

When developing an engagement strategy, it is also important to understand best practices and the potential solutions applied by competitors from the same industry to manage their water risks. It is also important to conduct a preliminary analysis to identify industry leaders and the water management programmes they have in place. A good resource for this type of in-depth information is the [CDP](#) questionnaires that industry leaders have responded to.



⁵ CDP publishes a [Global Water Report](#) on a yearly basis with the results of 783 of the world's largest publicly listed companies. The report highlights the companies' performance on different water indicators per sector.

⁶ For further analysis with regards to a broader economic perspective see: [ETHZ method for analysing global supply chains](#).

Design



Steps

4. Commit to fostering basin water security in the engagement policy
5. Develop a best-suited engagement strategy
6. Define meaningful metrics and targets

It is key for an investor to design a continuous, well-structured engagement strategy in order to move investees towards closing the basin water security gap. Successful engagements can increase the factor-adjusted performance of companies by 4.4%, while unsuccessful engagements do not lead to any measurable impact (Dimson et al., 2015). Such a structured engagement must start with a [strong commitment from the top of the organisation](#) and continue with the [right strategy](#) and [metrics to measure the impact](#) (Ceres, 2018).

Step 4: Commit to fostering basin water security in the engagement policy

Deciding to act on basin water security requires commitment from key decision-makers within the organisation. Water is only one of the key topics that investors are focusing on in their investment and engagement strategy, but it is important to be aware that the complexity of focused engagement on water requires significant resources. The commitment to basin water security should be integrated within an overall engagement policy that is closely aligned with the investment policy.

The communication of engagement goals and approach is key. External disclosure typically keeps investors committed, in part to protect the reputation and credibility, and clarifies expectations towards investees and other investors. Internal disclosure helps to establish basin water security within the organisation's culture and sends a message to all departments on its importance.

Investors can commit to water security by developing a public investment belief or policy statement that is committed to promoting basin water security. In addition, it is important to commit internal resources to implementing and tracking performance against this goal or policy. The commitment to foster basin water security should be signed by the organisation's senior management, be publicly disclosed and explicitly include⁷:

I _____ commit to basin water security by:

- fostering the sustainable quantity and quality of freshwater resources for all water users in the long term;
- actively engaging with investees to move towards basin water security and supporting them on their journey;
- upholding the four principles of basin water security (grounded in an analysis of risks, equity, alignment with basin thresholds and collective action); and
- engaging stakeholders openly and transparently.

⁷ For more inspiration, Ceres Investor Water Toolkit created a [database](#) of investment belief and policy statements focused on water.

Other key elements to include in the engagement policy to complement the basin water security commitment are:

- investment beliefs;
- expectations towards investees (also including other ESG themes);
- codes and principles that are being followed (such as the UN Principles for Responsible Investment [UNPRI] or the Task Force on Climate-related Financial Disclosure [TCFD] (2017));
- the type of engagement strategy applied; and
- asset classes covered (%).

The policy should be continuously monitored and updated to reflect the developments in trends in the water area. As this field is currently changing rapidly, it is necessary for investors to stay up to date.

Step 5: Develop the best-suited engagement strategy

While there are many different ways to engage on basin water security, such as through educational outreach or by convening summits, this guide focuses on direct engagement with investees to achieve the desired impact.

An engagement strategy can usually take one of two main forms, reactive or proactive (UNPRI, 2016). A reactive engagement strategy comes into play when an investee violates the responsible investment or water policy, or does not improve its water management. In this case, the investor might first try to have a dialogue with the company and, if rendered ineffective, decide to exclude the investee from the portfolio. A proactive engagement strategy, however, focuses on improving companies' ESG performance by ensuring basin water security. This guide focuses on a proactive multi-year engagement strategy. To achieve the desired positive impact, a multi-year engagement is necessary as it takes time for companies to improve and gradually increase their level of ambition.

