



The CEO Water Mandate

Guide to Responsible Business Engagement with Water Policy

November 2010



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Disclaimer

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Preface

This Guide is a product of the CEO Water Mandate, drafted by the Pacific Institute in its capacity as the “operational arm” of the Mandate Secretariat in consort with World Wildlife Fund, Water Witness International, and Pegasys Strategy & Development. Financial support for the development of this Guide was provided by the German Society for Technical Cooperation (GTZ) of the German Federal Ministry for Economic Cooperation and Development.

The Guide’s origins date from the CEO Water Mandate’s Third Working Conference in Istanbul at the Fifth World Water Forum (March 2009), where endorsing companies and key stakeholders first expressed their interest in developing a document to guide responsible business engagement with water-related public policy. At the Mandate’s Fourth Working Conference in Stockholm (August 2009), endorsers and stakeholders affirmed their interest, and agreed upon the Guide’s overarching objectives and scope. The Mandate released the “Framework for Responsible Business Engagement with Water Policy”—a document that summarized key concepts from this Guide (now presented as the Executive Overview)—in advance of the UN Global Compact’s Leadership Summit in New York City (June 2010).

An extensive review of existing and emerging practice, as well as consultations with industry and civil society representatives, academia, and governmental organizations, has informed the engagement guidance contained within this document. Given the wide range of views regarding the merits, pitfalls, and controversies of business intervention in public processes, the drafting team has emphasized an iterative, inclusive, and transparent analytical process. Throughout this process, key stakeholders and the general public were engaged to review and help shape the project work plan, annotated outline, methodological approach, and various drafts of the report. This engagement was performed in part through the CEO Water Mandate’s working conferences and Policy Engagement Working Group (comprised of Mandate endorsers) who met periodically throughout the Guide’s development to discuss key issues. Working Group meetings included key stakeholders representing a wider variety of interests on an *ad hoc* basis. The annotated outline of the Guide was open to public review for eight weeks in July and August 2009 via the UN Global Compact and Pacific Institute websites. A prior iteration of this Guide underwent a public review period throughout April 2010, with feedback informing this final version.

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EXECUTIVE OVERVIEW: Emerging global water trends
and business risk: the case for action



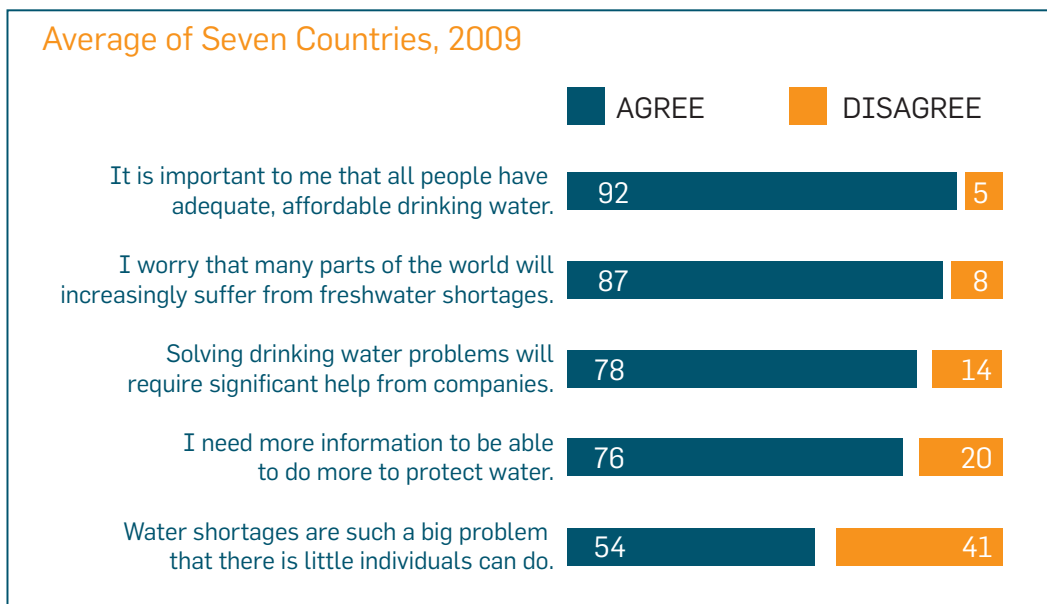
EXECUTIVE OVERVIEW

Emerging global water trends and business risk: the case for action

Today, people around the world identify water issues as the most serious sustainability challenges facing the planet. A 2009 GlobeScan and Circle of Blue survey of 32,000 people from 15 countries (seven of which were selected for a “deep dive” assessment) found that more than 90 percent perceived “water pollution” and “freshwater shortage” as serious problems, with 70 percent of those surveyed deeming those issues to be “very serious.” Furthermore, for the first time in recent history, the survey found that concerns about access to water and water pollution have outpaced concerns about other well-recognized sustainability challenges, such as global climate change, natural resource depletion, and biodiversity loss.

These data represent the views of consumers or clients of corporations from around the world and are important and motivating perspectives for global companies to consider. Of particular interest is that the same respondents who voice increasing concern about the myriad water challenges also suggest that companies have a clear role and obligation to find solutions.

FIGURE 1: Attitude toward water issues



Source: Water Issues Research, GlobeScan and Circle of Blue, 2009

Historically, access to water has been an important strategic concern for many companies, but recent global trends show increased threats to the supply, quality, and reliability of water resources and services, adding substantial immediacy and pressure for business to improve the way it manages water risk. In some regions, growing demand and competition mean there may not be enough of this important resource to meet domestic, agricultural, ecological, or industrial needs. Companies understand that, if present trends continue, both direct and indirect risks from water overuse and abuse are such that isolated action will not work. Ensuring water security will require leadership from governments and for civil society and companies to play a constructive role in public policy dialogue and implementation.

Even companies that do not foresee water challenges may be at risk because of stricter regulations or through new challenges imposed by climate change. As these challenges and demands escalate, governments will be forced to tighten controls on water use and wastewater discharge to prevent depletion and degradation of resources. At the same time, growing awareness of these challenges has increased society's expectations of companies' water-related performance. Companies or their suppliers are likely to suffer damaged reputations if they are perceived as mismanaging scarce water resources—particularly problematic when company operations negatively affect basic human and environmental needs or contravene legal requirements. Such problems can reduce investors' and consumers' confidence in a business or sector.

In response, corporate water initiatives, such as the UN Global Compact CEO Water Mandate, have emerged to redefine the way businesses respond to water challenges. In addition, leading companies have begun developing strategies to mitigate water-related risks and capitalize on opportunities. Some companies are investing in operational efficiencies, such as closed-loop production processes or water recycling. They site their facilities in locales with adequate and reliable sources of water and are increasingly working with their suppliers to improve water management practices. They are also instituting corporate-wide policies that reflect the growing importance of water conservation and stewardship.

However, it is difficult for companies to mitigate water-related business risks if they only look internally; many risks stem from external factors, such as local environmental conditions and public water policy and management. Among many other roles, water policy sets out how water use is prioritized and how allocation decisions are made in the face of limited supplies, establishes water prices, sets quality standards and safeguard measures to control pollution, and builds and maintains the infrastructure that delivers water services. Even if “formal” public water policy is adequate on paper, in practice,

it can suffer from low levels of priority and funding and a lack of implementation and enforcement. These conditions, in turn, can exacerbate water scarcity, pollution, and infrastructure problems, creating or amplifying social, environmental, economic, and business risks. These issues are of particular concern in emerging economies and developing countries, where public institutions often lack adequate resources and impoverished communities and sensitive ecosystems are highly vulnerable to the consequences of unsustainable water management practices.

Businesses, government, and civil society share an interest in reducing water-related risks through common solutions. These include a focus on long-term viability, the prioritization of water allocation for basic human and environmental needs, and the flexibility required to respond to the challenges of a dynamic resource system. In the end, solving water problems requires not only better public policy and stronger institutions, but also inclusive and meaningful participation in decision-making by all stakeholders, including business.

Presented by the CEO Water Mandate, *Guide to Responsible Business Engagement with Water Policy* provides a way for companies to address risk and capture opportunities stemming from external conditions that cannot be achieved through changes in internal management alone. The goal of this Guide is to make a compelling case for responsible water policy engagement and to support it with insights, strategies, and tactics needed to do so effectively. In this context, the Guide equates effective water policy engagement—that which integrates environmentally sustainable, economically viable, and socially equitable water management approaches—with responsible engagement.

Defining responsible corporate engagement in water policy

Water policy issues reside in a complex and nuanced landscape. Water policy itself is often understood strictly as the legal structure that underpins water management and governance. This Guide takes a more holistic view of water policy that encompasses all government efforts to define the rules, intent, research, and instruments for managing water resources. It considers not only the legal and regulatory dimensions, but also the planning around water allocation and the implementation practices by water managers and other stakeholders in support of the management system. And while not defined as water policy per se, there are also a variety of other policy issues—including economic development, trade, land-use planning, agriculture, and energy policy—that affect water policy and management.

Corporate engagement with public policy has traditionally been understood as direct policy advocacy and lobbying. This Guide, however, defines it more broadly, as initiatives that involve interaction with government entities, local communities, and/or civil society organizations with the goal of advancing two objectives: 1) responsible internal management of water resources within direct operations and supply chains in line with policy imperatives (i.e., legal compliance) and 2) the sustainable and equitable management of the catchment in which companies and their suppliers operate. In this context, *sustainable water management* refers to the management of water resources in a manner that secures social equity, economic growth, and environmental protection; the overarching goal is to maintain water supply and quality for various needs over the long term. It also stresses the importance of institutional sustainability, whereby those tasked with water management have the resources and legitimacy required to fulfill the task and stakeholders who may be affected participate in water management decisions.

This Guide also promotes the belief that, in many parts of the world, sustainable water management efforts will benefit from corporate engagement, provided that this involvement is grounded in the concepts of equity and accountability and the principles elaborated in this document. This Guide's definition of policy engagement broadens the scope of possible actions by including activities, such as working with local communities to inform internal water policies, cooperating with civil society organizations to help ensure that environmental and basic human needs are met, and supporting other stakeholders' work, such as academic organizations' research on new technologies and public policy performance.

Motivations for addressing water-related business risks

Companies that make the strategic decision to proactively manage water-related risks (and seek business opportunities) are motivated primarily by the aim to:

- Ensure business viability by preventing or reacting to operational crises resulting from inadequate availability, supply, or quality of water or water-dependent inputs in a specific location.
- Ensure their local legal or social license to operate and gain competitive advantage by demonstrating to stakeholders and customers that the company uses a precious natural resource responsibly, with minimal impacts on communities or ecosystems.
- Assure investors, financiers, and other stakeholders that water risks, particularly those occurring beyond the factory fence line, are adequately addressed.
- Uphold corporate values and commitments related to sustainable development by contributing to the well-being of the catchments, ecosystems, and communities in which the company operates.

Types of Engagement

Companies engaging with governments and other stakeholders to advance sustainable water policies and management take a variety of approaches:

- Encouraging efficient water use across a catchment
- Contributing to the development of effective and equitable policy and regulations
- Supporting research, advocacy, and monitoring
- Aiding environmentally and socially responsible infrastructure development
- Sharing or gathering data related to water resources
- Establishing or engaging in participatory platforms and other democratic processes for water governance decision-making or oversight
- Advancing public awareness of water resource issues
- Operating infrastructure (e.g., wastewater treatment) for community and municipal uses
- Working with communities to improve access to water services
- Assisting with finance of local water supply and sanitation infrastructure

Responsible business engagement with water policy is built on core principles (see below) that are fundamental to companies' efforts to advance sustainable water management—and mitigate water-related business risks. These principles aspire to address the goals, objectives, and approaches to responsible engagement.

Effective and equitable approaches to engagement

Not all companies have a clear approach to responsible business engagement with water policy and management. And even if a general approach has been defined, translating concepts into practical action can be daunting. Indeed, many companies would benefit from practical guidance on possible entry points for engagement, how to set clear boundaries, and how to avoid pitfalls. The purpose of this CEO Water Mandate Guide is to offer engagement principles, strategies, and tactics that will help companies navigate these challenges.

Tailored to both large- and small-scale commercial water users, this Guide emphasizes that the management of water remains a governmental mandate and that responsible engagement requires that private-sector actions align with public policy objectives. The Guide further recognizes that companies will face water management regimes along a broad continuum from highly functional to dysfunctional and that company decisions related to the scope, nature, and degree of engagement must vary accordingly. Finally, this Guide addresses common pitfalls of water policy engagement, such as avoiding inappropriate monopolization of policy discussions. In doing so, it provides direction for companies to avoid these hurdles through pragmatic, inclusive, and transparent advancement of sustainable water management.

Because all levels of government influence water policy, this Guide supports engagement across a range of scales. It identifies five primary scales for water policy engagement.

1. Internal operational or supply chain management:

Companies facilitate internal and supplier actions that comply with regulatory specifications (e.g., permits for discharges and abstractions) and are in line with broader water policy objectives (progressive demand, pollution-load reduction, proactive pollution control, and environmental improvement). This practice reduces risk by protecting against remediation costs following water-related incidents, protecting compliance records, improving internal efficiencies, and reducing competition and conflict among users in a catchment. These outcomes support the license to operate and prepare the company for broader policy engagement.

2. Local engagement:

Companies can work with municipalities, communities, and other stakeholders to make operational improvements to preserve environmental quality and ensure the reliability and adequacy of local water supplies and sanitation. This engagement supports improved community health and efficient operations of external actors (including local businesses), and also promotes the inclusion of corporate and local stakeholders in decision-making.

3. Regional, catchment-scale integrated water resource management:

Engaging with water management authorities and other stakeholders to support effective water allocation, pollution control, environmental protection, flood and drought management, planning, and development control at both strategic and operational levels has multiple benefits. Companies can derive value by directly supporting physical catchment improvements and basin management projects and by participating in or initiating multi-stakeholder platforms to support and oversee judicious basin stewardship. Such measures can secure equitable and reliable access to water resources of adequate quality for all users. In particular, the influence of business water users in the oversight of basin management (through seats on basin management boards, for example) can lead to greater efficiency, transparency, and accountability.

4. National dialogues and policy advocacy:

In collaboration with other stakeholders, companies can become involved with water and related policy development, implementation, and oversight to ensure that appropriate legislative and institutional arrangements are in place and functional. This engagement can address broad, strategic water resource management issues, such as national reforms or regional or basin plans that



Facilitating equitable processes through which all affected parties can come together and contribute to mitigating shared risks is a powerful tool for combating this century's emerging water issues.

can improve the reliability of the supply and make access more equitable. This work can also strengthen policies that reduce pollution and excessive water use and target financial investment priorities.

5. Global initiatives:

Business can engage with government, bilateral and multilateral development agencies, international finance institutions, and NGOs on international advocacy and research and development toward best practice in water management. This engagement can help avoid physical or social shocks and stresses and secure widespread water security through the facilitation of robust new laws and standards. Engagement and leadership at this level not only promotes the company's reputation, it can also set a progressive agenda toward sustainable resource management and use from local to global scales. The link through the CEO Water Mandate to the United Nations provides an opportunity to make global policy engagement more relevant and results oriented.

This Guide recognizes and stresses that the management of water is a government mandate, though water-related risks are shared between government, business interests, communities, and the environment. Corporate actors need to determine where to set their individual "responsibility boundaries" and match their engagement to the environmental, political, and social contexts they are operating within. While each set of conditions will dictate tailored engagement responses, this Guide seeks to provide engagement principles, strategies, and tactics that will help businesses contribute positively to the global water challenge.

Roadmap to using this Guide

This Guide describes how companies can contribute to water-related public policy goals and support policy that is developed and effectively implemented for the benefit of all water users. It is founded on the belief that equitable processes that bring together affected parties will be a powerful tool for reducing shared water risks and combating this century's emerging water issues.

This Guide offers practical measures for companies wishing to improve water management in the catchments in which they operate, while providing insights about the challenges of engaging with external stakeholders on water policy issues. Its principles, concepts, practical steps, and case studies are intended to facilitate companies' responsible engagement with water policy. We believe this engagement is a critical component of advancing sustainable water management and will benefit governments, communities, and ecosystems, while helping companies reduce business risks and seize opportunities.

Principles for responsible water policy engagement

Principle 1: Advance sustainable water management. Responsible corporate engagement in water policy must be motivated by a genuine interest in furthering efficient, equitable, and ecologically sustainable water management.

Principle 2: Respect public and private roles. Responsible corporate engagement in water policy entails ensuring that activities do not infringe upon, but rather support, the government's mandate and responsibilities to develop and implement water policy. Acting consistently with this principle includes business commitment to work within a well-regulated (and enforced) environment.

Principle 3: Strive for inclusiveness and partnerships. Responsible engagement in water policy promotes inclusiveness and equitable, genuine, and meaningful partnerships across a wide range of interests.

Principle 4: Be pragmatic and consider integrated engagement. Responsible engagement in water policy proceeds in a coherent manner that recognizes the interconnectedness between water and many other policy arenas. It is a proactive approach, rather than responsive to events, and is cognizant of, and sensitive to, the environmental, social, cultural, and political contexts within which it takes place.

Principle 5: Be accountable and transparent. Companies engaged in responsible water policy are fully transparent and accountable for their role in a way that ensures alignment with sustainable water management and promotes trust among stakeholders.

