Banking on Water - the role of commercial banks in water solutions

Channels: Water

Companies: ING, WWF, CDP, Ceres, Ecolab

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There are five key ways in which banks can seize the opportunities presented by the water sector, argues Ambika Jindal.

Harvey, Irma, severe monsoon floods in Asia, droughts in the US, an annual death toll from water related diseases exceeding 1.7 million people, billions of dollars lost by companies and economies, an estimated gap of 40% between water demand and supply by 2040... the water crisis is not coming, it’s already here.

Currently its most severe impact on life is seen in developing countries, which are not equipped to respond and resurrect themselves like their more developed counterparts. But, the overall impact, is on all of us.
The phrase “a small world” holds especially true, as several international companies are highly dependent on developing countries for manufacturing.

Also, the term “water wars” is becoming more evident, with the refugee crisis and water challenges fueling migration.

This crisis is only expected to become more severe due to factors such as rising population, urbanisation, and industrialisation. Water stress is expected to affect most regions of the world by as early as 2025, questioning the very existence of life as we know it.

“Economic growth is surprisingly thirsty business,” a World Bank report says, and water challenges can cause significant economic slowdown in countries. Water is essential for sectors like food, beverage, electricity, textiles, mining, paper, and of course, for the health of people. So, while the need for water beyond drinking water seems invisible, the impact due to water stress, is already staring right at us.

**All of us, including commercial banks, need to do more**

Commercial banks do not seem to measure or even know their exposure to this risk; as a result, often, they do not hedge their risks nor do they contribute to solutions, especially in the case of developing countries.

To make matters worse, the developing country situation is further jeopardised by volatile politics, too much risk for often too little reward and fragmented financing needs which aren’t interesting for commercial banks. This is one of the reasons the conversation has remained relatively static and the same arguments keep commercial banks at bay.

However, this is not a developing country problem alone. Developed country industries, which are dependent on their assets or supply chains in developing countries, are also exposed. By not proactively contributing to water solutions, banks themselves are missing out on the opportunity to make their portfolios future-proof to the water crisis. They are also failing to tap into the surge of potential opportunities emerging as water continues to find itself on top of government and corporate priorities.

The world of water, in turn, is missing out on the expert commercial bank influence for their clients to generate scalable, profitable and sustainable solutions. We all need to do more.
Banks can start playing a bigger role now

Commercial banks may not be primary levers in driving solutions but they do have a necessary role to play.

Here’s a list of five things commercial banks can start doing immediately to contribute to water solutions:

1. **Revise perception**: Several assumptions plague commercial banking’s perception of the water sector. Examples include assumptions such as, the poor can’t pay for water, the water sector is not profitable, not lending directly to water-stressed regions makes water a less relevant risk, banks can contribute only through philanthropy, other water actors need to fix the bankability issues in the water sector. Commercial banks need to challenge these notions and bridge the gap between perceived risk and actual risk. The dialogue and financial awareness in the water sector have matured. Commercial banks would benefit from challenging their assumptions and revising their perceptions to reflect today’s reality.

2. **Recognise the risk**: Commercial banks often feel the pressure to consider carbon footprints when deciding who to do business with. Water, however, remains invisible, when in reality, water challenges go hand in hand with climate adaptation. Commercial banks need to grasp this, measure it and steer it. WWF’s risk and water valuation assessment tools, CDP and Ceres’ water-leading client lists, Alliance for Water Stewardship, Green Bonds Principles, Ecolab’s Water Risk Monetiser, exist today and can help banks and their clients. So, not having data on water is no longer an excuse.

3. **Focus on opportunities**: Several companies, governments and institutions are spending on transforming the way water is used in industry and domestically. Technologies to make waste water a revenue generating source of energy and nutrients, or reusing water in smarter ways, are being adopted quickly by forward-thinking companies and even utilities like Waternet. Governments can improve water management, hence de-risking future investments in river basins. By keeping pace with developments and customising financial solutions to drive these solutions, first-mover banks could excel in a sector in which competition is scarce and opportunities are growing.

4. **Address water with clients**: Commercial banks should invest in understanding the water challenges faced by their clients, like water front-runner Heineken, which is investing in water solutions across its supply chain, from the barley fields to the bottle. Banks can benefit from working with their clients to find solutions, which accelerate and incentivise water-wise behaviour. Banks can offer solutions such as “blue bonds” or “blue loans” which can help clients finance their water ambitions with rewards like investor diversification, cheaper funding, brand recognition and better sustainability ratings. This would strengthen client relationships as well as improve resilience to water risks.

5. **Go beyond traditional banking**: The barriers to entry and obstacles to financing ‘the water world’ are well known. Highly reputable organisations like OECD, World Bank, WWF, United Nations, International Water Association, Veolia, FMO, Asian
Development Bank, the Dutch government, are focusing on finding solutions. Commercial banks need to do the same. They need to join the discussions, get around the table from the start, and contribute towards making solutions bankable in the future. By helping the market improve, banks can build a pipeline of future opportunities. It is worthwhile to note that the expertise to cater for such opportunities also requires dedication, and a long-term appetite for the water sector. Small pilots, knowledge exchanges from successful and, equally importantly, unsuccessful solutions, are all invaluable in accelerating water solutions.

These recommendations are aimed to inspire commercial banks to start playing a bigger role. They are also a reminder for other water actors to include commercial banks in their solutions, so that their solutions can be commercially viable and scalable.

The water crisis affects us all; the solutions will also benefit us all. Working together, therefore, is key.

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