When developing the engagement strategy targeted towards basin water security, there are some key topics to consider:

- **asset class:** whether investors hold bonds or equity affects the engagement strategy.⁸ In both cases, engagement towards basin water security can be successful;
 - **fixed income:** when engaging corporate bond issuers, it is important to emphasise the relationship between unmanaged water risks and potential downgrades in a company's credit rating. An investee's board or management should be convinced that responding positively to the engagement could mean more responsiveness from and attractiveness to other (sustainable) investors in the future;
 - **equity:** whether public or private equity, shareholders have more leverage and a greater number of instruments at hand when engaging with an investee. The benefits of

active ownership are countless and recommendations are given within this guide;

- **timing:** depending on the type of investment held, engagement with potential investee might be more purposeful prior to placing an investment or while already being invested;
- **ownership:** generally speaking, for equity investors, the higher the share, the higher the leverage. Whether investors own a small or large share, they should [consider collaborating with other investors](#);
- **length of engagement:** on average, milestones are achieved nearly one-and-a-half years after the initial engagement (Dimson et. al, 2015). Longer engagement horizons are preferable, as it allows for a dive deep into the investee's risks and can lead to real change in basin water security;
- **number of engagements:** the number of investees targeted by an investor depends on his intention, budget and resource availability. For an engagement focused on basin water security, which is time- and resource-intensive, the suggestion is to engage only a few companies at once; and
- **in-house or mandated:** some investors employ third-party advisors to conduct research and perform their proxy voting rights (for example [Sustainalytics](#) or [ISS](#)).

The main goal of the engagement is not to engage with a large number of investees, but to achieve long-lasting positive impact on a given water basin. As basin water security is quite complex and requires significant resources and time to achieve, the suggestion is to directly engage with investees. This allows investors to have a dialogue with the investee and collaboratively identify the next steps for the investee to move towards basin water security. There are different possible engagement strategies.

Step 6: Define meaningful metrics and targets

Define SMART (specific, measurable, achievable, relevant and time-bound) targets that measure the impact towards basin water security.

Example of SMART targets

- By 2025, 50% of investees aligned with water security in priority basins and 100% by 2030.
- By 2025, 100% of investees in priority basins set water withdrawal and discharge targets aligned with basin thresholds.

To track progress against those targets and measure the success of the engagement, relevant metrics should be selected. This can be done using a qualitative or quantitative approach.

⁸ UNPRI has developed a guide on ESG engagement for [fixed income investors](#) (2018c).

Quantitative approach

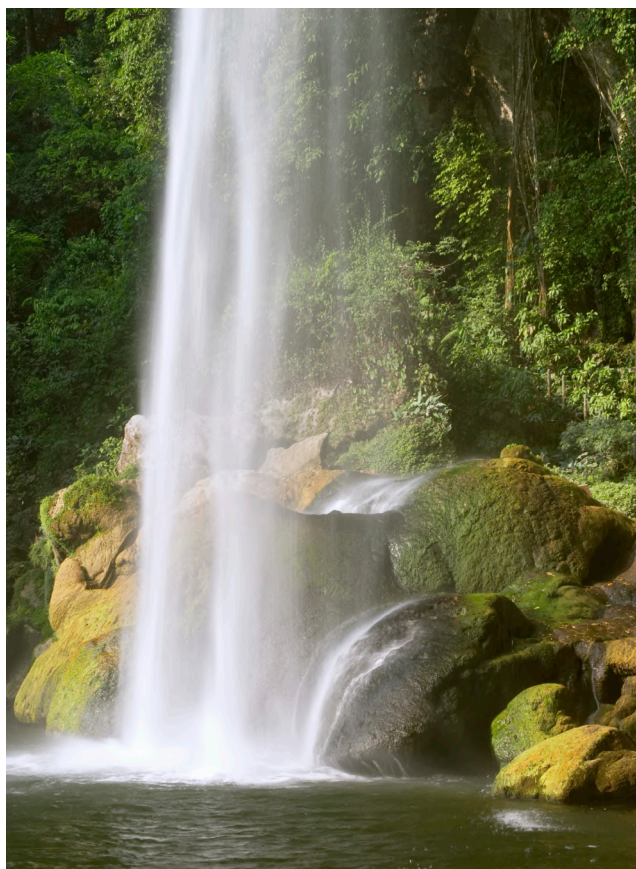
Quantitative metrics measure the outcome of basin water security through, for example, improved water quantity and quality. These outcomes will be significantly more difficult to measure than qualitative metrics and are only measurable after the effects of the company's water management are visible. This may take some time, but these metrics should absolutely be included and measured in the long term.