Section 1 of this Guide defines public water policy, sustainable water management, and the nature and objectives of responsible engagement. In Section 2, the Guide explores the concept of shared risk related to water and the motivations and opportunities to engage. Section 3 defines five core principles for responsible engagement. Section 4 details practical steps of engagement and identifies potential pitfalls and how to avoid them. It also explicitly addresses concerns about potential policy capture and other unforeseen negative outcomes, including concerns that: 1) companies will not cooperate with government in good faith to reach equitable and sustainable water management, 2) private sector involvement inevitably leads to other voices being drowned out, or 3) for-profit companies fundamentally have no role in the governance of water resources that belong to the commons. This Guide rejects and strongly discourages any type of engagement that could be construed as inequitable or non-inclusive, asserting that inclusive and sustainable water management is the most effective way to mitigate long-term risks.

The guidance in this document is tailored primarily to medium-to-large-scale private water users, as opposed to private water service providers. That said, some of the principles and recommended practices presented in this Guide may be applicable to a diverse set of business sectors.



SECTION 1: Understanding Water Policy





SECTION 1:

Understanding Water Policy

This section describes how this Guide defines water-related public policy, what it aims to accomplish, and what is meant by responsible corporate engagement with water policy development and implementation.

A. DEFINING PUBLIC WATER POLICY

Public water policy is often understood strictly as the legislation and regulations that underpin water management. This relatively narrow definition focuses on the principles, policies, and legal framework that govern water management, including, for example, broad strategies for infrastructure development, water rights laws, environmental protection, human rights laws, and research funding. This Guide takes a holistic view of water policy that encompasses all efforts to define the rules, intent, and instruments with which governments manage human uses of water, control water pollution, and meet environmental water needs. It considers not only the legal and regulatory framework, but also the planning around water resource allocation and the implementation practices by water managers and other stakeholders that support this framework.

Public water policy occurs at all levels of government. The overarching legislative framework is typically developed at the national or state/provincial level, whereas management and operational aspects are implemented at the local or catchment level. While not defined as water policy per se, a variety of other policy issues (i.e., economic development, trade, land planning, agriculture, and energy policy) have bearing on water policy and management.

B. DEFINING THE END GOAL: SUSTAINABLE WATER MANAGEMENT

Sustainable water management (SWM) is a broad concept that means different things to different people. Environmentalists may focus on ensuring adequate environmental flows to sustain ecosystems. Human rights activists may consider SWM to be the point when all humans receive adequate supplies of safe water. Economists may think of it as when water pricing can sustain a system's operational, maintenance, and capital costs over the long term. A business might think of it as when reliable access to a water resource is secured, thereby reducing business risks.

This Guide presents SWM as a balance of all these elements. At its most basic level, SWM is the management of water resources that holistically addresses equity, economy, and the environment in a way that maintains the supply and quality of water for a variety of needs over the long term and ensures meaningful participation by all affected stakeholders.

The elements of public water policy

Numerous elements of public water policy are of key relevance to business activities, and are the focus of later sections. They include:

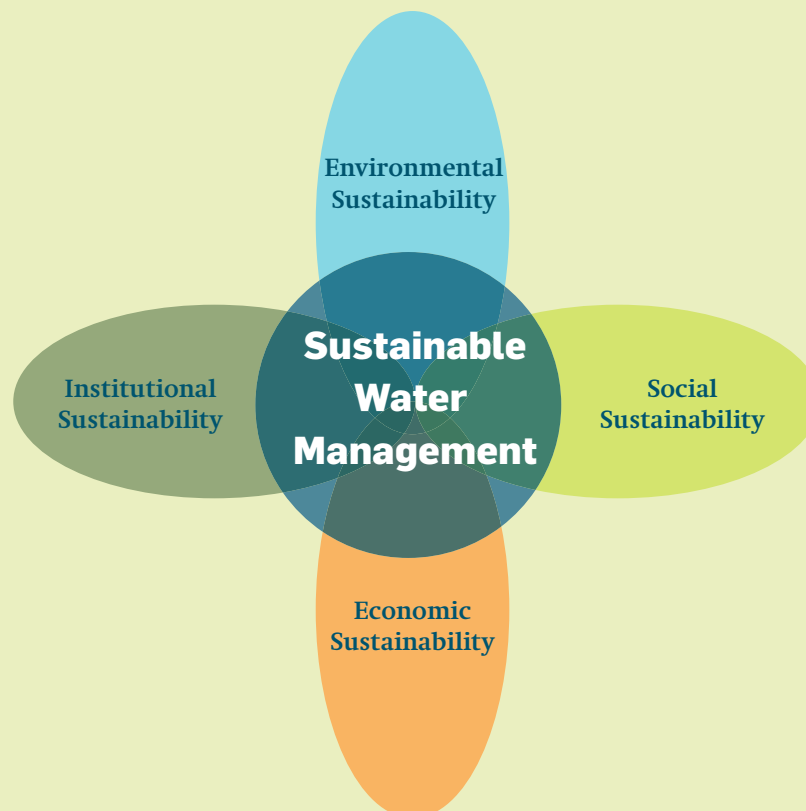
- Water supply and infrastructure development
- Water delivery
- Water resource protection
- Water rights and allocation among sectors
- Water quality management and pollution control
- Water pricing and economic instruments
- Operations and maintenance of water management systems
- Sanitation services
- Public participation in water governance and decision-making
- Environmental regulation, planning, biodiversity conservation, and protected area management

Defining the four domains of sustainability

Sustainable water management might be thought of as the state when four domains of sustainability are effectively implemented. They are:

1. **Social sustainability:** Where all humans have equitable access to adequate and affordable water services to meet their health and livelihood requirements, and where citizens and communities play a meaningful role in water governance and decision-making.
2. **Environmental sustainability:** Where water use and management does not compromise biodiversity, the functioning of habitats, or ecological or hydrological processes that are essential to society.
3. **Economic sustainability:** Where water management is affordable and cost effective and economic costs and financial risks are understood, minimized, and balanced in a transparent, socially acceptable way.
4. **Institutional sustainability:** Where institutions tasked with water management have sufficient resources and social legitimacy to function over the long term.

FIGURE 2: The four domains of sustainable water management

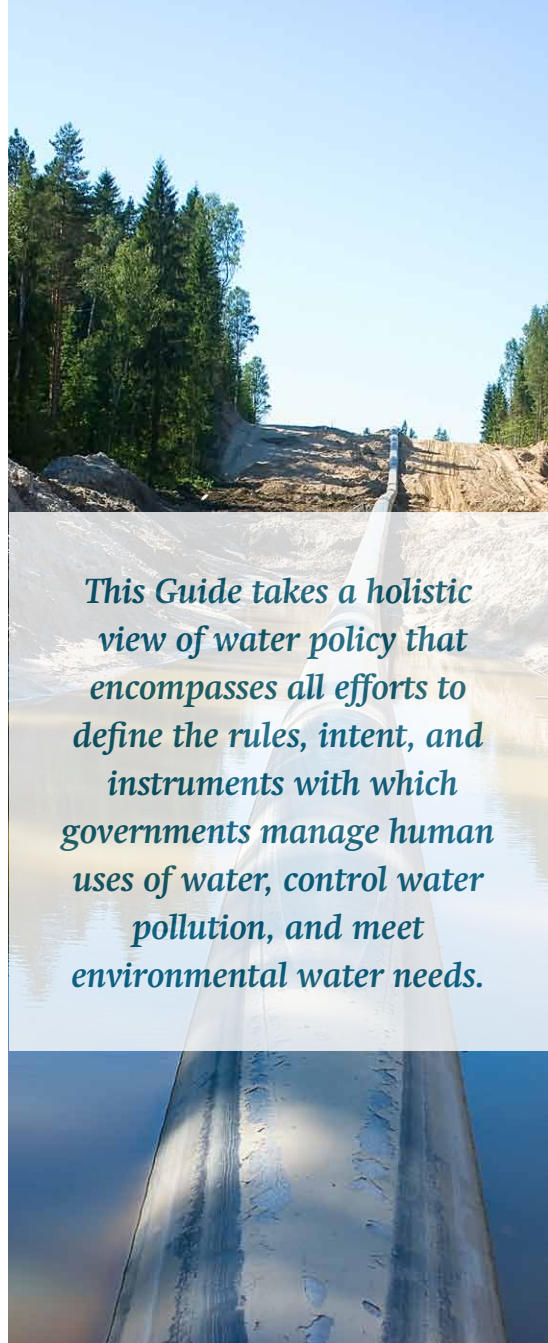


The implementation practices in pursuit of these broad, aspirational goals can take a variety of forms and approaches. This Guide’s principles and operational measures can help steer companies to engage in water policy in support of SWM. For a description of major sources of water-related risks and how SWM can help mitigate those risks, please see Appendix A.

SWM can be considered as contiguous with or as an outcome of Integrated Water Resource Management (IWRM)—the conceptual approach that has risen to dominate water management discourse over the past 25 years. Appendix F provides an historical and conceptual overview of IWRM, identifying key tenets, describing where and how it is being implemented worldwide and summarizing the conceptual relationships between SWM and IWRM. While any differences are largely ones of nomenclature, there is ongoing deliberation about how the complexities implicit in IWRM can best be operationalized, and this has led us to present SWM as a simpler and more tangible end goal for this Guide.

C. DEFINING RESPONSIBLE CORPORATE ENGAGEMENT IN WATER POLICY

A properly enforced, consistent policy and regulatory framework is essential to support SWM, and SWM is essential for businesses to effectively manage water-related risks. Corporate policy engagement is by definition a complement to, rather than a replacement for, water policy and supporting regulatory



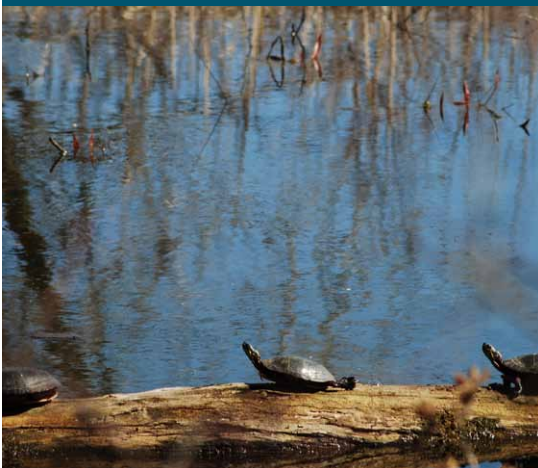
This Guide takes a holistic view of water policy that encompasses all efforts to define the rules, intent, and instruments with which governments manage human uses of water, control water pollution, and meet environmental water needs.

This Guide promotes a broader approach to corporate engagement in water policy, defining it as corporate management initiatives that involve interaction with government entities, local communities, and/or civil society organizations with the goal of advancing:

- 1) responsible internal company management of water resources within direct operations and supply chain in line with policy imperatives (e.g., legal compliance) and*
- 2) the sustainable and equitable management of the catchment in which companies and their suppliers operate.*

frameworks. As such, responsible (and by definition, effective) corporate engagement with water policy entails that companies contribute to shared policy goals and support policy that is developed and implemented in a way that is effective, equitable, and inclusive for all water users. In catchments without established policy goals or where public institutions cannot meet their water management responsibilities, companies must look to established international guidelines and community engagement examples to inform the nature of their actions in support of community access to water or environmental health.

Businesses engage with governments on a range of issues, with water representing only one topic among many. While corporate engagement with public policy has traditionally been understood as direct policy advocacy and lobbying, this Guide promotes a broader approach to corporate engagement in water policy, defining it as corporate water management initiatives that involve interaction with government entities (e.g., regulatory bodies, catchment authorities, and water service providers); local communities; and/or civil society organizations with the goal of advancing: 1) responsible internal company management of water resources within direct operations and supply chains in line with policy imperatives (e.g., legal compliance) and 2) the sustainable and equitable management of the catchment in which companies and their suppliers operate.



Thus this interpretation includes both direct promotion of good legislation and strengthening of policy implementation and local water management. It also includes corporate engagement with non-public sector entities that influence or are affected by water policy decisions and management.

By its nature, water is fundamentally a local issue, either because local resource constraints or local supply schemes result in inadequate supply, or because the cumulative impacts of its use have negative consequences for other users, communities, or ecosystems. Including policy implementation at the local level highlights companies' potential to directly influence and improve these local systems that create business risks. In many cases, local water managers need financial and technical assistance to operate more effectively and sustainably. This type of local engagement allows companies to assist water managers and also promote efficiency and reliability of water delivery, fair and transparent water allocation and pollution control, appropriate pricing policies, infrastructure improvements, etc. In many countries, water stakeholders, including corporate actors, are invited to actively participate in water governance and its oversight through representation in river basin boards or catchment forums. Such local level engagement provides them with a legitimate avenue through which to improve water security, reduce impacts on communities and ecosystems, improve their stakeholder relationships, protect long-term supply, and ultimately reduce business risks.

Yet, water also has the unique quality of connecting sometimes distant upstream and downstream areas; in some places river basins span tens of thousands of kilometers. National water policy has a direct impact on what standards and regulations those catchments are managed against. In addition, water is also managed by international compacts and a shared understanding of the essential need for safe and clean water for many human activities. Finally, policy implementation must occur at the corporate level insofar as companies comply with regulations or contribute to reduced water demand, pollution, impacts, and other policy goals. For this reason, as illustrated in this Guide, engagement with water policy includes action at numerous scales: internal or corporate, local, catchment, national, and international.

Defining policy engagement to include engagement with local communities, civil society organizations, and stakeholders substantially broadens the scope of possible engagement actions. This expanded scope can include companies engaging communities while forming internal water policies, supporting academic research on new technologies and management practices, and cooperating with civil society groups to ensure environmental and basic human needs are met, to name a few.

Responsible business engagement with water policy is built upon core principles that are fundamental to companies' efforts to advance SWM in order to mitigate water-related business risks. These principles provide the foundation of this document's guidance. Efforts that do not embrace these principles will likely be inequitable and/or ineffective, and could lead to increased risk. These principles—described in greater detail in Section 3—are as follows:

PRINCIPLE 1: Advance sustainable water management.

PRINCIPLE 2: Respect public and private roles.

PRINCIPLE 3: Strive for inclusiveness and partnerships.

PRINCIPLE 4: Be pragmatic and consider integrated engagement.

PRINCIPLE 5: Be accountable and transparent.





SECTION 2: Addressing Shared Risks and Opportunities through Policy Engagement





SECTION 2: Addressing Shared Risks and Opportunities through Policy Engagement

Companies engage with water policy development and its implementation for many reasons. However, in many instances they are particularly motivated by the desire to reduce business risks. This section provides an overview of the source and manifestation of water-related business risk, describing the risks shared between government and business, identifying opportunities even when risks are not immediately present, and making the business case for policy engagement.

Motivations for addressing water-related business risk

The strategic decision to proactively manage water-related risks is driven by five primary inter-related motivations:

1. Ensuring the company's local legal and social license to operate in a specific location.
2. Preventing or reacting to operational crises resulting from inadequate availability, supply, or quality of water or water-dependent inputs in a specific location.
3. Gaining an advantage over competitors, because of stakeholder and consumer perceptions that the company uses natural resources responsibly and has minimal impacts on communities or ecosystems.
4. Assuring current and potential investors and markets that business operations will continue to be profitable into the future, by securing water availability for operations and supply chains.
5. Upholding corporate values and ethics based on sustainable and equitable development, by contributing to the well-being of the catchments, ecosystems, and communities in which they operate.

A. SOURCE OF RISKS

Water risk manifests in many different ways and for many different reasons. Understanding the cause or source of risks can be an important step in identifying the most effective way to address that risk. Companies face different water-related risks depending on the nature of a company's operations, such as their reliance on water, value chains, and brand profile, location of operations, customer relationships, and product necessity. However, most risks are also exacerbated—and often caused entirely—by conditions external to the company, namely the hydrologic, ecological, social, and political or institutional contexts in which companies operate. For instance, limited water supplies can affect the amount of water available for industrial production, while ineffective public water management might make delivery of water services inconsistent. Similarly, if they are located in areas where basic environmental and human water needs are not being met, industrial operations are more likely to negatively impact ecosystems or communities.

Examples of external conditions that create water-related business risk include water scarcity, inadequate operation and management of water systems, insufficient infrastructure, ineffective or inconsistent regulatory frameworks, water pollution, competition among uses, and climate change. A detailed discussion of these problems, how they create risk, and how SWM helps mitigate those risks can be found in Appendix A.

Types of water-related business risk

Water-related business risk can be examined through some inter-related lenses:

- **Physical:** Physical risks stem from having too little water (scarcity); too much water (flooding); or water that is unfit for use (pollution). They can be caused by drought or long-term water scarcity, over-allocation among users, flooding, or pollution that renders water unfit for use.
- **Regulatory:** Regulatory risks occur because of changing, ineffective, poorly implemented, or inconsistent water policies. Stricter regulatory requirements often result from water scarcity, ensuing conflict among various users, or excessive pollution. Ineffective policy can create a less inviting or stable business environment or degraded catchment conditions because of incoherent policy design or inconsistent application and enforcement.
- **Reputational:** Reputational risks stem from changes in how stakeholders view companies' real or perceived negative impacts on the quantity and quality of water resources, the health and well-being of workers, aquatic ecosystems, and communities. Reputational concerns lead to decreased brand value or consumer loyalty or changes in regulatory posture, and can ultimately threaten a company's legal and social license to operate.

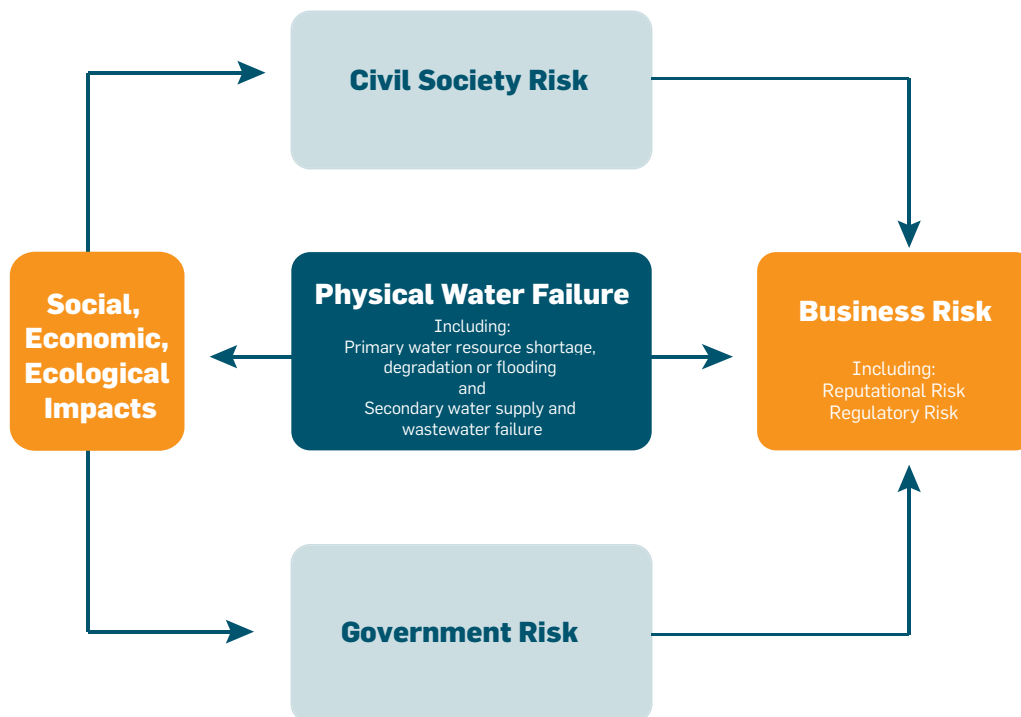
Physical, regulatory, and reputational risks ultimately lead to increased costs or lost revenue because of diminished supply or quality of water or mismanagement of water resources (i.e., financial risks). A great deal of recent work provides further background information on the existence and different types of water-related business risk.¹

¹ See, for example: Water Scarcity and Climate Change: Growing Risks for Businesses and Investors, Pacific Institute & Ceres (2009); Investigating Shared Risk in Water: Corporate Engagement with the Public Policy Process, WWF International (2009); Watching Water: A Guide to Evaluating Corporate Risks in a Thirsty World, JPMorgan Global Equity Research (2008); At the Crest of a Wave: A Proactive Approach to Corporate Water Strategy, Pacific Institute & BSR (2008); Understanding Water Risks, WWF (2009).

B. SHARED RISK

External catchment conditions that create risk for companies also create risk for other actors in that catchment. Indeed, communities, the environment, customers, and suppliers, as well as government are all exposed to risk because of common problems, such as water scarcity, pollution, aging infrastructure, floods, droughts, and climate change. These are often the same problems that drive the missions of many civil organizations (e.g., environmental and human rights advocates) and intergovernmental agencies (e.g., UNEP and UNDP). For instance, inadequate water quality standards might hinder a company's access to adequate water supplies or increase the cost of this access. At the same time, inadequate water quality standards also hinder a government's capacity to fulfill its responsibilities to protect water resources or provide clean water for its citizens. Figure 3 shows how risks emanate from physical water failure with subsequent effects to government, business, and society.

FIGURE 3: Shared risks among companies, governments, and society



C. SHARED ACTION

In the same way that common problems pose risks to businesses, society, and governments, joint efforts to reduce these risks can emerge through common understanding, strategies, and solutions. All need efficient water use, clean water bodies, and effective infrastructure, and all rely on water management to address these issues and to respond to short-term priorities and plan for long-term risk. In essence, everyone benefits from SWM to further respective objectives and mitigate risks.

As such, shared risk provides a strong argument for business, government, and civil society to cooperate and collaborate to promote SWM. Business engagement with water policy can therefore become a powerful tool. Common principles for effective management and mitigation of water risks apply to all sectors, and include a focus on long-term sustainability, the prioritization of water allocation for those least able to cope with scarcity, flexibility of response in light of changing hydrological reality, and the need for better public policy, stronger institutions, and broad stakeholder engagement. Out-of-date or poorly enforced public policy and weak water management institutions transfer risk to companies and often onto those in society that are the least able to cope.

In the past, increased government intervention in business operations has been perceived as a key business risk. However, as water resources become jeopardized and stakeholder expectations of sustainability and corporate social responsibility gain momentum, this perception becomes outdated. A growing number of businesses now accept that strong regulatory frameworks and management systems—as long as they are coherent



Business operations rely on healthy water management systems, coherent policies that govern water use, and functioning ecosystems to access water and avoid risk. Measures to manage water risks solely within the closed circle of the company and its key suppliers (i.e., efforts to reduce water footprints within a company's direct operation and supply chain) cannot eliminate exposure to water risk and uncertainty about water supply.

in design and predictable and consistent in implementation—are often the only way to mitigate risks caused by external catchment conditions and can even lower the cost of doing business on a day-to-day basis. This reality pushes businesses, governments, civil society, and communities alike toward cooperative advocacy for SWM.

Case Study 1: Shared risk in Kenya

Lake Naivasha is the center of Kenya's horticulture industry, the largest contributor of foreign exchange to the country. This second largest lake in Kenya has traditionally been a valuable resource for irrigation, fishing, farming, livestock grazing, and geothermal energy. However, as a result of over-abstraction, pollution, and declining biodiversity, the water catchment area has come under significant stress, jeopardizing industry and livelihoods there. There are large irrigators who conduct commercial horticulture, pastoralists who live a nomadic existence in the region, a vibrant tourism industry, water service providers who supply potable water to local residents, and commercial users (such as the state utility KENGEN) who use water for geothermal electricity. Given these different players with differing interests, a collective approach must be taken to begin to address the region's water stress.

Industries around Lake Naivasha have taken the initiative to address water use and environmental management by helping to implement Kenya's national water policy, which promotes decentralized governance by user groups. The Lake Naivasha Growers' Group (LNGG), which includes companies such as Homegrown, funded a Water Allocation Plan to guide the establishment of multiple local Water Resource Users' Associations (WRUAs). The LNGG has supported the WRUAs in the area, particularly those in the upper catchment, who significantly impact water availability and quality, in adopting water conservation measures and environmentally friendly livelihood strategies. LANAWRUA, the WRUA responsible for Lake Naivasha and the immediate area around its perimeter, is seeking funding with the assistance of the government, CARE International, and WWF to broaden its activities and undertake components of its own Sub-Catchment Management Plan to improve positive water management in the region. This case illustrates the benefits of a group of companies collaborating to implement a national water policy and help reduce shared risk around the lake.

D. LOOKING BEYOND RISK TO OPPORTUNITY

Beyond a focus on water-related risks, companies should recognize that water policy engagement can create opportunities in circumstances where operations are not subject to immediate, substantial, or direct water-related threats. Given the high-profile nature of water resource management challenges and the substantial global concern for clean, safe water and adequate sanitation services, there are abundant opportunities for proactive corporate support to sustainable water management. Companies could actively engage with global, national, regional, and local efforts to improve legislation for water management and pollution control, to improve water infrastructure financing, and to increase access to adequate water system services.

Proactive steps in support of sustainable water management where it is most needed (irrespective of a direct corporate presence in these areas) can show investors, regulators, customers, and communities that a company is forward looking and well managed and maintains a commitment to sustainability that transcends direct shareholder interests. Such substantive, transparent, and accountable actions can enhance all aspects of a company's license to operate and foster internal corporate culture that generates highly motivated staff and attracts talented workers.





SECTION 3: Core Principles for Responsible Engagement





SECTION 3: Core Principles for Responsible Engagement

This document's guidance is centered on five fundamental principles, or values, that underpin responsible engagement with water policy and management. Aspirational in nature, these principles address the goals, objectives, and approaches to responsible engagement. While all the principles are broadly relevant to responsible policy engagement, the relevance of particular principles depends on the nature and scope of specific engagement activities. This section explores these principles in more detail, touching upon why they are important. Section 4 describes in detail how they can be effectively implemented throughout a company's engagement practices.

Principle 1: Advance sustainable water management

Responsible corporate engagement in water policy must be motivated by a genuine interest in furthering efficient, equitable, and ecologically sustainable water management.

Responsible engagement requires that a business's objectives be aligned with specific public policy objectives and SWM in general. Reducing the likelihood of operational crisis and managing medium- and long-term strategic risks are ends consistent with responsible engagement. While practically difficult to ensure or guarantee that *all* of a company's activities are aligned with SWM, responsible engagement orients around seeking opportunities to improve broader social, environmental, and economic conditions associated with SWM and effectively addressing a company's negative impacts.

Principle 2: Respect public and private roles

Responsible corporate engagement in water policy entails ensuring that activities do not infringe upon, but rather support, the government’s mandate and responsibilities to develop and implement water policy. Acting consistently with this principle includes business commitment to work within a well-regulated (and enforced) environment.

On a day-to-day basis, governments are responsible for establishing and implementing water-related policy that ensures water services are reliable and catchments are managed sustainably, equitably, and efficiently. Businesses are responsible for ensuring that their operations comply with regulations and do not hinder the ability of governments to meet these policy imperatives or protect internationally recognized human rights.

Through engagement activities, businesses can go beyond their direct legal obligations to actively collaborate with governments to advance SWM. The corporate role in engagement is to facilitate and assist government’s policy goals by helping to support institutional capacity, helping to create effective and equitable policies, and encouraging multi-stakeholder dialogue.

Principle 3: Strive for inclusiveness and partnerships

Responsible engagement in water policy promotes inclusiveness and meaningful partnerships across a wide range of interests.

Companies interacting with water policy and management can expect to face mistrust. To enhance legitimacy² and protect against policy and regulatory capture concerns, companies will need to pursue approaches that bring together and enable affected stakeholders. Such stakeholder participation helps ensure integrity of joint purpose.

A partnership-based approach brings other potential benefits. The complexities of water governance and policy engagement may already be well understood through the long-term work of researchers and NGOs. Working with existing “water sector actors” through broad-based partnerships can galvanize the legitimacy of corporate engagement and facilitate the constructive pooling of insights, information, and experience.

² Legitimacy here refers to the formal and informal ways in which processes, policies, structures, and agents are validated and consequently empowered. Legitimacy in water management is volatile, constantly under review, and determined within a network of economic, social, and political relationships, constantly in flux, but which legitimate or delegitimize policies, practices, and people. Legitimacy is gained through a self-reinforcing cycle of achievement. When formal policy processes and implementation demand validation without achievement, there is a divide between formal authority and popular support—a “legitimacy gap” (Hepworth 2010).

Principle 4: Be pragmatic and consider integrated engagement

Responsible engagement in water policy proceeds in a coherent manner that recognizes the interconnectedness among water and many other policy arenas. It is a proactive, rather than reactive, approach and is cognizant of, and sensitive to, the environmental, social, cultural, and political contexts within which it takes place.

Efforts by government, NGOs, and other water stakeholders to improve water governance are ongoing in most countries and catchments. It is pragmatic for—and brings legitimacy to—companies to engage with and add momentum to existing initiatives rather than attempt parallel efforts. Attaining water policy goals may require long-term commitments of time and financial support and exposes companies to reputational risks associated with disengaging prematurely.

Engagement must also consider other policy arenas' underappreciated implications for water. Biofuels, international trade, and agriculture policy are examples where the energy-water-food nexus is not often fully acknowledged or integrated in public policy making. Comprehensive engagement may require companies to facilitate and raise awareness for a wide range of policy and sustainability issues.

Principle 5: Be accountable and transparent

Companies engaged in responsible water policy are fully transparent and accountable for their role in a way that ensures alignment with sustainable water management and promotes trust among stakeholders.

A chain of internal corporate accountability must be established so that agreements are honored throughout the company hierarchy. A company should ensure that the appropriate levels of corporate management have a full understanding of—and are committed to—the objectives, approaches, risks, and opportunities of engagement. Commitment to transparency with respect to motivations, objectives, actions, and a sense of responsible boundaries is critical to avoiding perceptions of bad faith or intent.



SECTION 4: Aligning Practice with Responsible Engagement Principles





SECTION 4: Aligning Practice with Responsible Engagement Principles

The extent to which companies embrace the concepts and principles outlined in this Guide ranges widely. Similarly, translating these concepts into practical action, while adhering to the principles of responsible engagement, is a significant challenge for many companies. Government departments and, indeed, the full range of stakeholders may find comprehending corporate motivations for water policy engagement equally challenging. However, by aligning practice with the responsible engagement principles set out in this Guide, companies can better secure the broad stakeholder support that must be attained to contribute to and progress toward sustainable water management (SWM).

This section outlines a number of “dos” and “don’ts” to help companies align action with the principles of responsible engagement and offers practical guidance companies can follow when engaging with water policy. Collectively, these measures constitute an operational framework consistent with a continual improvement-oriented, plan-do-check-act management system. This operational guidance generally orients around these management stages to stress the highly iterative, dynamic, and feedback-oriented nature of water policy engagement.

An overview of the operational framework is as follows:

ASSESS THE CONTEXT

- Understand the water resource and policy contexts
- Understand the political economy and risks of engagement
- Assess stakeholders to understand their concerns

EXPLORE ENGAGEMENT OPPORTUNITIES AND PREPARE FOR ACTION

- Align engagement opportunities with appropriate scale
- Establish and articulate engagement goals and strategy
- Ensure the internal house is in order
- Avoid policy and regulatory capture

PURSUE CORE ENGAGEMENT STRATEGIES

- Engage the local community
- Seek strategic partnerships
- Support water policy implementation
- Share information to improve management
- Advocate for efficient, equitable, and ecologically sustainable water policies and practices
- Raise awareness, advance global standards, and support research

BE ACCOUNTABLE AND TRANSPARENT

- Implement review and response mechanisms
- Disclose outcomes of policy engagement actions

A. ASSESS THE CONTEXT

Responsible engagement begins with developing internal understanding, focus, and buy-in to support meaningful and credible engagement outside the company fence line. The company will need to discern the relationship between water risks and opportunities (from the group or corporate level to individual operating units), based on an understanding of the needs of its stakeholders and the public policy contexts within which it operates. These assessments can be initiated at any organizational level and can result in a decision to prioritize one or more types of engagement (e.g., partnerships, advocacy, data sharing, or capacity building) at one or across several geographic scales. Assessing the context for water policy engagement includes the following key elements, which are interrelated and often implemented simultaneously.

Understand the water resource and policy contexts

The company needs to understand the water resource and the complex interactions among the water users that rely on it. This understanding will help mitigate the negative impacts of company water use and the risks imposed on the business by local water conditions. Assessing whether water scarcity and pollution is economically induced (a lack of investment); policy induced (a lack of policy or implementation); or physically induced (a lack of water), and whether the context lends itself to demand rather than supply side solutions will aid in directing attention and resources. An assessment of how future development, demographic pressures, and climate change will affect water resources will elucidate other potential risks, as well as potential strategies and engagement opportunities and priorities. Developing this technical and institutional understanding in collaboration with other stakeholders helps to establish a shared and objective appreciation of the key issues—a solid foundation for engagement.

Understanding the nature, strengths, and weaknesses of relevant water policy and management systems, and the degree to which they are consistent with SWM (see Section 1B) will help align the company's motivations and actions to objectives and outcomes that serve broader public interests. This knowledge is also vital for establishing the desired responsibility boundaries for action.

Companies can answer the following types of questions to diagnose which aspects of the current water policy framework lead to or exacerbate water-related business risks and which of them present opportunities. Such questions also reveal the interdependence of key stakeholders, a critical consideration when developing an appropriate policy engagement strategy.

- What is the formal (legal and regulatory) water management framework and decision-making and implementation process, and where do statutory duties and powers lie?
- Is this framework adequate (e.g., includes appropriate standards, allocation mechanisms, and public participation elements) and functional (sufficient resources, legitimacy and license to enforce rules, process permits and licenses, etc.)?
- What are the key determinants of water policy performance? Is poor performance linked to a lack of resources, funding, or technical capacity? Is there a lack of political support or evidence of negligence or corruption? Are lines of responsibility and accountability clear, or do overlapping mandates restrict action?

Case Study 2: Coca-Cola develops source water protection program to assess local catchment conditions

The Coca-Cola Company has launched a corporate standard that requires each of its 900+ bottling plants to evaluate the sustainability of the water resources used to produce its beverages, as well as the sustainability of the water resources used by the surrounding community. These source water assessments help inform the development of source water protection plans to address critical water challenges at a catchment level, from hydrological vulnerabilities to local government management capacity. These assessments help each facility better understand and promote management of water resources for the company's manufacturing operations and develop strategies to reduce associated risks.

Under this program, all manufacturing plants are required to:

- Form a water resource management team that includes the plant manager, plant engineers, water resource expert(s), bottler and business unit technical and public affairs representatives;
- Work with water resource expert(s) to complete a source vulnerability assessment that inventories risks to all process source waters;
- Prepare a source water protection plan with actions, roles, responsibilities and funding needs;
- Implement the source water protection plan; and
- Maintain and update the source water protection plan with source vulnerabilities updated on five-year intervals and source water protection plans updated on five-year intervals and amended on an as-needed basis.

All plants are required to complete this process and be actively implementing their protection plans by 2013. The company is providing guidance, planning templates, preparation checklists, and training courses to facilitate system-wide engagement with this program.

- Who has what type of leverage in the water management decision framework? Are there underrepresented or poorly represented interests?
- Who has what type of water access and use needs and to what extent are these met? What is the outlook for these needs being met in the future?
- What major reform initiatives or investment programs are in the pipeline?
- Is water supply and treatment infrastructure sufficient and adequately maintained to meet current and projected needs?