Examples of quantitative metrics may include (adapted from California Water Action Collaborative initiative of the CEO Water Mandate, 2019):

- increased water supply and reliability (million cubic litres saved and returned to the basin);
- Increased climate resilience of water systems (hectares of land contributing);
- improved water quality and prevented pollution (BOD and toxicity aligned with ecological limits);
- protected and restored freshwater ecosystems (hectares of land with restored ecosystem function); and
- river flow restored (cubic feet per second).

Qualitative approach

Below is a non-exhaustive list of possible qualitative metrics to support a qualitative approach that is aligned with the four principles of basin water security.



Proposed metrics aligned with the four principles of basin water security		
Category	Metrics	Unit of measurement
Grounded in an analysis of risks	Holistic local water risk assessment taking basin context into account (ecosystem and stakeholders)	% of companies
	Water dependence measured for direct operations and supply chain	
	Water-related negative impacts related to direct operations and supply chain	
	Future risks and scenarios assessed	
	Water risk results integrated into business and growth strategy	
Aligned with basin threshold	Priority basins identified	Name and # of basins
	Water quantity and quality targets that take into account shared challenges set in direct operations and supply chain	# of targets
	Context-based targets set for priority basins	% of companies
	Water use maintained consistently below allocated renewable water use	
	Water discharge is within ecological limits of water resources	

Proposed metrics aligned with the four principles of basin water security		
Category	Metrics	Unit of measurement
Operating equitably and respecting other water users	Key users in the basin identified	# of users
	Shared challenges identified (taking into account other water users)	
	If there are shared challenges, communities' right to water is prioritised	
	Public acknowledgement of the human right to water	
	Social, environmental and economic factors considered in water management response	% of companies
	Investee supports programmes to provide water/sanitation access to underserved communities in the basin	
Engaging in collective action to respond to shared water challenges	Key users and existing water stewardship initiatives are identified	# of users
	Key partnership established to address shared challenges on a basin level	# of partnerships
	If no existing stewardship initiative available, the company has a multi-stakeholder approach initiated in priority basin	# approaches
	Plan with targeted actions and implementation strategies to respond to shared challenges and measure progress	# of actions
	Certified priority basins (e.g. under AWS)	# of sites certified

Investors should choose a data-gathering approach that is aligned with their internal procedures and practices and existing indicators to monitor the investees' performance beyond financial returns. For example, complement the above metrics

that are aligned with the four principles of basin water security with common water-related key performance indicators (KPIs) from the [IRIS catalogue](#).



ACTIAM case study

ACTIAM is an asset manager that very actively engages its investees on water issues. ACTIAM has also set a water-neutral portfolio target, in line with SDG 6. ACTIAM defines water-neutral companies as businesses that do not consume “more water than nature can replenish” (Hoekstra, 2008). This target aims to reduce the water use of companies they invest in from key sectors and in areas prone to water scarcity by 2030.