Understanding the nature, strengths, and weaknesses of relevant water policy and management systems and the degree to which they are consistent with SWM will help align the company's motivations and actions to objectives and outcomes that serve broader public interests.

A company should consider exactly how weak links in the policy framework relate to its own operational water-related risks and impacts. For example, a company might link inadequate local maintenance of water supply systems or enforcement against illegal water use to its water supply interruption or risks of shortage. This kind of diagnostic “gap” analysis should be done for all aspects of operations, including siting of new facilities, existing sites, supply chains, or product use. This analysis will help clarify the type of mitigation action and potential engagement that might be required.

Understand the political economy and risks of engagement

Effective engagement must also be grounded in a nuanced understanding of the political economy within which a company operates. A contextual understanding of why policy and legislation is or is not implemented, political priorities and imperatives, modes of decision-making, drivers of change, and who holds genuine power, authority, and influence will shape appropriate engagement.

It should help target the scales, themes (e.g., infrastructure, management capacity, and enforcement of regulations), and level of engagement and reveal political sensitivities, and is a critical element in understanding the risks and opportunities engagement presents.

Political economy is often quite complex, characterized by dynamic interactions among formal processes and informal or personal relationships. Key characteristics of a location's political economy that may influence decisions about the nature of engagement (or non-engagement) include:

- The complexity of the water issue at hand and the viability of a clearly defined, finite, and targeted intervention.
- The coherence, stability, and maturity of the policy and legal framework within which an intervention will take place.
- The political will of counterparts to proactively engage in good faith, particularly before a situation has developed into a crisis.
- The capacity and interest of water managers to cooperate and collaborate and to engage in an effective and sustained manner.

The nature of water management inherently predisposes the sector to corruption and other types of manipulation. Many commentators, including the Global Corruption Report 2008,³ allege that corruption lies at the heart of the global water crisis. Handling problems of corruption and avoiding them require a wide range of responses too diverse to cover adequately in this context. This Guide suggests that companies planning to engage comprehensively in water policy issues consider joining the Water Integrity Network (WIN),⁴ not only to benefit from the WIN's expertise, but to send a very clear signal that they uphold and plan to maintain the highest ethical and probity standards while engaging on water issues.

Where political will around water policy is weak, the company's intervention may be exposed to greater risk, with potentially little benefit. Where this situation exists, the company might want to realign its engagement strategy to one of advocacy and support with governments or direct intervention with communities, as opposed to higher risk interventions. The risks attached to an intervention may outweigh those of not intervening at all, usually because of costs, commitment, or stakeholder perceptions, but each situation requires the weighing of options and clear articulation of intent.

³ Zinnbauer, D., and R. Dobson, eds. *Global Corruption Report 2008: Corruption in the water sector*, Transparency International, Cambridge University Press, 2008.

⁴ The Water Integrity Network is an independent body that was set up in 2005 with the support of European Union governments to combat corruption in the world's water sector. An excellent set of resources, tools, and guidance is available through WIN's website (www.waterintegritynetwork.net).

While direct engagement with communities can be a very successful engagement strategy, it brings with it many risks particularly with regard to “responsibility boundaries.” For instance, governments are widely acknowledged as the entities responsible for protecting and fulfilling the realization of human rights. Companies attempting to fill such roles may be seen as forcing their actions on communities unless engagement is clearly driven by communities or is decided upon through legitimate multi-stakeholder decision-making processes. In addition, working effectively with communities to improve water supply and sanitation or other infrastructure is complex and fraught with potentially perverse outcomes and, therefore, requires specialist approaches and knowledge to embed sustainability, ownership, and equity.

Further, in cases where governments are corrupt or otherwise opposed to aiding these communities, companies’ legal license to operate may be compromised if governments view corporate actions as opposed to their agenda. Nonetheless, in extreme cases where government is unable or unwilling to fulfill its responsibilities, companies may feel morally obliged to deliver core government functions. In such a case, a clear exit strategy is necessary together with the acknowledgment by all that managing water resources and supply is not the business of most companies and comes with numerous reputational and financial risks.

While an assessment of political economy is the most important component of any assessment of the risks associated with engagement, numerous other factors might also inform engagement decisions, including:

- The company’s ability to initiate a process or intervention, including the involvement of potential allies and specialists.
- Tolerance by corporate shareholders of long-term initiatives that may not yield short-term profits or immediate benefit.
- An ability to communicate the intentions of engagement clearly and maintain transparency.

It can be difficult to assess political economy, as well as these other challenges and risks, before embarking on a process of dialogue with governments or communities. Personal interactions with local experts or bringing in independent or neutral facilitators to initiate the dialogue process are “low-risk” approaches to clarifying the challenges and scoping risks.

Senior management endorsement and commitment, which must be secured prior to interventions, is likely to require an assessment of the risks and benefits. Care should be taken to avoid making commitments, raising expectations, or starting a process that

may be left uncompleted or unfulfilled. The resulting negative perceptions may be more damaging than not engaging at all.

Assess stakeholders to understand their concerns

Though the “shared risk” concept emphasizes that governments, companies, and communities share the risks of dysfunctional water policy, it cannot be assumed that corporate and public opinion and interests will always align. Communities, policy makers, NGOs, and companies tend to focus on specific elements of water policy debates and operate in differing contexts with differing priorities. Further, while all stakeholders may agree on water resource challenges, their preferred methods for addressing these issues may be fundamentally different. Shared learning and experience across this broad spectrum may generate innovative, consensus-based solutions or processes for change. Engagement is likely to be most effective when affected parties share a respectful understanding of a wide range of other viewpoints.

Consistent with Principle 3, establishing trust and cooperation among stakeholders is an important aspect of effective water policy engagement. To do this, a company must understand the perspectives and interests of key water stakeholders, including public authorities, employees, and local communities. Such an assessment (typically conducted as part of a political economy analysis) may flag a set of objectives for engagement or make companies aware of outcomes that are particularly important to avoid. This can be accomplished through community water forums, regional stakeholder roundtables, or consultation with local NGOs.



Establishing trust and cooperation among stakeholders is an important aspect of effective water policy engagement. To do so, a company must understand the perspectives and interests of key stakeholders, including public authorities, employees, and local communities.

Community relations are often, and for good reason, a cornerstone of policy engagement strategy. Community engagement focuses on establishing enduring relationships with a broad spectrum of stakeholders, leaders, and individuals who are directly affected by or within the sphere of influence of a company's site operations. These relationships are geared toward a clear and shared understanding of needs and interests, a company's impacts on those groups, issues that create risk for companies and communities alike, and company and community actions that reflect mutual benefit. Community engagement allows companies to incorporate these concerns into their broader policy engagement strategy. Community engagement actions include forming community advisory groups, holding regular "open house" forums with neighboring communities, creating catchment groups, and implementing grievance mechanisms.

B. EXPLORE ENGAGEMENT OPPORTUNITIES AND PREPARE FOR ACTION

Once a company has a thorough, nuanced understanding of the water policy contexts in which it operates, it can begin planning its engagement objectives and the strategy that will be most effective at achieving them. This section highlights key aspects of this planning process.

Align engagement opportunities with appropriate scale

All levels of government have some influence on water policy, and a company will have to decide which public entities to engage with and at what scale(s). Appendix C provides a typology of prospective public agencies to engage based on the role they play in policy development and implementation. In addition, as the company explores the most strategic type(s) of engagement and entities to engage, it should consider the merits of pursuing engagement and action across five core scales: internal and supplier operations, local, regional or catchment, national, and international. It should consider the potential issues and benefits of working on local and regional interventions that usually focus on mitigating direct operational risk, as well as the value of national and global interventions that focus on advancing broader, long-term SWM goals.

In light of practical capacity and resource limitations, many companies will likely have to prioritize engagement at scales that are the most strategic or where water-related risk is most acute. **However, companies seeking to achieve best practice in responsible water policy engagement should pursue the core engagement strategies elucidated in this operational framework (described in detail in section 4C, page 54) and that play out across all five scales.** Table 1 summarizes the relevant actors, their water policy relevance, and how engagement opportunities differ depending on scale. For each, it provides examples of practical engagement activities that can mitigate risk and encourage business opportunity.

TABLE 1: Engagement across different scales of water policy

Scale	Typical entities engaged	Common water policy relevance	Engagement opportunities
Corporate/ Internal Operations	<ul style="list-style-type: none"> • Facility and sustainability managers • Line workers • Environmental health and safety personnel • Legal counsel 	<ul style="list-style-type: none"> • Meet regulatory standards • Reduce demand on water sources • Minimize pollution • Assess and mitigate social and environmental impacts 	<ul style="list-style-type: none"> • Assess risks and opportunities • Communicate expectations for meeting or exceeding regulatory or legislative compliance • Share water data to help benchmarking and impact assessment • Share innovative technologies and practice
Local (Municipality/ Community)	<ul style="list-style-type: none"> • Local water providers • City planners • Community councils and committees • Community-based organizations • Related government departments 	<ul style="list-style-type: none"> • Set water rates and distribute water • Establish and amend building, plumbing, and planning codes • Set local priorities and manage in the public interest • Service delivery to underserved areas 	<ul style="list-style-type: none"> • Change building codes and planning processes to consider non-structural water treatment • Encourage community engagement in water management and planning • Share investment in service delivery infrastructure development and O&M
Regional (Catchment/ Watershed)	<ul style="list-style-type: none"> • Regional water providers • River basin authorities • River basin boards and commissions • Catchment stakeholder forums • Research institutions and universities • Local and international NGOs 	<ul style="list-style-type: none"> • Set water rates • Develop quality goals and corresponding parameters for each body of water • Integrate water services • Provide a meaningful and legitimate forum for public participation • Developing contextually specific responses to shared risks 	<ul style="list-style-type: none"> • User fees that recover full capital and O&M costs and encourage efficiency • Create catchment-based planning units that integrate data and create economies of scale • Support transparent decision-making and oversight for accountable water governance • Participatory decision-making and sign-off of allocation decisions and conflict resolution
National	<ul style="list-style-type: none"> • National governing body (e.g., legislature and parliament) • National agencies (e.g., water management and infrastructure development) • National NGOs (e.g., for environmental protection) • National water boards and water research councils 	<ul style="list-style-type: none"> • Legislation (e.g., national frameworks like the South African Water Law) • Water allocation processes (e.g., water rights framework) • Enforceable and enforced standards (e.g., contaminant limits) • Monitoring networks (e.g., water quality testing) • National and regional water and land development and planning 	<ul style="list-style-type: none"> • Establish polluter-pays and beneficiary-pays principles • Avoid inappropriate subsidies for water infrastructure or services • Require policies for integrated approach to water management • Establish enforceable water-quality standards that protect human and ecosystem health • Monitor institutional performance
International	<ul style="list-style-type: none"> • Bilateral development partners (e.g., government entities like DFID, USAID, Danida, JICA, etc.) • Multilateral development partners (e.g., UN Agencies such as WHO) • International financial institutions (e.g., World Bank, IFC, and regional development banks) • International NGOs and networks of smaller NGOs or researchers • Multi-stakeholder initiatives 	<ul style="list-style-type: none"> • International law (e.g., transboundary management) • Standards (e.g., drinking water) • Human rights (e.g., to water) • Financing (e.g., for large infrastructure projects) • Research and development • International policy and methodologies 	<ul style="list-style-type: none"> • Establish international law and standards around water supply and quality concerns to enhance certainty and reduce risk • Advance best management practices • Finance water infrastructure and wastewater treatment • Invest in or directly supporting innovation for improved SWM • Unlock progress in SWM through international advocacy

Establish and articulate engagement goals and strategy

Consistent with Principle 1, effective engagement will need to be driven by clarity of purpose, which will ensure that internal company management is well-aligned and that external communication sends clear and consistent messages. Critical to this activity is a thorough understanding of the key water issues and local contexts, clear engagement objectives, a roadmap to achieving these objectives, and the establishment of clear responsibility boundaries. An understanding of how the company will position itself relative to public institutions and other stakeholders is also essential. Thus the company should explicitly consider and communicate how its water policy engagement goals align with SWM objectives. Appendix A provides an aspirational list of such objectives, along with a description of how attaining these may help reduce business risk.

A company must decide to what extent it is feasible, desirable, and appropriate to take on roles that would be the responsibility of public bodies in a fully functional institutional environment. In many cases, companies should simply look for opportunities to support and facilitate public entities in their attempts to fulfill their responsibilities (e.g., treat drinking water, repair infrastructure, and monitor water quality); in others, companies may partially or temporarily fulfill these traditional public roles. Either way, companies must be careful to avoid policy and process capture (discussed in detail below), not to raise unrealistic expectations, and not to take on too much responsibility for policy formulation or implementation. It is preferable for a company to facilitate the fulfillment of government duties and obligations by supporting, advocating for, or improving institutional incentives. The corporate fulfillment of public roles is not an expectation and is in fact undesirable in most situations.

To decide on the strategy and methods it will employ to pursue its engagement objectives, a company must determine the nature, topics, and means of engagement. For example, the company might pursue direct interventions, information sharing and research, technical assistance, advocacy programs, or a combination of these. A critical success factor is the need for a company to deliberate, clarify, and agree with affected parties what it is doing and why (see Principle 3), as well as to explain the risks and the rationale for the decision to get involved (see Principle 5). Also in line with Principle 2, this important step will ensure that the corporate role and responsibilities in engagement are clearly understood and accepted by the company itself, relevant public entities, and other stakeholders.

Ensure the internal house is in order

Engagement in water policy will likely generate scrutiny of a company's own operations. Thus it is vital to ensure that internal corporate water policy, practices, and performance are consistent with the goal of establishing and maintaining credibility and legitimacy with other players. Stakeholder perceptions and judgment of the company are influenced by levels of water use efficiency, water quality impacts, water withdrawals in competition with other critical water uses, preferential supply arrangements, disclosure of water use, and undue influence on public policy and management. As a result, companies should facilitate internal and supplier actions that are in line with related regulations and legislation, (e.g., permits, water allocations, discharge limits, and siting protocol), as well as broader water policy objectives. In pursuit of good operational practices, companies can implement basic efficiency practices and technologies (e.g., water recycling or low-flow systems) and take steps to make sure they adequately comply with local regulations. These precautions reduce risk by alleviating competition among other users in a catchment and ensuring compliance with legal requirements and social norms.

Water accounting methods and tools, such as water footprinting, Life Cycle Assessment, and the World Business Council for Sustainable Development's Global Water Tool, are useful ways through which a company can assess water-related risk and impacts. In addition, companies can work to influence suppliers to

Case Study 3: Cadbury distributes energy and water savings toolkits throughout business operations and suppliers:

As part of its broader sustainability efforts, Cadbury launched the Purple Goes Green campaign that distributes energy and water savings toolkits throughout its business operations and suppliers. These toolkits, available on the Cadbury intranet and on CD, cover a variety of sustainability issues, giving practical advice on ways to improve management practices. The water issues covered in the tool have been informed by engagement with stakeholders, particularly World Wildlife Fund. By Cadbury's own characterization, its water program is still in its nascent stages; however, this strategy of developing standardized toolkits is an innovative and cost-effective way for corporations to promote more SWM practices across vast supply chains.



It is preferable for a company to facilitate the fulfillment of government duties and obligations by supporting, advocating for, or improving institutional incentives. The corporate fulfillment of public roles is not an expectation and is in fact undesirable in most situations.

implement similar operational efficiency practices. These measures are particularly relevant where operations or suppliers are in locations with existing or potential water stress or water quality concerns. Underlying these approaches is the necessity of ensuring legal compliance in terms of local or national water abstraction and discharge permit conditions, or alternatively accepted international norms where the local regulatory regime is inadequate.

In addition to ensuring water performance is efficient and sustainable, it is also important to have appropriate levels of internal coordination, communication, and buy-in from key staff. Effective interventions in the public sphere will almost always require time and resources, and the shortage of either may jeopardize the effectiveness or completion of the process. Thus, realistic and budgeted financial, human, or infrastructural resources will have an impact. Further, a shared understanding of the motivations, objectives, and strategies or process of engagement among internal business operations helps prevent incoherent implementation of (e.g., working toward different objectives) and ineffective messaging to external stakeholders, which could damage credibility and trust. Relevant internal parties to coordinate may include facility managers and workers, corporate social responsibility (CSR) teams, environmental health and safety teams, upper management, and public relations staff. Once the engagement is planned, the details of engagement—as well as methods with which to message engagement to external stakeholders—must be communicated consistently throughout internal operations. This coordination may also include providing background information on shared risk and the underlying motivations of policy engagement.

Avoid policy and regulatory capture

Stakeholder concerns of corporate policy capture are perhaps the largest barrier to companies playing a meaningful and responsible role in the development and implementation of water policy. Policy capture exists where organizations unduly dominate a policymaking process to an extent that excludes or subdues other stakeholder views, resulting in policy that favors narrow vested interests to the detriment of the public good. Likewise, regulatory capture occurs where the agency responsible for regulation moves too far toward accommodating the interests of the regulated entity and can result in favorable handling, such as failure to vigorously enforce regulations. The dangers of intentional or unintentional policy capture are very real, and effective measures to both guard against corporate capture and to dispel perceptions of capture are therefore critical steps and a central aspect of the Guide. If not handled carefully, both may derail the engagement process, cause reputational harm, and ultimately work against the achievement of SWM. Thus, companies need to be very proactive in this context and not just avoid taking capture actions, but head off and guard against even the perception of capture.