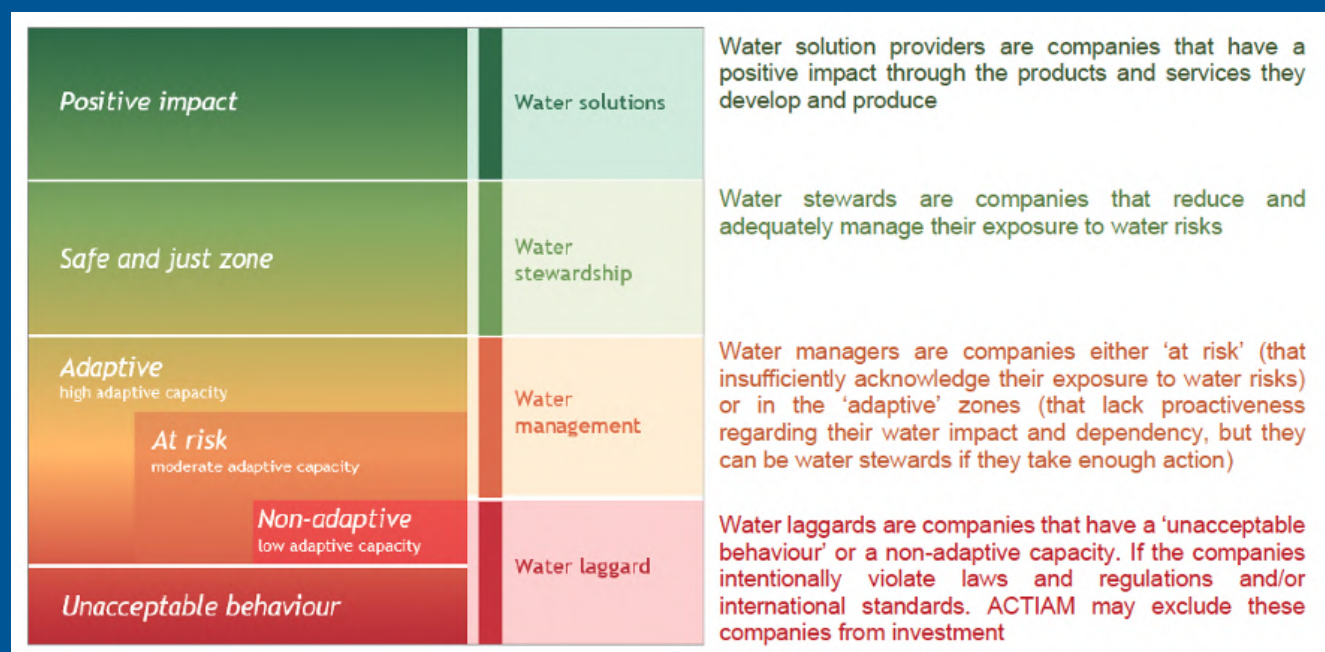
As a first step in defining the engagement, investees are prioritised according to ACTIAM’s sustainability framework depicted in figure below. Companies are assessed based on their capacity to adapt to the transition required to create a sustainable society. ACTIAM identifies the target companies for engagement based on several criteria; companies that are in high-risk industries such as mining, energy, agriculture or textiles and those located in high-risk areas are prioritized for engagement. ACTIAM also assesses how companies manage water-related issues.

ACTIAM’s approach serves as a great example of how a water engagement strategy should be designed. The main focus is on

moving companies in the water management zone to a water stewardship zone.

ACTIAM’s engagement strategy has two main forms: responsive and proactive engagement. A responsive engagement is carried out when the investee violates ACTIAM’s Fundamental Investment Principles, for example, by causing serious environmental damages. If the responsive engagement is unsuccessful, ACTIAM has several escalation strategies in place.

Through proactive engagement, ACTIAM seeks to support companies that have the potential to implement the solutions needed for the transition to a sustainable society. For every engagement, ACTIAM sets clear objectives on the expectation of companies to, for example, map and manage water risks, prevent water loss and quantify their dependency on (scarce) water. Performance on these objectives is monitored on an ongoing basis with the aim of moving companies to the water stewardship zone.



The ACTIAM Sustainability Framework applied to water consumption

(Source: ACTIAM, 2019)

Act



Step 7: Engage with investees

The goal of the engagement is to achieve change within an investee by encouraging them to move towards basin water security. This can be done by exercising voting rights and actively interacting with investees. While active interaction requires more resources, the extra effort usually pays off. Engaging with an investee to move towards basin water security clearly requires a long-term active interaction with the investee. It allows the investor and the investee to collaboratively find a suitable strategy and define the next steps that align with the expectations of both parties. This iterative process is based on the principle of continuous improvement.