Processes of capture have the following amorphous features that can make them hard to identify, difficult to prove, and challenging to guard against:

- They tend to work through subtle rather than mechanistic, visible processes.
- They occur along a sliding scale of relative influence rather than as a binary state.
- They can be unconscious or conscious, intentional or accidental.
- They tend to involve thoughts and emotions rather than more tangible elements.
- The boundaries between legitimate lobbying and nefarious capture are blurred.
- There is sparse guidance on or academic study of the issue.

The various ways these imbalances can manifest themselves are presented in Appendix D.

Capture is of particular concern in contexts where political and social imperatives to attract investment and jobs tend to mask environmental or social tradeoffs associated with development, where the resources available to the public sector are minimal, and where public oversight is weak and processes and organizational functioning are opaque. Many of these conditions—pre-requisites for collusion—exist in developing countries where public policy on water most needs support and where shared water risks are greatest. It is therefore particularly important that the avoidance of capture is prioritized within corporate engagement on water policy in developing countries.

Though policy capture is perhaps the greatest barrier to effective water policy engagement, numerous other issues, such as a lack of legitimacy, lack of political will, conflicting interests, and unintended negative consequences, can prevent companies from realizing their engagement goals. For a more detailed description of these barriers, see Appendix G.

C. PURSUE CORE ENGAGEMENT STRATEGIES

Once water policy conditions have been assessed and engagement sufficiently planned, companies—in coordination with their respective partners—can implement engagement strategies. This implementation takes numerous forms, including direct engagement with communities, engagement with water management, sharing information, advocacy, raising awareness, and supporting the development of global standards. This section describes some of these core engagement strategies and identifies effective ways to implement them.

Using the CEO Water Mandate elements to organize policy engagement

All the information offered in this operational framework, and in particular the core engagement strategies described below, is conceptually and practically consistent with the six elements of the CEO Water Mandate. Indeed, endorsing companies and others can use the Mandate as the platform for organizing actions that contribute to public water policy and management. These actions can be understood in terms of their contribution to the broad policy goals embodied in SWM.

Direct operations and supply chain management, the innermost levels of policy engagement, focus on improving operational performance to reduce physical water risk and to ensure a credible basis for higher levels of water policy engagement.

Watershed management and community engagement focus on improving local and regional level water policy development and implementation. It involves reaching out to key local stakeholders and initiating or participating in integrated regional catchment planning and management (using joint participatory platforms, such as basin and national water boards) to advance policy goals.

Collective action is founded on the premise that the scale of many water challenges is too great for individual companies to effectively address alone. Partnerships with key stakeholders at all geographic scales are geared toward developing a clear and shared understanding of priority needs and interests; of issues that create risk for companies, governments, and communities; and of company and stakeholder actions that should benefit both.

Public policy advocacy can play out at all levels of water-policy engagement, using SWM as a compass. Responsible policy engagement can consist of direct advocacy on a range of key public policy issues, such as water pricing, demand-side management, green infrastructure development, the human right to water, and the promotion of sustainable communities through improved access and infrastructure, among other issues.

Transparency is both a principle and an operational component of responsible water policy engagement. Disclosure of a company's intent in policy engagement, as well as the outcomes of the engagement itself, helps ensure alignment with specific water policy goals and SWM more generally.

Engage the local community

In many cases, water managers and other local authorities—“duty bearers”—are legitimate and effective representatives of nearby communities—the “rights holders,” meaning that engagement with water managers is often the most effective strategy for addressing community water issues. In some instances, however, companies can work directly with communities to support their efforts to improve water services. Examples of potential solutions include providing access to water services (e.g., drilling boreholes or installing pipelines), establishing or improving sanitation systems, cleaning waterways, and introducing technologies that promote efficient water use in the community. Companies can also participate in, and help support, local and regional water councils. These strategies are particularly useful when dealing with communities living in extreme poverty and lacking basic water services.

In its most productive form, community engagement leads to a strong sense of shared interests, and creates direct lines of communication in support of corporate water policy engagement measures. These connections can help create substantial trust-based relationships to support critical corporate operational needs. Initial and ongoing education efforts require heavy investment of corporate resources, as well as a commitment to responsiveness to community interests and needs. These investments are critical, however, in ensuring that local stakeholders support engagements in wider policy processes.

Case Study 4: Diageo’s Water of Life program

Diageo’s Water of Life corporate citizenship program has established the One Million Challenge—a company goal to deliver a source of clean water to 1 million people in Africa every year until 2015. These efforts include community-based projects that improve access to drinking water, enhance environmental conservation, and deliver capacity-building training to communities. Since the program’s founding in 2007, it has delivered water to an estimated 3.2 million people.

The program is designed as a bottom-up initiative. Diageo’s local businesses select projects based on local needs and priorities and use local resources. Each local business is expected to contribute 0.5 percent of its net operation profit to philanthropic water projects (and another 0.5 percent to non-water-specific CSR activities). The Diageo Foundation provides further funding for large-scale projects.

Case Study 5: SABMiller partners with WWF, USAID, and local NGOs to improve water quality

In the Manchawala watershed in Honduras, water quality and availability have been negatively affected by overuse by industries and poor forestry management and agricultural practices by communities in the upper watershed. This widespread mismanagement negatively affects the nearby ecologically and economically important Meso American Reef—the world’s second largest reef system.

Anchored by an engagement with Cervezeria Hondurenea, a subsidiary of SABMiller and bottler of Coca-Cola products, a diverse set of partners adopted a two-stage approach to the problem. First, the bottler implemented more efficient water usage practices in its operations. Second, local NGOs engaged with the local communities and encouraged better forest management by teaching subsistence agricultural practices that do not harm forest cover and that reduce soil erosion. WWF, with funding from USAID and the Coca-Cola Foundation, helped commission communities to plant and maintain trees through the provision of grants. These practices have led to reduced sedimentation and increased water supply.

Seek strategic partnerships

Companies typically seek out partnerships with other organizational actors (e.g., NGOs, intergovernmental agencies, universities, trade associations, and other businesses) to benefit from years of experience, gain other ideas and perspectives, enhance credibility and legitimacy, increase leverage, and pool resources to address shared risks. Partnerships bring multiple long-term benefits, and the Guide strongly recommends working in this manner as opposed to in isolation. The need for and usefulness of partnerships often increases as the level or scale of engagement increases. For instance, while company resources and communication at the local level may be sufficient to effect positive change in local water management, it may take the resources and leverage of a broad coalition of businesses to influence national policies.

Partnerships also provide an effective way through which to prevent real and perceived policy capture and provide access to an intimate knowledge of local water realities and catchment conditions. Partnerships with other companies can build a broader foundation of resources for engagement and increase the visibility of that action (and in doing so promote good practice). However, partnerships comprised solely of private sector entities can be met with skepticism, depending on the circumstances.

For partnerships to ensure inclusivity and prevent policy capture, all parties must have a reasonable opportunity to influence the engagement strategy and outcomes. As with engagement in general, companies must demonstrate that their internal house is in order (or at the very least that an implementation plan to do so is in place) and that their engagement activities will address shared risk before they expect other organizations to partner with them. An underlying

assumption of this Guide is that companies will have leverage in water policy, and yet this leverage will not always exist, particularly for small and medium enterprises. Working in partnerships can clearly help; more voices can garner greater influence and leverage for change.

Support water policy implementation

This Guide has already elaborated how greater water use efficiency and the reduction of wastewater discharge by themselves do not necessarily immunize a company from the operational, reputational, and regulatory risks or allow a company to pursue opportunities based on social, environmental, and political catchment conditions. Addressing these risks and opportunities requires engagement with external stakeholders to improve the management of water resources more widely.

Companies can find value in supporting better implementation of water policy. For example, they can work with municipalities, operators, farmers groups, and civil society groups on a range of operational issues. Potential outcomes include improved reliability and adequacy of local water services (e.g., infrastructure, community supply and sanitation, irrigation efficiency, water treatment, and environmental quality). These types of engagement typically occur at the local or catchment scale and must be underpinned by recognition of diverse stakeholder perspectives and interests in the wider context of “shared risk.” For example, policy engagement at such scales often focuses on fixing deficiencies in or supplementing or investing in the work of water management institutions and infrastructure. This approach can improve the reliability or quality of water supply or address specific, local social or environmental problems. This type of intervention, in particular, will challenge a company’s “responsibility boundaries,” as it could mean taking on traditional public sector water management roles. As such, companies must be particularly careful to ensure that the relevant government agencies and stakeholders support their fulfillment of this role. Direct intervention with policy implementation or water management takes many different forms, depending on local conditions, but includes:

- Investing in public water infrastructure upgrades (e.g., fixing leaking pipes or extending sanitation provision).
- Using internal facilities to meet local water needs (e.g., on-site treatment system used to supplement public wastewater treatment capacity).
- Using financial and technical resources to support local government and catchment planning and management.
- Supplementing infrastructure to ensure local supply to communities and industry.

In some cases these approaches have worked well, and in some developing countries there may be a moral imperative for companies to take on this work. However, ineffective or inequitable delivery of such support functions can expose a company to major reputational risks and could be easily perceived as a form of privatization if the company benefits from such an arrangement. To be credible and legitimate in most circumstances, such assistance should be free of charge with the clear outcome of advancing SWM and meeting urgent community water service and sanitation needs. This type of engagement generally takes place with local district officials or public agencies, utilities, or municipalities. However, in some cases this local engagement is inadequate or inefficient, because the root causes of governance challenges lie at the catchment or national level.

Case Study 6: Sasol enables water savings through engagement with local municipality

Sasol is a South African integrated energy and chemicals company that produces liquid hydrocarbon products from coal and natural gas. Its operations necessitate significant operational water withdrawals in the Vaal River basin, a key source of water for much of the country's other core economic activities. Because of the strategic nature of supplying a significant portion of South Africa's liquid fuels, Sasol has reliably received access to water.

In recent years, Sasol has determined that the lack of institutional capacity of local government and basin water managers (the national Department of Water Affairs, or DWA) to regulate water use and to ensure reliable long-term water supplies in the face of increasing water stress is a key source of the company's water-related risks. In response, Sasol has engaged national processes through trade associations to raise awareness with government, indicate private sector concern with increasing water scarcity, and assist in articulating national policy responses.

Sasol has driven internal recycling and reuse to the limit of economic return; recent marginal costs of internal water recycling are now significantly more expensive than water savings potentially achievable through implementing water efficiency measures in neighboring municipalities. As such, Sasol is also driving initiatives to address physical and financial risks in the system, mainly with local government around demand management in the Vaal River system, such as funding water demand management initiatives that help drive water efficiency among other water users.

Depending on the nature of the problem, companies then need to engage at one of two levels: 1) engaging with catchment managers, basin stakeholders, and decision-making processes to advocate for more equitable, economically efficient, and environmentally sound management, or 2) through addressing national- or regional-level government to unlock rational water policy and processes “up the chain of command.” To ensure credibility and avoid capture, the former is best approached through participation in multi-stakeholder platforms linked to basin management institutions and the latter through broad-based advocacy coalitions.

Share information to improve management

Poor water management sometimes results from a lack of data, data acquisition, and analytical capacity within public entities charged with national, catchment, or local water management. At the same time, global companies often conduct substantial research and monitoring for their own internal purposes, to support investment decision-making or as part of statutory requirements such as Environmental Impact Assessments. Companies that enter into relationships with public entities to share data on water uses, catchment conditions, and research findings can supplement capacity and support a clearer understanding of needs and impacts leading to better water management planning and implementation. Engagement through sharing information in this way can create less business risk than direct intervention because it does not engage the company in tasks that fall under public responsibility. A notable exception could be where companies gather and communicate data regarding the catchment status, which is typically (and in many instances should be) a public responsibility. In addition to providing public institutions with data and research, companies can provide them with technological assistance or training.

Case Study 7: Intel treats municipal wastewater in Arizona

Intel operates one of the world’s most sophisticated semiconductor manufacturing facilities in Chandler, Arizona, located in the southwestern desert of the United States. When planning this facility, Intel engineers knew that operating in an arid climate would require them to look beyond Intel’s own “fence line” for other sustainable water-related opportunities and solutions. As a result, Intel teamed up with the City of Chandler to devise a comprehensive and collaborative approach to water management. That approach included building an advanced reverse osmosis facility to treat clean rinse-water from Intel’s manufacturing facility to drinking water standards before being returned to the municipal groundwater source. Since 1996, this strategy has replenished more than 4 billion gallons of water into the aquifer. Intel also established an agreement with the local water authority to reclaim millions of gallons of processed wastewater for the company’s cooling towers and air abatement equipment, onsite landscaping, and to irrigate nearby farmland each day. In 2007, Intel won the Water Efficiency Leader Award from the U.S. Environmental Protection Agency for this innovative work.



The ideal form of information sharing and any associated technical assistance will be dictated by the specific environmental and institutional contexts. Practical examples of corporate-to-public-sector information sharing include:

- Sharing of data, database products, and research results, although care must be taken to ensure that the information is accessible and presented in a way that allows various stakeholders to make use of it.
- Sharing of best practice, such as good agricultural practices, innovations, and new or appropriate technology or methodologies.
- Sharing of expertise on process and organizational management.
- Support to specific investigations, such as work to explore the limits of sustainable abstraction in a basin or aquifer.
- Short- or long-term staff placements within public sector water management entities or with other stakeholders to provide mentoring and support capacity building.

Conversely, companies can engage with water managers and public institutions to gain access to a range of local water resource data as a means of improving internal operations. This engagement can help companies decide how to manage their facilities and therefore minimize impacts and risk, benchmark against other industries in that catchment, learn about water-efficient techniques that have been successfully implemented in that area, and engage with catchment boards that could help identify where a company's impacts occur, among other things.

To minimize the risks of capture or perceived capture, information sharing and technical assistance should be provided through a preexisting or specially formed

multi-stakeholder collaborative effort, or via credible third-party entities. Working through an intermediary or in collaboration with other stakeholders to support capacity building creates an important firewall and adds greater credibility and legitimacy to such efforts.

Advocate for efficient, equitable, and ecologically sustainable water policies and practices

Companies can also advocate for policies that advance SWM at many different scales. As described in Principle 2, the corporate role in these cases is to improve policymakers' ability to understand major issues and needs and make informed decisions. It can also play an essential role in increasing the capacity of affected stakeholders to act and advocate for themselves. Advocacy takes a variety of forms: it can take place at the national level to create improved water quality standards that ensure companies have reliable access to clean water or at the local or catchment level to advance specific conservation actions or better enforcement of existing requirements. In many instances, advocacy is most effective when coordinated across various scales. Advocacy can help governments make water issues a higher priority, coordinate policy implementation, build institutional capacity, promote democratic participation, and develop standards or regulations.

Companies can engage with water and related policy processes to ensure that legislative and institutional arrangements are appropriate and functional. They can also address broader, more strategic water resource management issues, support the development of sound regulations and action to curb pollution and unsustainable water use, and target areas of concern in the water sector that require financial investment.

The private sector has a mixed history of engagement in national policymaking that ranges from a progressive understanding of the need for more stringent policy and supporting changes to corollary regulations, to outright opposition to and obstruction of such measures. Opposition at times has been rooted in legitimate concerns over regulatory uncertainty, inconsistency, or ill-considered requirements. However, when opposition works against SWM or hinders the ability of other stakeholders to be heard, it creates both short- and long-term risks and undermines the credibility needed for other engagement activities. More progressively, companies have begun to engage proactively to strengthen policy frameworks to promote sustainability and equity and to build institutional capacity at the catchment level.

Raise awareness, advance global standards, and support research

Companies can engage with a range of national, international, or intergovernmental institutions to influence broad global policy goals and commitments; support the development of effective environmental, water, and social standards; invest in and guide innovation and research; advocate for progressive policy positions (e.g., the human right to water); and help raise awareness of water-related developmental issues.

Organizations such as the United Nations and its various agencies can be highly influential in establishing global expectations, which can then be adopted by national governments. In almost all cases, companies engage at this level as part of a multi-stakeholder forum or coalition. Typically, only senior management within a company engage at this scale, though opportunities should be explored for rolling out progressive water policy messages and commitments at both a national and local level.

Case Study 8: Pepsi publicly acknowledges the human right to water

In 2009, PepsiCo became one of the first multinational companies to publicly commit to respecting the human right to water throughout its global operation. This commitment—driven partially by a shareholder resolution and collaboration with NorthStar Asset Management—requires the company to proactively act to ensure that its facilities are not detrimental to any communities' access to sufficient and clean water supplies, as well as provide those communities with a meaningful role in the development of processes that extract water from shared supplies. These goals can be achieved by decreasing water use, particularly in locations exposed to water scarcity or where communities have limited access to water services, improving wastewater treatment, conducting ongoing impact assessments, and regularly communicating with potentially affected communities.

D. BE ACCOUNTABLE AND TRANSPARENT

Ensuring that engagements are credible and legitimate depends largely on the extent to which companies are accountable for their actions and transparent about their intentions and results. Creating and maintaining lines of communication with key stakeholders is critical to achieving these goals. This section outlines some measures that support this ongoing process.

Implement review and response mechanisms

Consistent with Principle 5, the most effective and credible engagement is that which addresses problems proactively and is sustained over the long-term until shared objectives are met and systems are put in place to ensure sustained management. Because of this, engagement actions must adapt to weaknesses in strategy or changes in the environmental, political, and social conditions of a catchment. Reviewing entails assessing new processes with respect to intended outcomes and determining where changes might occur. Responding involves following through on the actions necessary to achieve the intended outcomes. This review process is particularly relevant to water policy and management, given the highly dynamic and iterative nature of public policy.

The key to effectiveness in this area is both the establishment of clear goals and objectives for engagement during strategy development and of an internal management process. These must focus on the regular monitoring of relevant indicators of progress and adapting strategy in response. Indicators of progress are typically tailored to elements of the



Companies share the details of planned engagement with local stakeholders prior to engagement to foster inclusivity and legitimacy, prevent perceptions of policy capture, and develop lines of communication through which they gain input on engagement objectives and strategies.

engagement strategy and range from quantitative to qualitative. For example, an engagement action that targets leaking municipal water supply pipes could be supported by quantitative water loss reduction targets and monitoring. Alternatively, community engagement might be supported by an annual public opinion survey geared to a qualitative assessment of business community credibility. In all cases, engagement must be reviewed with respect to equity and human rights. All this information is then used to adjust the current strategy, as well as inform and improve any future engagement activity.

Effective review can be achieved through numerous different methods, often conducted simultaneously, and ranging from informal discussions with operations managers, employees, and local communities to formal processes, such as local community advisory groups, consultation with local NGOs, obtaining data from public agencies, and implementation of monitoring systems that track the conditions of local water bodies over time.

Within the sphere of corporate engagement in a range of water matters is the need for independent monitoring and evaluation, or audit by a credible, objective third-party, to track performance and outcomes and adherence to the principles outlined in this Guide. While forming a vital function in terms of transparency and accountability, this assessment helps companies learn and adapt with the aid of independent reflection.

Disclose outcomes of policy engagement actions

The extent to which external stakeholders support and provide legitimacy to engagement is largely dependent on the company's ability to clearly communicate the objectives, strategies, and outcomes of engagement efforts. The effectiveness of this disclosure depends on many factors, including developing effective avenues of communication, targeting the right audiences, providing meaningful information, and developing mechanisms through which stakeholders can provide feedback.

Communication with local stakeholders is an iterative and ongoing effort. Companies share the details of planned engagement with local stakeholders prior to engagement to foster inclusivity and legitimacy, prevent perceptions of policy capture, and develop lines of communication through which they gain input on

engagement objectives and strategies. Companies should maintain a dialogue with important local stakeholders, including affected communities, local NGOs, and local governments. Prior to engagement, companies should share the following information with stakeholders:

- A full list and description of involved parties (i.e., the company, their partners, engaged public agencies, and potentially affected communities).
- Information about the motivations for engagement from the perspective of all involved parties.
- The specific objectives of engagement and planned changes to local water management, policy, and/or infrastructure.
- The expected timeline.
- The amount and distribution of financial commitments.

Companies should provide frequent status updates on this information through the engagement process as progress is made or setbacks occur.

Once engagement is complete, companies should also disclose engagement outcomes to a broad range of stakeholders to fulfill commitments to transparency and accountability. This disclosure often occurs in the form of CSR reports and websites that are accessible to stakeholders worldwide. However, companies should also actively share outcomes directly with local stakeholders to maintain lines of communication and develop ideas for how to approach future engagements. Disclosure of outcomes features much of the same information listed above, but also provides (if possible quantified) impacts of engagement on local water management or catchment conditions. Disclosure relies on feedback mechanisms that allow stakeholders to comment on engagement activities or the nature of disclosure itself.

Table 2 provides an overview of the “do’s” and “don’ts” of engagement, explicitly linking the operational guidance provided in this section with the principles established in Section 3.

TABLE 2:
Summary of do's and don'ts for responsible water policy engagement

DO	DON'T
Principle 1: Advance sustainable water management	
<ul style="list-style-type: none"> • Align engagement objectives with furthering sustainable water management • Set objectives that are specific and measurable relative to the SWM context of engagement • Design engagement to address risks shared by multiple sectors • Continually assess and address any negative impacts of business operations on surroundings 	<ul style="list-style-type: none"> • Assume local needs or capacities based on experiences in other contexts • Seek to engage on issues unrelated to and in lieu of a company's most significant impacts • Advocate for policy change that undermines SWM
Principle 2: Respect public and private roles	
<ul style="list-style-type: none"> • Ensure internal house is in order and that the company is in compliance with existing regulations prior to engagement • Support policy initiatives that enhance public sector capacity to protect and improve water resources, establish and enforce requirements, and develop and maintain needed infrastructure • Understand the public sector's relationship to water-related risks (e.g., lack of authority or resources to manage water resources effectively) to formulate informed engagement strategy 	<ul style="list-style-type: none"> • Fulfill traditional public roles without explicit consent from public officials and local stakeholders
Principle 3: Strive for inclusiveness and partnerships	
<ul style="list-style-type: none"> • Fully characterize the stakeholder landscape related to corporate operations • Include local stakeholders (e.g., affected communities, local NGOs, academia, etc.) as equal partners in the development of engagement objectives and strategies • Engage stakeholders to better understand perceptions and concerns and to assess local conditions and company impacts • Enable effective participation where low stakeholder capacity would otherwise limit their contribution 	<ul style="list-style-type: none"> • Seek partnerships without providing partners a meaningful role in the engagement process • Engage stakeholders unless prepared to consider and be responsive to their suggestions • Fail to carefully establish clear expectations for the scope, structure, and duration of engagement, as well as any constraints on the capacity to respond • Fail to establish working relationships prior to the emergence of difficult issues
Principle 4: Be pragmatic and consider integrated engagement	
<ul style="list-style-type: none"> • Seek to improve local conditions and public water management before they lead to crises • When developing engagement objectives, consider unexpected adverse impacts on communities, ecosystems, management capacities, and policy arenas • When developing engagement strategies, consider a wide range of policy contexts (e.g., economic, social, cultural) 	<ul style="list-style-type: none"> • Seek to engage only when a company experiences acute crises • Prioritize achievement of specific objectives at the expense of attaining general SWM • Rely on specific timeline or financial commitment; engagement may necessitate or create expectations for ongoing support • Engage unless the company is fully committed to the challenge
Principle 5: Be accountable and transparent	
<ul style="list-style-type: none"> • Coordinate internal levels of management with respect to engagement motivations, objectives, strategies, and external messaging • Communicate engagement plans to stakeholders from the outset of and throughout engagement • Track and disclose outcomes of engagement to stakeholders • Establish feedback mechanisms to allow stakeholder input about engagement and disclosure 	<ul style="list-style-type: none"> • Allow inconsistent implementation and messaging from different levels of internal management • Develop one-way avenues of communications with stakeholders • Filter disclosure of engagement to include only positive results

For a comprehensive evaluative framework for responsible engagement that expands on this list, see Appendix E.

In summary, this chapter has attempted to highlight some practical guidance about and pitfalls in responsible engagement. In many respects the principles outlined in this Guide are yet to be tested and the results will of course differ across sectors, scales, and catchments. While we hope that engagement activities can be effective and beneficial in certain ways, we know that they can also have unintended negative consequences. Such consequences can lead to great reputational risk, despite the best intentions of constructive engagement. For this reason, it is important to conduct comprehensive analyses of the potential impacts of proposed actions on different groups of people. Giving attention to the equity of both intended and unintended consequences can enhance trust and lead to more opportunities for community engagement and partnerships.

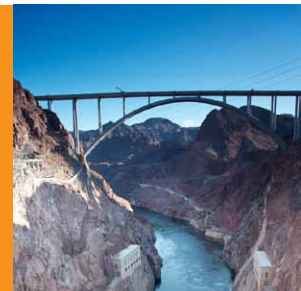




APPENDICES



Appendix A: Objectives of Corporate Engagement with Public Policy



Using the concept of sustainable water management (SWM) as an orientating framework, this section describes the various types of water-related challenges that pose risks for companies. While highlighting numerous practical problems occurring throughout the world, it demonstrates how SWM (and therefore business engagement with water policy and management) can mitigate these risks. At the most general level, the objectives of SWM include:

- All humans have access to a basic level of adequate and affordable water services.
- Environmental flows are of adequate volume and quality to maintain natural habitat, biodiversity, and ecosystem services.
- Water managers prioritize water uses based on societal and economic value.
- Long-term risks (particularly water scarcity, pollution, climate change, and inadequate infrastructure) are effectively managed.
- All affected stakeholders and communities are included in the decision-making process.
- The impact of one water use on another is responsibly regulated.
- The beneficiaries of water services or improvement projects bear the majority of development costs.

Engagement actions should help accomplish these objectives. In doing so, companies promote SWM and therefore minimize risks stemming from external water resource issues. The following descriptions of broad water-related issues that create business risks also identify more specific objectives that support SWM.

Physical water scarcity

Many regions in the world simply do not have enough water to meet all industrial, agricultural, social, and environmental needs. Known as physical water scarcity, this problem is rising globally. As populations grow in arid regions, industrial, agricultural, and municipal water demands increase; at the same time climate change threatens to drastically change the hydrologic cycle. Physical water scarcity occurs in many different ways. Some regions are in a perpetual state of water scarcity because they have an arid climate. Others have over-allocated their sometimes plentiful, available water supplies. Still others experience short-term periods of drought because of annual fluctuations in climate and precipitation.

All of these situations pose substantial risk for companies who rely on water in catchments or for systems that lack water. A lack of water in the most basic sense limits the amount of water a company can use (and therefore the amount of goods it can produce). However, these conditions can also lead to increased negative social and environmental impacts, stricter regulation, the reality or perception that corporate water use hinders others' ability to access water, and less interest from investors.

In many situations SWM can greatly reduce risks brought on by physical water scarcity by minimizing the amount of water needed and by ensuring that water is used for the most valuable purposes. A company can minimize its own water use, but is still exposed to risk if other water users in the catchment are wasteful. A well-operated system ensures that basic human and environmental needs are met; systems are drought-resistant (i.e., with proper storage infrastructure); wasteful water use is minimized through efficient water transportation and regulation of water users; water rates are structured to incentivize conservation; and that water is allocated to water users who provide the most economic, environmental, and social value.

Inadequate operation and management of water management systems

In many situations, even in the presence of physically abundant supplies of water, companies are unable to reliably access water because of failing water management systems, a situation known as institutional water scarcity. Such water management systems are in charge of treating, pricing, distributing, and storing water. They may also collect water bills, operate infrastructure, protect water resources, and respond to social and environmental change when necessary. Improperly managed water management

systems can lead to wasteful water use, inconsistent delivery, and insufficient planning for long-term catchment risks. Failure to protect water resources can lead to the destruction of aquatic ecosystems (and therefore the loss of ecosystem services), as well as human health concerns caused by pollution. It also limits the usefulness of that water for potable, industrial, and agricultural uses. Improperly managed systems are particularly common in less developed countries where there is often less money to operate water management systems and more corruption.

Inadequate water management systems (e.g., no treatment, insufficient pricing, and a lack of monitoring or enforcement) can limit companies' access to water supplies and services even when water is physically available. However, business engagement solutions can often be quite different. While mitigating physical water scarcity typically involves encouraging increased water-use efficiency, inadequate operation and management focuses more on building those systems' capacities. Businesses face fewer risks when they operate in catchments where the managers have the funding, data, and knowledge to respond to the various problems that arise. These conditions can be achieved by building water rates that recover the full price of operation, improving data collection on water uses and catchments conditions, and strengthening monitoring and enforcement programs, all while supporting the water conservation strategies mentioned above.

Insufficient infrastructure

Closely related to failing water management systems is the idea that business risk can be created through insufficient water infrastructure. Infrastructure development—often conceived at the regional or national scale—determines the capacity to supply different areas with water and often the costs associated with using the water, while operation affects the timing and actual quantity of deliveries. Water infrastructure includes necessities such as pipes, canals, reservoirs, and wastewater and drinking water treatment systems. The design and development of water supply infrastructure directly affects water distribution and access to water services, and may affect water rights, water pricing, and water quality. Failures in (or the lack of) these structures can lead to massive inefficiencies (and therefore supply problems), water pollution, and inconsistent delivery, among other things. While these problems are often a direct result of inadequate management, they can also result from a lack of action among policymakers.

Insufficient infrastructure, such as a lack of effective treatment facilities, damaged piping systems, or a lack of storage capacity, can hinder companies' access to clean water supplies and contribute to water scarcity due to massive inefficiencies. However,

while physical water scarcity can be mitigated by encouraging water users to adopt better conservation practices (or supporting water managers' ability to do so), deficient infrastructure can only be addressed by supporting water managers' ability to fund, repair, plan, or build efficient infrastructure. Examples of such support includes companies helping repair piping systems, building water recycling plants, and advocating for more stringent water treatment practices. These solutions allow for more efficient water use, increased access to clean water, healthier ecosystems, and fewer human health issues, which in turn may improve companies' ability to access water services and reduce the perception that they are contributing to major environmental and health problems.

Ineffective or inconsistent regulatory framework and implementation

Businesses can also experience water risk because of a regulatory framework—at the national, regional, or local level—that is ineffective in its conception by policymakers or poorly implemented by water managers. The regulatory framework around water quality and supply includes standards for water quality or environmental flows, as well as policies that establish the process for permitting, monitoring, and enforcement of those standards. These regulations are used to understand the environmental conditions necessary for healthy ecosystems and communities, to establish a process that maintains those conditions, and to prevent any individual water users or polluters from keeping these conditions from being met.

Poor policy and regulatory frameworks—or inadequate implementation of them—mean that there are no formal mechanisms to address and plan for water issues (e.g., scarcity, pollution, and infrastructure). These conditions can exacerbate risk in the long term or expose companies to reputational damage for not complying with regulations, when in reality they simply could not understand how to comply.

Though it is no new concept that regulation leads to increased costs and time requirements for companies to implement certain practices, it is perhaps less intuitive that the most pressing risks caused by regulation are tied to regulations that are too lenient or inconsistently applied. Sufficiently strict regulations eventually lead to systems that plan for short- and long-term catchment risks, ensure that other water users do not waste or excessively pollute water resources, and reduce the perception that companies are competing with other uses. Consistently applied regulations ensure that companies can plan for certain costs and that they will have reliable access to a sufficient amount of water of a certain quality. While better regulations often add more up-front costs for companies, they also, over the long term, stabilize the catchments in which they operate.

Numerous policy elements (particularly trade policy, energy policy, and agricultural policy) are not primarily geared toward the management of water resources, but nevertheless often have important implications for water supply and quality. Trade policies affect the types of goods that are imported and exported. Well-designed trade policies can help mitigate water scarcity by importing water-intensive goods into water-stressed countries. Energy policy also has great implications on water resources since water is needed for energy production and energy is needed for water supply and treatment. For example, energy policies that rely on biofuel production can reduce greenhouse gas (GHG) emissions and dependence on fossil fuel-based energy sources, but also requires large amounts of water to grow and process biofuel plants and is associated with increased leaching of pesticides and nutrients to water bodies. Finally, agricultural policy often provides incentives for growing certain crops through subsidies. In water-scarce regions, agricultural policy can be adapted to encourage the growth of crops that have high economic and social value relative to their water use.

Water pollution

Just as shortages in water quantity create risk, so does insufficient water quality. Insufficient water quality results from, in almost all cases, excessive pollution (from agricultural runoff, industrial wastewater, sewage, stormwater, etc.) and a subsequent lack of proper treatment by water managers. Public policy and management is ultimately responsible for water quality. Policymakers can create effective legislation and regulations for water pollution that prevent excessive pollution. This regulatory framework establishes water quality infrastructure (e.g., stormwater systems, wastewater treatment facilities, and drinking treatment facilities), as well as practice for the monitoring and enforcement of regulations and standards. Water managers implement these monitoring and enforcement practices to identify and mitigate pollution and operate facilities that treat pollution.

The extent to which different countries regulate water quality varies widely, ranging from no regulations to comprehensive regulations. The European Union regulates water quality through both the Water Framework Directive (which requires all water bodies to reach “good ecological status” by 2015) and the REACH Directive (which requires registration, evaluation, authorization, and restriction of chemicals before they enter a water course). Others—especially many in the Global South—have little to no or poorly enforced water quality laws.

Wastewater discharged by companies can negatively impact employees, communities, and the environment and therefore lead to reputational damage. Water pollution caused by other actors in a catchment can limit a company's access to sufficient quality of water for their production processes. By advocating and providing resources for improved water quality management systems (including infrastructure, regulations, monitoring, and enforcement), companies can help reduce water pollution and increase water managers' capacity to respond effectively. Stricter enforcement protocol ensures that upstream users minimize their wastewater discharge. Supporting quality infrastructure development can ensure that a company's own discharge does not have negative impacts and that water is of sufficient quality for industrial uses.

Competition among uses

In most cases, industrial water uses occur in catchments that also have many agricultural, municipal/residential, and environmental water needs. In addition to ensuring that industry has enough water to drive a region's economy, water policy must also make sure that these needs are sufficiently met. Water managers must provide enough water of sufficient quality for communities and for maintaining environmental flows and ecosystem function. Lawmakers must establish a legal framework of water rights and associated institutions that prioritize the most economically, socially, and environmentally valuable water uses and also appropriately adapts those rights in times of droughts, floods, famines, etc.

Companies are exposed to risk when they operate in catchments that do not meet these needs, regardless of whether the companies themselves receive enough water. A lack of access to water supply can create conflict among water users in the region, while lack of basic sanitation can lead to worker illness and a poor quality of life in surrounding areas. In these situations—whether rightfully or not—companies are often perceived as competing with other uses and as taking water that rightfully belongs to the environment or communities. These perceptions lead to great reputational risks that threaten a company's social license to operate, tarnish a company's brand among consumers, or reduce investor interest.

For this reason, companies have a great stake in ensuring that social and environmental water needs are met. They can so do by supporting catchment-wide conservation efforts, working directly with communities and environmental representatives, and advocating for water rights policies and regulations that ensure basic human and environmental needs are met and that allocation and rights adapt in times of drought or other major

catastrophes. Governments can also adopt a policy on the human right to water that entitles all humans to a certain amount of and quality of water to maintain their health and well-being, regardless of their ability to pay. Governments complying with this right are seeking ways to ensure water for all while operating water systems that meet economic and environmental needs. While the business implications of such a right are still unclear, it is evident that companies are exposed to less reputational risk when they operate in catchments where basic needs are met.