1. To identify in which regard a lagging investee needs to improve its performance, the investor needs to conduct thorough research and ask specific questions related to basin water security. Some sample questions focused on basin water security to ask investees can be found [in the engagement questionnaire](#) below. These questions should be complemented with general engagement questions.
2. Then, a conversation should be initiated with the investee. Investors may be able to use the Annual General Assembly (AGM) as an opportunity to engage in a dialogue with the board of directors of the investee, but since this is usually a very busy period it is recommended to get in touch with the investee directly via letters, emails, telephone calls or direct conversations with senior management (Harvard University, 2015).
3. In the third step, the performance of the investee and potential actions that it could take are discussed between the investor and the investee. This step depends on how the investee has responded to the questionnaire. The responses help the investor identify areas where the investee still needs to improve. The recommended actions for the investee should include quick-wins and more long-term goals.

If the investee is not responsive, a possibility may be to propose a shareholder resolution for inclusion at the AGM. This resolution would then be put up for a vote among all shareholders. [Ceres' Engagement Tracker](#) tracks all climate and sustainability-related shareholder resolutions and also provides an overview of water-related shareholder resolutions from 2009 to 2020.

Engagement questionnaire

Principle	Questions	Laggard	Middle field	Desired condition
Grounded in risk-analysis	Do you conduct a risk assessment taking into account the basin context in your direct operations and supply chain?	No water risk assessments	Partial water risk assessment (country level, not complete)	Holistic water risk assessments taking basin context into account
	Have you measured your water dependency considering basin thresholds in your direct operations and supply chain?	Water dependency not measured	Water dependency measured for direct operations or supply chain	Water dependency measured for direct operations and supply chain
	Have you identified your water-related impacts considering basin thresholds in your direct operations and supply chain?	Water-related impacts not measured	Water-related impacts measured for direct operations or supply chain	Water-related impacts measured for direct operations and supply chain
	Do you integrate future scenarios in the water risk analysis?	Future risks not considered	Future risks partially taken into account	Future risks fully taken into account
	Do you integrate water risk results into the business and growth strategy?	Water risks not integrated into strategy	Water risks partially integrated into strategy	Water risks fully integrated into strategy
Aligned with basin thresholds	Have you identified priority basins according to basin-related water risks?	No priority basins identified	Priority basins partially identified	Priority basins identified
	Do you set targets on water quantity in your direct operations and supply chain?	No targets set	Targets set only for direct operations or supply chain	Targets set for direct operations and supply chain
	Do you set targets on water quality in your direct operations and supply chain?	No targets set	Targets set only for direct operations or supply chain	Targets set for direct operations and supply chain
	Do you set context-based targets for priority basins?	No targets set	Contextual targets set	Context-based targets set
	Do you stay within the limits of your allocated renewable water use?	Water limit not determined	Water use determined but exceeded	Water use maintained
	Do you discharge water within ecologically sound limits?	Water discharge limit not determined	Water discharge limit determined but exceeded	Water discharge limit maintained

Principle	Questions	Laggard	Middle field	Desired condition
Equitable	Have you identified key users in the basin?	Key users not identified	Key users partially identified	Key users fully identified and engaged
	Have you identified shared challenges (taking into account other water users)?	Shared challenges not identified	Shared challenges partially identified	Shared challenges identified
	Do you prioritise communities' rights to water?	Communities not considered	Communities' right to water acknowledged	Communities' right to water prioritised
	Do you consider social, environmental and economic factors in your water management response?	Not taken into account	Partially taken into account	All factors taken into account
	Do you publicly acknowledge the human right to water?	No acknowledgement	No public acknowledgement of the human right to water	Human right to water publicly acknowledged
	Do you support programmes to provide water/sanitation access to underserved communities in the basin	No support given	Some support given	Support given to the extent to give access to WASH to all underserved communities
Collective action	Have you developed partnerships to address shared challenges?	No partnerships developed	Some collaborative efforts taken	Key partnerships established
	Have you proactively initiated a multi-stakeholder approach in priority basins?	Multi-stakeholder approach not followed	Multi-stakeholder approach passively followed	Multi-stakeholder approach proactively followed or initiated
	Have you certified your priority basins under the Alliance for Water Stewardship Standard?	Priority basins are not certified	Priority basins are partially certified	Priority basins are certified
	Have you developed a site water stewardship strategy and plan responding to shared water challenges?	No strategy or plan developed	Strategy and plan partially set up	Plan with targeted actions to respond to shared challenges