Climate change

Climate change is already altering the hydrologic cycle, leading to more frequent extreme weather events, including both droughts and floods, and causing sea-level rise, which has a variety of impacts, including salination of surface waters and groundwater aquifers. These changes will exacerbate issues that create water risk, such as water scarcity, pollution (because of decreased environmental flows and therefore higher concentrations of contaminants), and competition among water users.

Climate change will be felt differently in different parts of the worlds, depending on climate zone, degree of development, and governmental or institutional capacity and will. It will likely have a greater impacts on companies in areas with inadequate infrastructure to adapt to these changes or a lack of government capacity or will to invest in changes. Though mitigation and adaptation efforts for climate change are much broader than water-related management issues, SWM does play a role in adapting to climate change. Reduced water use will decrease the effects of drought and pollution and help prevent competition among water users. Policies that reduce the GHG emissions will help reduce the effects of climate change (and the subsequent impacts on water resources), and therefore are a strategy for promoting SWM.



Appendix B: Notable Regional and Global Water Policy Efforts, Protocols, and Research

Several regional and global policy efforts and initiatives exist that aim to promote sustainable water management solely or partially through private sector involvement. In some cases, these efforts and initiatives focus on how the private sector can align and engage with the public sector. Others work to establish norms or guidelines for good policy and practice. Still others establish protocols or guidelines for business actions that inform policy engagement efforts. This appendix provides synopses of these initiatives, focusing on how companies can use them to advance their engagement efforts and sustainable water management (SWM) in general.

Alliance for Water Stewardship

The Alliance for Water Stewardship (AWS) is an initiative developing a global freshwater stewardship certification program. This certification program will reward responsible water use management with competitive advantage. Such a certification system will require quantification of water use, discharge, and impacts, however the Alliance intends to build on existing methodologies (namely the water footprint as developed by Water Footprint Network) as a key component of its measurement, and will attempt to minimize duplication of efforts and confusion. The Alliance intends for this certification scheme to be applicable both to water “users” (businesses) and water “providers” (utilities). The initiative is currently in the standards development phase in which they are defining water stewardship.

This initiative aims to be a key avenue through which companies can ensure that their internal operations are appropriately managed and have minimal impacts, better understand the catchments in which they operate, and communicate to stakeholders that they behave responsibly. In this respect, it can add value to policy engagement efforts by providing credibility and promoting communication among companies, their stakeholders, and governments.

For more on the Alliance, see: www.allianceforwaterstewardship.org

Berlin Rules on Water Resources

In 2004, the International Law Association approved the Berlin Rules on Water Resources as an overview of international law applicable to freshwater resources, specifically transboundary management of surface waters and groundwater. The Berlin Rules—an update to the Helsinki Rules on the Use of Waters of International Rivers developed in 1966—like their predecessor are not legally binding, but rather provide guidelines for appropriate transboundary management of water supply and quality. The Berlin Rules assert that all bordering nations have a right to an equitable shared of water resources considering customary uses and the respective needs of each country. They also provide guidelines for resolving water-related disputes between countries.

The Berlin Rules offer an important framework for helping governments manage water resources sustainably and helping companies engage with this process when necessary. They are particularly helpful when foreign states or other entities (e.g., industrial facilities) operating across national boundaries contribute to water scarcity and pollution.

Carbon Disclosure Project Water Disclosure

The Carbon Disclosure Project (CDP)—an organization that collects information from companies worldwide regarding their greenhouse gas emissions and climate change strategies—is developing a framework through which to collect companies' water-related information and policies. The first iteration of the annual CDP Water Disclosure Information Request demonstrates an increased sophistication in what companies are asked about their understanding of their interaction with water resources. Examples of new expectations include: 1) an in-depth examination of water-related business risks and 2) an assessment of the local context in which companies operate (e.g., the proportion

of facilities located in water-stressed regions). The CDP Water Disclosure Information Request asks that companies disclose this data for their own facilities, as well as for their suppliers. This new framework underlines the fact that not only do these types of analysis help drive down water-related impacts and risks, but that investors, consumers, and other key stakeholders are also starting to expect companies to gather and share this information.

As with the Alliance for Water Stewardship, the CDP Water Disclosure Information Request can be an effective tool through which companies demonstrate to key stakeholders that their internal shop is in order, thereby providing a foundation for further engagement activities. In addition, it provides a framework through which companies can assess the extent, location, and type of water-related risk and therefore identify where and how policy engagement efforts might be most effective.

For more on CDP Water Disclosure, see: www.cdproject.net/water-disclosure

European Union Water Framework Directive

The European Union Water Framework Directive (formally known as Directive 2000/60/EC) is a legally binding policy of the European Union that provides steps and protocol for the management and protection of water resources. Established in 2000, the Directive commits EU member states to reaching goals for the status of water bodies (i.e., surface waters, transitional waters, coastal waters, and groundwater) both in terms of water supply and quality by 2015. This policy includes frameworks for improving river basin management, coastal marine environments, water supply, water-related human health issues, and water quality. The Directive focuses on managing water at the river basin level, promoting transboundary cooperation when appropriate. It emphasizes the importance of public participation in decision-making and integrating economic approaches, such as full cost recovery.

The Directive is perhaps the most in-depth and broad framework for understanding strategies for achieving SWM. For companies operating in EU member states it is essential for ensuring that engagement efforts align with policy goals. For companies operating in other countries—particularly those without a comprehensive and effectively implementing water policy framework—the directive serve as a useful model offering processes for managing water quality, public participation, groundwater, human health, etc.

For more on the Directive, see: http://ec.europa.eu/environment/water/water-framework/index_en.html

McKinsey water report: Charting Our Water Future: Economic Frameworks to Inform Decision-Making

Charting Our Water Future is a 2009 report by the 2030 Resources Group that provides an analytical framework to facilitate decision-making and investment regarding water resources to help mitigate and adapt to water scarcity. The 2030 Water Resources Group is comprised of a range of organizations, including the International Finance Corporation, McKinsey & Company, and numerous multinational corporations, such as Coca-Cola, Nestlé, SABMiller, and Syngenta, aimed at elucidating ways to reduce water scarcity and advance a solutions-driven dialogue among stakeholders. The report identifies the most cost-effective supply- and demand-side measures that can conserve water. In doing so, it developed a “water-marginal cost curve” to be used as a tool to support decision-making. Focusing specifically on case studies from China, India, South Africa, and Brazil, this curve offers a microeconomic analysis of the cost and water savings of existing technical measures and plots them in order of effectiveness (in respect to costs).

Lack of economic resources and of familiarity with technologies are major contributors to issues that create water-related business risks. The McKinsey report provides a tool to evaluate which technologies or methods can save the most water for the least amount of money in different geographic and political settings; it can be quite an important step in helping companies and governments alike mitigate water scarcity while promoting a strong economy.

To read the McKinsey report in full, see:

www.mckinsey.com/clientservice/water/charting_our_water_future.aspx

The Ruggie Framework for Business and Human Rights

The Ruggie Framework—developed by John Ruggie, the Special Representative of the UN Secretary-General on the issue of human rights and transnational corporations and other business enterprises—provides a conceptual and policy framework on the private sector’s role in human rights. The Framework is built around three core principles:

- The public sector is responsible for protecting against human rights abuses by third parties (most notably corporations).
- The private sector is responsible for respecting human rights.
- There must be greater access for all to remedies when human rights abuses occur.

In this context, “to respect” means to “do no harm” and to not infringe on the rights of others. This baseline expectation does not preclude companies from voluntarily conducting actions that protect or fulfill human rights when necessary. While not specific to water, this framework has played a key, defining role in the emerging discussion on the human right to water and companies’ role in ensuring that right.

The human right to water is one of the most controversial and important emerging issues related to water resources management. Governments and companies alike are largely unsure of what their roles are and how to fulfill them. The Ruggie Framework provides guidance on these questions and can help companies and governments acknowledge and establish their respective roles and develop effective strategies.

To read the Ruggie Framework in full, see:

www.reports-and-materials.org/Ruggie-report-7-Apr-2008.pdf

For an additional report on operationalizing this framework, see:

<http://www2.ohchr.org/english/bodies/hrcouncil/docs/11session/A.HRC.11.13.pdf>

UN Millennium Development Goals

The Millennium Development Goals (MDGs)—established in 2000 and adopted by all 192 UN member states—establish eight broad objectives for international development to be achieved by 2015. The MDGs have become the most widely recognized framework for assessing success of international development. The eight goals are related to: poverty alleviation, universal education, gender equity, children’s health, maternal health, HIV/AIDS, environmental sustainability, and global partnership. Each of these broad goals is composed of numerous specific targets. One of the targets for environmental sustainability relates to the amount of people with access to safe drinking water and sanitation services. Many other targets feature water-related actions as a key strategy for success. These goals are not meant to be the private sector’s responsibility, however corporations are meant to play a large role in supporting global efforts.

The MDGs provide a very useful framework through which companies can understand broad policy goals, assess whether their business operations hinder the achievement of those goals, and determine engagement strategies that help achieve those goals. They are particularly helpful in catchments where public institutions have not clearly articulated water-related policy goals.

For more on the Goals, see: www.un.org/millenniumgoals

Water Footprint Network

The Water Footprint Network (WFN) was launched to coordinate efforts between academia, civil society, governments, the private sector, and intergovernmental organizations to further develop and disseminate knowledge on water footprint concepts, methods, and tools. Water footprinting (as defined by WFN) provides a methodology through which companies assess their water use and its spatial and temporal dimensions. Such assessments provide insight into subsequent business risks and impacts on catchments, ecosystems, and communities. The water footprinting methodology was initially created as a tool for water resources management and this still remains its primary use. For these purposes, water footprinting allowing policymakers, planners, and managers to map various water uses in a system (e.g. agricultural, municipal, industrial), as well as the amount of water used by the community, country, region, etc. to produce the goods and services they consume.

Because of this connection with water resources management, water footprinting can be quite effective in facilitating communication between governments and businesses in response to water uses and needs.

For more on the Network, see: www.waterfootprint.org/

Water Witness International

Water Witness International is a research and advocacy charity working for the equitable, sustainable, and accountable management of water resources in developing countries. Poor management of rivers, lakes, and aquifers affects all water users, holding back economic growth, poverty reduction, and biodiversity conservation. A changing climate is exacerbating the many management challenges. To broker consensus-based solutions, build broad coalitions, and inform the evidence-based advocacy required to unlock progress, Water Witness International carries out high-quality interdisciplinary research to understand the social, political, economic, and environmental causes and consequences of water problems and conflict.

Water Witness International is working in Africa and South America to identify and reform inadequate water policy and to support implementation where progressive policy exists. With local partners, it is establishing indicators and tracking performance, monitoring investment, providing objective advice and constructive support.

By establishing greater transparency and understanding, the organization brings accountability to incentivize the improved performance of water management institutions.

Water Witness is building a global network of partners to deepen and broaden its work, bringing together communities, catchment authorities, government, NGOs, and national and multinational companies.

For more details see www.waterwitness.org

World Business Council for Sustainable Development Global Water Tool

The World Business Council for Sustainable Development (WBCSD)—a business association of roughly 200 global companies promoting sustainable development—launched its Global Water Tool in 2007. This tool, developed in collaboration with CH2M HILL, allows companies to:

- Compare their water uses (direct operations and supply chain) with water and sanitation availability information on a country and catchment basis.
- Calculate water consumption and efficiency.
- Determine relative water risks to prioritize action.
- Create key water Global Reporting Initiative G3 Guidelines indicators, inventories, risk and performance metrics, and geographic mapping.
- Perhaps the most important aspect of this tool is that it—unlike water footprint and Life Cycle Assessment methodologies—explicitly assesses the business risks associated with water use and discharge.

Though the Global Water Tool is not suited for an in-depth or comprehensive assessment of water-related business risks, it provides a very good, inexpensive, and fast initial risk screen for companies. By identifying where companies are located in water-stressed areas or communities that do not have sufficient access to water services, the Tool helps companies determine where policy engagement might be most needed.

For more on the Tool, see: www.wbcscd.org/web/watertool.htm

World Economic Forum Water Initiative

In 2008, the World Economic Forum launched its Water Initiative to provide multi-stakeholders strategies for raising awareness, using businesses to leverage improvement, and encouraging new multi-stakeholders dialogues regarding the century's major water issues. Specifically, the Initiative will:

- Produce a report outlining the political and economic implications of water issues.
- Develop policy tools to help analyze water challenges.
- Advance corporate water reporting practices and harmonization.
- Organize regional cross-sector dialogues to discuss potential response strategies.
- Launch a global initiative among international organizations, multinational corporations, and NGOs to scale up effective water projects.

The Initiative's Steering Board is comprised of prominent businesses, such as Coca-Cola, Dow Chemical, Nestlé, and PepsiCo, as well as NGOs and other organizations, such as the International Federation of Agricultural Producers, the Swiss Agency for Development and Cooperation, and the World Wildlife Fund. It can support business engagement with water policy by identifying companies' key strengths in solving major water problems and by fostering communication and cooperation across sectors. It will also raise awareness among stakeholders and governments alike and therefore help catalyze action.

For more on the Initiative, see: www.weforum.org/pdf/water/WaterInitiativeGlance.pdf



Appendix C: Typology of Public Agencies that a Company May Wish to Engage

A wide variety of public agencies (or private entities contracted to fill public roles) are involved in water management at various scales. A company must understand these agencies' respective roles before determining an engagement strategy. The choice of agencies to engage with will depend on contextual factors, but it is critical to target engagement at a level appropriate to the intended outcomes and avoid duplication or contradiction of public sector activities and policies.

Utility

Sometimes referred to as a water and sanitation service provider or undertaker, a utility is an organization that provides public services, such as drinking water, electricity, or sewage treatment, often operating and maintaining necessary infrastructure. Utilities, whether they are public or private, are often subject to forms of public control and regulation ranging from local community-based groups to national government. Public water utilities are often integral to the provision of basic water services in urban areas, including delivering water to homes and businesses and removing and treating wastewater from homes and businesses, and can be part of the local government structure. They often set local water and wastewater rates, determine which treatment technologies to use, maintain water supply and sewage infrastructure, provide rebate and incentive programs to customers to encourage certain behavior, and plan for the development of new infrastructure. They may have data regarding per capita water consumption and information about the end uses of water in their service areas. Utilities

may be interested in increasing the quality and coverage of supply, efficiency of water use, protecting and developing resources, and minimizing pollutant loads within “trade discharges” to the sewerage network. Similarly, many electrical utilities are finding that increased water efficiency is the least expensive way to improve energy efficiency; therefore, there may be opportunities to engage with energy utilities on water issues.

Local government

Local government can be critical for defining shared goals and obtaining local support. Beyond collaborating with elected officials or leaders, e.g., city council members, mayors, county or district supervisors, it may also be useful to engage local planning and public works departments. These engagements can be important sources of information about growth projections, land and water use regulations, stormwater management, waste disposal, and the operation and maintenance of public infrastructure.

River basin authorities

At a regional or catchment level, there may be autonomous river basin authorities or planning entities established and reporting to government to operationalize Integrated Water Resource Management (IWRM) and planning through the administration of water resource law. Similar functionalities may be incorporated within the work of National or Regional Environmental Protection Authorities or Environment Agencies, such as those in England and Wales that are structured around river basins. River basin authorities are in place across the European Union, Russia, Australia, and increasingly throughout Africa, Asia, and South and Latin America where reformed water policy frameworks conform to the principles of Integrated Water Resource Management (IWRM). These entities may convene stakeholders; monitor water quality and quantity; carry out strategic planning exercises; make decisions regarding water allocation or extraction; carry out investigations, enforcement, and compliance work; manage floods and droughts and/or determine priorities for public funds. Importantly, river basin authorities are often lead by, and report to, boards convened from among basin stakeholders.

National water regulator

In many countries a semiautonomous or autonomous regulator oversees the operations of water utilities. An example is OFWAT in the UK, which has a legal duty to protect

consumers from unfair water pricing. Water regulators set targets and standards and balance priorities in the water supply and sanitation sector, monitor and enforce drinking water quality standards, set leakage control targets, and balance investment in environmental improvements with acceptable tariffs passed on to the consumer and income generation by utilities.

National environmental regulators

In some countries national environmental authorities are in place to oversee the implementation of environment policy and law and to guide sustainable development. Their duties may incorporate granting water allocations and controlling wastewater discharges. In many countries they administer a system of Environmental Impact Assessments that ensure that the impacts of new developments—including impacts on water and the impacts of water development—are controlled, managed, and monitored.

State government

Water is often allocated at the state scale (e.g., India, the United States, Australia). In many countries, water rights offices or boards keep records on who has the right to use water, where, and when. In some places these offices regulate surface water (in rivers, streams, and lakes), while in others rights also apply to groundwater. A state water rights office may have authority to take action against infringements on other water users or unlawful water use, e.g., extracting water without a permit. Therefore, it is important to determine how water rights are allocated and which entities must be consulted to apply for new or additional water rights.

National government

It is obviously critical to be aware of national policy directives, e.g., the European Union Water Framework Directive requires that all water bodies achieve “good” ecological status, full cost recovery, and participatory planning at a catchment scale. In addition, water-related departments within national government may build and operate large water infrastructure or administer national water policy. Also, government-supported research institutes may compile data on national water use and quality and study trends. In some cases, national water boards or advisory councils may also recommend policies to elected officials or leaders.