Step 8: Define priority basins with investees

While water risks are materializing globally, some basins must be given priority due to their need for urgent action. Defining priority basins gives the investor the possibility of engaging with the investee on very concrete issues and promoting a water stewardship approach in a basin that is particularly at risk. Identifying which companies are within those basins is challenging due to prevailing data gaps. However, by directly engaging with the investee, the investor can collaboratively identify which basins are relevant for the investee's direct operations and supply chain.

There are different ways of identifying priority basins. For example, the World Wide Fund for Nature (WWF) has identified a [list](#) of 15 priority rivers, streams, lakes and wetlands worldwide. These freshwater bodies are of particular importance for conservation.⁹ Furthermore, tools such as the [Water Risk Filter](#) or the World Resource Institute's (WRI) [Aqeduct](#) can be used to identify the basins that are most at risk. The Aqeduct also includes forward-looking scenarios that are very important to consider when prioritising water basins.

An investor's exposure to a specific basin also affects the definition of priority basins. Ideally, several investees are active in the same water basin and can prioritise it and work collaboratively to improve the basin water security.

Once the priority basins have been defined, engage the investee on setting water targets at the site level and engage in stewardship activities on a basin level. These targets are informed by basin context (e.g. condition of groundwater and surface water) and have to ensure that businesses address water challenges and drive informed actions at the local level. In a collaborative effort, several NGOs working on water-related topics have developed a guide on [setting site water targets](#).



Furthermore, it is recommended to understand how governments and policy makers work in these priority basins and whether any basin commissions, water-related initiatives or projects from NGOs or multilateral organisations exist. There may well be an existing initiative that the investee can join and contribute to. Water-related initiatives and organisations can be identified through the [Water Action Hub](#), for example. Some industries have launched coordinated efforts, such as the Beverage Industry Environmental Roundtable (BIER) (2017). Another valuable resource is the [Blue Peace Index launched by the Economist](#) (2019). It assesses the management of shared water resources of transboundary river basins.

Step 9: Measure impact and integrate lessons learnt

Investors are required to report to their clients or beneficiaries on the outcomes of their engagement and voting activities on a regular basis (quarterly or annually). The KPIs and impact-measurement approach have been defined in [step 6](#). As a multi-year engagement with investee companies to improve basin water security is recommended, measuring and reporting on progress is essential to understanding whether the goals that have been set are being achieved. However, it is also important to consider that companies improve gradually and that significant change requires some time.

To measure the change that has been achieved through the engagement, investors should assess where an investee stands on basin water security prior to and after engagement. It is crucial that the investee that is being engaged commits to achieving 'SMART' targets: specific, measurable, achievable actions that are relevant and time-bound. Be prepared to follow up with the investee regularly until the targets have been achieved.

While this engagement is clearly focused on achieving long-term positive impact, it is important to consider the actions the investor will take if the engagement does not produce the required results. Any challenges that were encountered during the engagement should be addressed with the investee.

The engagement approach can be continuously evaluated and improved depending on the results. At the end of the multi-year water engagement strategy and after measuring its impact, it is also important to understand what worked well and where the main hurdles were. Engaging on basin water security with companies is a demanding exercise, not only for the investor but also for the engaged companies – mostly because it demands real action at a basin level.

For this reason, it is crucial to draw conclusions on the less successful cases and incorporate lessons learnt in any future engagement strategy on water.

⁹ More information on these 15 freshwater reserves can be found on the [WWF website](#)

Step 10: Engage with investor networks

Engagement with investees works best on a collaborative approach when knowledge is shared with peers. Engagements around social and environmental issues are more likely to be successful in a coordinated effort (Dimson et. al, 2015). Investor networks such as [Ceres' Investor Water Hub](#), [Interfaith Center for Corporate Responsibility \(ICCR\)](#) and [Principles for Responsible Investment \(PRI\)](#) all have engagement groups specifically targeted towards water (UNPRI, 2018a). Cooperation with other investors and investor networks has many benefits as it:

- **strengthens investor influence and negotiating power.** By combining efforts and demanding the same actions, investee companies will be more receptive to suggestions;
- **increases the likelihood that investees will take a proactive approach** to improve their water management – particularly if more investor networks publicly and collaboratively promote the discussion around basin water security;
- **gives access to a broader knowledge base** by sharing expertise and experiences on basin water security with other investors; and
- **helps determine shared issues of concern** and prevents companies from excluding duplicative shareholder resolutions from their proxy statements.



Sustainalytics case study

Sustainalytics' Thematic Engagement on Localized Water Management is a three-year project with the objective of engaging approximately 20 companies that share the same water catchment, provisionally focusing on two of the following countries: Brazil, India, South Africa and the United States. Sustainalytics' engagement is unprecedented in its approach and is fully aligned with focusing on positive impact at a basin level. The geography of the potential catchments was chosen partly because the CEO Water Mandate had already launched pilot projects in these countries.¹⁰ Working with partner organisations such as the CEO Water Mandate helps Sustainalytics to meet the challenge of identifying the companies that are sourcing water from a specific basin. Collaboration and leveraging existing initiatives is also Sustainalytics' preferred method due to the fact that this improves alignment between different stakeholders and increases the potential for impact beyond individual companies.

The goal of the engagement is to achieve real impact on the ground by promoting an approach that emphasises contextual and site-level aspects. The companies selected for the

engagement are intended to be key players in the industry that are facing water risks. Furthermore, Sustainalytics is looking to focus on companies that have so-called 'engagement potential'.

The progress and results are measured against a set of five KPIs: water governance and disclosure, risk and impact assessment, water quantity, water quality and integrated water resources management. The investors participate in regular calls and receive regular updates, while the overall process is led by Sustainalytics.

Prior to the current engagement, which commenced in February 2020, Sustainalytics carried out a three-year thematic project on water in 2016-2019. Within that, Sustainalytics assessed the water risk exposure and management of 299 companies from four priority sectors based on publicly disclosed information and tracked their progress between 2016 and 2019. Interestingly, at the end of the project, 65% of the companies that were engaged improved their score, showing significant progress compared with the other companies in the universe that were not part of the engagement exercise.



Conclusions



Water risks are complex as they require global, regional and notably local action. The lack of reliable and useful information regarding water is very high. There is a need for companies to start measuring and disclosing their water risks based on geographic information and then provide this information to investors. Regardless of the lack of data, the need for companies to report on basin water security is clear and investors can already start taking action. The more investors that engage on water-related topics and demonstrate the importance of these issues to investees, the better. There is a need for more investors to lead the way and demonstrate that engagement on water risks is possible.

This guide is intended to serve investors to become active shareholders and generate positive impact on water basin

level and thereby contribute to achieving SDG 6. The proposed understand-design-act framework is a three-step process for investors to engage with their investees on basin water security. Furthermore, it references a non-exhaustive list of tools and resources that can be useful to investors. Even if there is already a water engagement strategy in place, this guide may provide some ideas on how the impact can be accelerated.

It is particularly important to fully understand the complexity of water risks and identify the most effective and appropriate actions and outcomes from the outset. This guide is for investors who are willing to take a leap forward in terms of their water engagement and develops a very ambitious, impact oriented engagement strategy with the purpose of aligning with SDG 6.

Acronyms and abbreviations

AGM	Annual General Assembly
AWS	Alliance for Water Stewardship
BOD	biochemical oxygen demand
ESG	environmental, social and governance
ICCR	Interfaith Centre on Corporate Responsibility
KPI	key performance indicator
SDG	Sustainable Development Goal
SMART	specific, measurable, achievable, relevant and time-bound
TCFD	Task Force on Climate-related Financial Disclosure
UN	United Nations
UNPRI	United Nations Principles for Responsible Investment
WBCSD	World Business Council for Sustainable Development
WEF	World Economic Forum
WRI	World Resources Institute
WWF	World Wide Fund For Nature

Glossary

Water basin: the geographical zone in which water is captured, through which it flows and is eventually discharged at one or more points. The concept includes both surface water catchments and groundwater catchments (AWS, 2019).

Basin water security: fostering the sustainable water quantity and quality of freshwater resources for all users in a water basin in the long-term.

Shareholder engagement: in the context of this study, shareholder engagement refers to the right to vote on shareholder proposals at general meetings, discussions during informal meetings with management and criticising corporate practices in news outlets, as well as threats of selling the companies' assets.

Water alignment: this is understood as the alignment of the water management strategies of investors and companies with public policy goals or scientifically developed targets.

Water risk: water-related risks that companies are exposed to. Those risks consist of a combination of a company's operational water risks, basin water risks and the water management of a company. Operational water risks are inherent to the nature of a business and relate to the dependency on water, such as water-intensive production processes. Basin water risks include physical, reputational and regulatory risks and relate to the hydrological context of where companies operate and the other water users that tap into the same resources. Water management refers to how corporate management chooses to mitigate water risks (Ceres, 2015).

Water-related initiatives, norms and public policy goals

Alignment goal	Description
SDG 6	Among the 17 SDGs defined by the UN, Goal 6 is to 'ensure availability and sustainable management of water and sanitation for all'. It consists of tackling challenges related to water scarcity, access to safe drinking water, sanitation, water quality, flood risks and transboundary water.
Planetary Boundaries	The Stockholm Resilience Centre has developed nine planetary boundaries that represent a safe operating space for humanity. This list also includes a boundary related to consumptive freshwater use and environmental flow requirements. According to this research, the remaining safe operating space for water may be already largely committed to meeting human water demands in the future (Rockström et. al, 2009).
Human Right to Water (HRWS)	The UN General Assembly explicitly recognises access to water and sanitation as a human right. The HRWS obliges governments to ensure that people can enjoy clean, available, acceptable, accessible and affordable water and sanitation. The WBCSD invites companies to Pledge for Access to Water, Sanitation and Hygiene (WASH) at the workplace, as well as increasingly in supply chains and communities.
Water Stewardship	Water stewardship is an overarching, dynamic framework for understanding and addressing water risks in a business. Water stewardship recognises the need for socially and environmentally equitable collective action on water. Companies that are practising water stewardship engage with different stakeholders that are rely on the same water basins and find solutions that are stakeholder-inclusive.
Science-based or context-based water targets	The Science-Based Targets (SBTs) initiative is working on launching science-based targets for water that are grounded in a scientific understanding of water systems and have a sufficient level of ambition to contribute to their sustainable management. This would require companies setting water quality and quantity targets specific to the local conditions of a specific basin. There is ambition for companies to start setting SBTs for water by 2020.
Wash4Work	Leading initiative for internal corporate action on WASH. Companies commit to implementing access to WASH at the workplace at an appropriate level of standard for all employees under their control within three years of signature.
Water Neutrality	There is no organisation that advocates for this and no clear definition of water neutrality exists. The idea behind water neutrality is similar to carbon offsetting. It refers to the practice of returning equal or greater amounts of water to communities and nature than was used in products or production processes. This practice has been used by some companies to reduce their water footprint.
CEO Water Mandate	A UN Global Compact lead initiative that mobilises business leaders on water, sanitation and SDGs. The 152+ businesses that endorse the CEO Water Mandate have committed to progress against six commitment areas focusing on advancing stewardship.
Water Convention	The 'Convention on the Protection and Use of Transboundary Watercourses and International Lakes' (Water Convention) serves as an internationally legal framework for transboundary water cooperation. Under this convention, parties are required to prevent, control and reduce transboundary impact, use transboundary waters equitably and ensure the sustainable management of surface and groundwaters, including drought and flood management.
The Ramsar Convention on Wetlands	This intergovernmental treaty, with 170 contracting parties, provides the framework for national action and international cooperation for the conservation and responsible use of wetlands and their resources. It has so far designated 2,289 Ramsar sites with a total surface of 225,399,512 ha, more than 54 times the size of Switzerland.

(Source: South Pole)

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