Multi-lateral governance and aid organizations

Finally, various multi-lateral governance and aid organizations create consensus around particular water resource management priorities and provide funding to implement those priorities. In particular, several UN programs address water supply and quality from the UN Environmental Program, which compiles data and information about water quality worldwide; to the UN Development Program, which compiles data about water sanitation and human health issues worldwide; to the Food and Agricultural Organization, which examines agricultural water use issues worldwide.

In 2003, UN-Water was created to foster greater cooperation and information-sharing among existing UN agencies and outside partners. UN-Water recently published the triennial World Water Development Report (WWDR), a comprehensive review of the state of the world's freshwater resources, reporting on progress toward achieving targets, particularly those set by the MDGs and the World Summit on Sustainable Development. In addition, the UN General Assembly and Human Rights Council have recently declared access to clean water and sanitation a human right. In terms of funding, USAID, IDRC, and other multi-lateral aid agencies often provide funding for water management improvements.



Appendix D: Different Dimensions of Policy and Regulatory Capture

The figure below presents a typology of policy and regulatory capture organized by the source of imbalances in power and influence.

TABLE 3: Sources of policy and regulatory capture

Source of imbalance in power	Description	Example
Knowledge	Where the knowledge and expertise available to some stakeholders and/or preferential access to information or the ability to generate information prejudices one position or perspective over others. Related to epistemological concerns and the favoring of some knowledge “types” over others.	Policy makers tend to value quantitative, “scientifically” derived evidence over qualitative, “local” perspectives, despite the arguably equal value of pluralistic knowledge types. Information and technical expertise is more accessible, and can be generated or mobilized by those with financial or other forms of power.
Financial	Where financial considerations are permitted to dominate other public interest criteria to the detriment of some stakeholders.	Protectionist policies to favor large economic interests. Rejection of enforcement action where the offender is a significant employer and source of tax revenue.

Political	Where political influence and reach are exercised to further political ends—by a member of the executive or those seeking favor with members of the executive.	Used to win favor of local electorates, to curry political power or favors by business, and to encourage patronage. For example, influence by state governors or local councilors in planning decision-making processes to ensure favorable outcomes for select interests.
Access	Where by design or accident, some stakeholder or stakeholder groups are better represented or have greater access to decision-makers and thus are more able to influence outcomes.	Easy access to government offices by telephone or in person, compared to other stakeholders from outside commercial centers or who are seen as less important. Preferential or unbalanced membership of stakeholder forums, particularly where resource outlay is involved.
Opportunity	Where individuals and teams working for government are offered future enhanced professional opportunities in exchange for favoring certain positions and perspectives.	“Revolving door” employment within corporate concerns who offer employment, training, or career development opportunities to public sector workers. For example, some mines in Africa offer well-paid career development secondment opportunities to regulators who “perform well.”
Social and psychological	Where some stakeholder positions are favored over others because of slick and persuasive presentation as modern, advanced, progressive, etc.	Some public sector institutions may be easily swayed by the confident presentation of certain positions, attributing the trappings of financial power—luxury vehicles and offices—to “success” to be emulated and supported.
Logistical capabilities	Where the resources or logistical capabilities, such as ability to access field sites, tends to favor certain stakeholders and their perspectives over others.	Remote sites where field observations and investigations are necessary to support one perspective over another are only accessible to those with 4x4 vehicles, airplanes, or other specialist equipment.
State protection	State capture occurs when state parastatals, ministries, agencies, or local government receive preferential treatment at the expense of other stakeholders.	Non-enforcement of regulatory conditions against state-owned or state-managed facilities or operations (such as wastewater treatment works).

The factors known to predispose a process or organization to capture, as well as responses to mitigate these factors, are summarized below.

TABLE 4: Factors that lead to risk and effective responses

Risk Factors	Risk Response
1. High levels of discretionary powers and flexibility in exercise of statutory powers.	Publicly accessible, auditable codification and guidance for application of statutory powers, e.g., enforcement policy that sets out factors used to determine proportional and consistent responses to non-compliance.
2. Low levels of public oversight and media attention.	Investment in policy literacy within media and wider public and in social accountability monitoring.
3. Few interested or countervailing parties involved in process or issue.	Ensuring that multiple stakeholders are identified and engaged to participate.
4. High levels of political control and influence.	Strengthening separation of powers and checks and balances between judiciary, executive, and legislature.
5. Scarce resources available to policy makers and regulators.	Advocate for adequate resourcing in the public sphere.
6. Weak ideological or professional attachment to public good outcomes.	Support for “citizenship” and professionalism in part through civil service reforms.
7. High levels of opacity and low procedural transparency in delivery of duties.	Investment in social accountability monitoring.

From these tables it is easy to infer that capture, or the perception of capture, is a risk particularly in countries where poverty and lack of resources introduces numerous significant imbalances between disparate stakeholders and government. The differential and often much greater level of access, resources, finance, opportunity, knowledge, logistical reach, and influence enjoyed by the corporate sector over both other stakeholders and government predisposes policy engagement in such countries toward capture, or the perception of capture.



Appendix E: Evaluative Framework for Responsible and Effective Engagement

Corporate engagement with water policy is often quite complex and requires constant monitoring and adaptation to ensure sustainable and equitable outcomes. This appendix provides a framework that allows companies to evaluate the process and outcomes of their engagement with respect to the Guide's five core principles. This framework also provides a helpful tool for linking the general principles with practical actions on the ground. It does not provide a comprehensive assessment of all the criteria that might affect the success of engagement, but rather offers a preliminary set of questions that the company can then expand for specific engagement contexts.

PRINCIPLE 1: ADVANCE WATER MANAGEMENT THAT IS SUSTAINABLE

1A. Reflects local water resource context	
<i>Process</i>	<p>Did the company identify environmental, social, and political conditions that hinder sustainable water management (SWM) objectives prior to engagement?</p> <p><u>Conditions to identify:</u></p> <ul style="list-style-type: none"> • Water stress (i.e., water demand and supply) • Institutional capacity to respond to water risks and enforce legislation • Infrastructure (e.g., drinking water and wastewater treatment capacity and efficiency of conveyance) • Water quality • Community access to water services
1B. Aligns with SWM	
<i>Process</i>	i. Are engagement objectives designed to improve the conditions identified in 1A?
<i>Outcome</i>	<p>ii. Is there demonstrable evidence that water management conditions improved?</p> <p><u>Methods of measuring catchment conditions:</u></p> <ul style="list-style-type: none"> • Metrics for catchment conditions related to SWM (e.g., percent of population with access to improved sanitation, percent of municipal wastewater with tertiary treatment) • Survey of local stakeholders and facility managers (i.e., examining whether engagement led to a change in how stakeholders' perceived exposure to water-related community risks) • Dialogue with public agencies on catchment conditions • Participation in local community water forums
1C. Mitigates adverse impacts of company operations	
<i>Process</i>	<p>i. Does company understand how its own operations hinder SWM objectives?</p> <p><u>Mechanisms for assessing impacts stemming from company operations:</u></p> <ul style="list-style-type: none"> • Survey of stakeholder perceptions • Water accounting exercises (e.g., Life Cycle Assessment) • Dialogue with public agencies on catchment conditions • Participation in community water forums
<i>Outcome</i>	<p>ii. Did engagement demonstrably lessen the impacts of company operations on local conditions?</p> <p><u>Relevant metrics for assessing facility impacts:</u></p> <ul style="list-style-type: none"> • Volume of facility water use • Nature of facility water use (i.e., consumptive use, withdrawals) • Volume and quality of facility wastewater discharge • Whether other water users are competing for same water supply • Whether wastewater discharged to water bodies is used as source of community water or important habitat

PRINCIPLE 2: RESPECT PUBLIC AND PRIVATE ROLES

2A. Ensures compliance with regulations prior to engagement	
Process	i. Is company in compliance with all existing regulations prior to engagement?
	ii. Does engagement in any way hinder the company's ability or obligation to comply with existing regulations?
2B. Supports—rather than guides—public policy objectives	
Process	i. Are company engagement goals aligned with government engagement goals?
	ii. Do public officials have a meaningful role in engagement? <u>Criteria for meaningful role for public officials:</u> <ul style="list-style-type: none"> • Engaged to identify existing public policy goals • At table during planning of engagement objectives and strategy • Give consent to engagement objectives and strategies • Oversees implementation of engagement strategy • Ability to participate in review process and influence response actions
	iii. In cases where governments are not actively pursuing SWM, is engagement (i.e., with communities or civil society) aligned with internationally-recognized development goals and/or water management frameworks? <u>Internationally-recognized development goals and water management frameworks:</u> <ul style="list-style-type: none"> • Human rights • Millennium Development Goals • Integrated Water Resource Management (IWRM) • “Soft path” water management (see Appendix F)
Outcome	iv. Is there demonstrable evidence that engagement helped meet public policy goals, internationally-recognized development goals, and/or water management frameworks? (see 2B.iii)
	v. Were public officials satisfied with engagement process and outcomes?
2C. Facilitates institutional capacity	
Process	i. Is engagement aimed at facilitating the capacity for public agencies to fulfill SWM objectives? <u>Ways to facilitate government water management capacity:</u> <ul style="list-style-type: none"> • Funding • Facility water data • Catchment water data • Improved infrastructure technology • Assisting with treatment using facility infrastructure
Outcome	ii. Does engagement lead to demonstrably better capacity for governments to fulfill SWM objectives?

PRINCIPLE 3: STRIVE FOR INCLUSIVENESS AND PARTNERSHIPS

3A. Pursues strategies that foster legitimacy and trust	
<i>Process</i>	<p>i. Are stakeholders included in the development of engagement objectives and strategies?</p> <p><u>Relevant stakeholders:</u></p> <ul style="list-style-type: none"> • Affected communities • Local NGOs • Agricultural growers • Community water councils • Local businesses • Intergovernmental organizations working in the area (e.g., UN and WHO) • International NGOs working in the area
<i>Outcome</i>	ii. Did local communities and NGOs feel they had a meaningful opportunity to influence engagement objectives and strategies? (see 2B.ii)
	iv. Are local communities and NGOs interested in future collaboration as a result of a positive engagement experience?
3B. Facilitates constructive pooling of insights and balance of interests across sectors	
<i>Process</i>	<p>i. Are local communities and NGOs included in the assessment of the local water resource context and impacts?</p> <p><u>Examples of important data from local stakeholders:</u></p> <ul style="list-style-type: none"> • Local water sources • Sources of pollution • Effectiveness of public agencies • Access to water services • Negative impacts
<i>Outcome</i>	ii. Do engagement objectives and strategy seek to remedy conditions identified by local stakeholders as problematic?

PRINCIPLE 4: BE PRAGMATIC AND CONSIDER INTEGRATED ENGAGEMENT

4A. Addresses water management issues proactively, before they become crises	
<i>Process</i>	i. Does an assessment of local water conditions and impacts occur as a fundamental part of facility water management plan (rather than as a reaction to specific crisis)?
	ii. Is engagement initiated before these local conditions create acute risks for the company?
<i>Outcomes</i>	iii. Are acute risks and crises caused by local water conditions less likely as a result of engagement?
4B. Considers the ability of many policy arenas to affect the sustainability of public water management (and vice versa)	
<i>Process</i>	i. Does the engagement strategy promote heightened communication and coordination among various public agencies toward SWM goals? <u>Examples of policy arenas to consider:</u> <ul style="list-style-type: none"> • Agricultural policy (i.e., selection of high-value crops and efficient irrigation methods) • Energy policy (i.e., selection of water-efficient energy sources and energy requirements for water management) • Trade policy (i.e., trade aligned with virtual water)
	ii. Does the engagement strategy consider (and aim to avoid) possible corollary adverse impacts to catchment conditions and/or stakeholders? <u>Examples of potential adverse impacts:</u> <ul style="list-style-type: none"> • Improved infrastructure leads to untenable operation costs • Heightened corporate involvement leads to less involvement from local stakeholders • Protection of environmental flows leads to insufficient water supplies for communities
<i>Outcomes</i>	iii. Were steps taken to determine whether engagement led to undesired adverse impacts on stakeholders and other public management arenas?

PRINCIPLE 5: BE ACCOUNTABLE AND TRANSPARENT

5A. Establish chain of internal corporate accountability, coordination, and commitment	
<i>Process</i>	<p>i. Was engagement actively coordinated across all relevant parties within the company with respect to objectives of engagement, engagement responsibilities, and messaging of engagement to external stakeholders?</p> <p><u>Internal levels to be coordinated:</u></p> <ul style="list-style-type: none"> • Corporate Social Responsibility team • Upper management • Facility workers • Product design • Facility managers • Public relations
<i>Outcome</i>	<p>ii. Is communication and execution of engagement consistent among all levels of internal operations?</p>
5B. Clarify intended objectives of and strategies for engagement to local stakeholders	
<i>Process</i>	<p>Is engagement understood and actively supported by local stakeholders from communities and civil society?</p> <p><u>Aspects of engagement to report locally prior to engagement:</u></p> <ul style="list-style-type: none"> • Motivations of and risk to company • Objectives of engagement • Engaged entities • Engagement strategy • Changes to local infrastructure • Expected timeline • Feedback mechanisms
5C. Disclose outcomes of engagement to all external stakeholders	
<i>Process</i>	<p>i. Were outcomes of engagement made available to stakeholders?</p> <p><u>Avenues through which to disclosure outcomes:</u></p> <ul style="list-style-type: none"> • Community forums (for local stakeholders) • Corporate Social Responsibility reports • Website • Academic journals <p>ii. Does disclosure include the location, motivations, objectives, strategies, and resource commitments of engagement?</p> <p><u>Aspects of engagement to report widely after engagement:</u></p> <ul style="list-style-type: none"> • Motivations of and risk to company • Objectives of engagement • Engaged entities • Engagement strategy • Resource and time commitment
5D. Provide feedback mechanisms	
<i>Process</i>	<p>i. Facilities provide mechanism through which local stakeholders can report negative impacts and/or conditions that create shared risk.</p> <p>ii. Does disclosure provide a mechanism through which interested stakeholders can critique the engagement process?</p> <p><u>Possible feedback avenues:</u></p> <ul style="list-style-type: none"> • Community forums • Direct communication with facility managers via phone or on-site • Other stakeholders through phone or online inquiry



Appendix F: Aligning Responsible Engagement with Innovations in Water Resources Management

As water continues to grow as a sustainability issue of critical importance for governments and businesses alike, some conceptual frameworks and protocols have emerged that attempt to define principles and practices that help advance sustainable water management (SWM). An understanding of these frameworks may prove invaluable to developing effective engagement actions or understanding commonly accepted SWM goals. Below is an overview of two of these frameworks: Integrated Water Resource Management (IWRM) and “soft path” solutions.

INTEGRATED WATER RESOURCE MANAGEMENT

Integrated Water Resource Management (IWRM)—also known as Integrated River Basin Management—is now widely regarded as the overarching framework under which the global community should direct its efforts at delivering SWM. The Global Water Partnership⁵ provides a widely accepted definition of IWRM:

A process which promotes the coordinated development and management of water, land, and related resources, in order to maximise the resultant economic and social welfare in an equitable manner without compromising the sustainability of vital ecosystems.⁶

⁵ The Global Water Partnership, established in 1996 to foster IWRM, is an international network of organizations involved in water resources management: developed and developing country government institutions, UN agencies, bilateral and multilateral development banks, professional associations, research institutions, NGOs, and the private sector. It is hosted by Swedish International Development Agency.

⁶ GWP, 2000. Integrated Water Resources Management. Global Water Partnership, Stockholm. [TAC Background Papers, No. 4].

IWRM seeks the sustainable economic, social, environmental, and institutional outcomes that are described in Section 1 of this Guide; however, it can include a sometimes confusing array of priorities and principles and other water management functionalities. This Guide targets the end goal of SWM rather than the process of IWRM, aiming to simplify and avoid potential misunderstandings around variable interpretations of IWRM. At the same time, it recognizes the need to tease out the relationship between SWM and IWRM, given the importance of IWRM in the water sector. It does so here by providing a contextual understanding of IWRM, as well as a description of how IWRM approaches inform SWM.

The origins and nature of IWRM

At its core, IWRM is a logical management response to the interconnectedness of the water cycle, particularly at river catchment and aquifer scale, which requires that management decisions consider the full range of “basin” water uses, users, and their needs to avoid conflicts or negative impacts and to optimize the benefits of water use. As well as the sectoral uses of water (domestic or municipal supply and sanitation, agriculture, industry, energy, fisheries, etc.), water “users” include the environment and the needs of the ecological services it provides and also land-use and land-use change within the catchment that affects the water cycle.

IWRM is a process that involves identification of the multiple impacts and trade-offs associated with current or proposed sectoral policies; once identified, they can be subjected to a political process of informed decision-making.⁷ IWRM evolved as a response to the perception that this identification of trade-offs had historically been bypassed—that water management had been “unintegrated,” with various government ministries managing and using water independently, water resources in upper catchments being developed and used without considering downstream impacts, water quality issues disregarded or disconnected from issues of quantity, groundwater exploited without concern for hydrological linkages with surface water and vice versa, land-water interactions overlooked, ecosystems impaired, and social equity often disregarded.⁸

Many cite a meeting of water specialists in Dublin in 1992 as providing the modern conceptual foundations of IWRM were developed. The meeting agreed on a set of four universal principles to guide water management, which were later adopted by the

⁷ Rama Mohan Rao, M.S., Batchelor C.H., James, A.J., Nagaraja, R., Seeley, J. and Butterworth, J.A., 2003. Andhra Pradesh Rural Livelihoods Programme Water Audit Report, Rajendranagar, Hyderabad 500030, India

⁸ Molle, F. 2008. Nirvana concepts, narratives and policy models: Insight from the water sector. *Water Alternatives* 1(1): 131-156

UN Conference on Environment and Development at the Earth Summit in Rio. All governments were urged to develop action programs for “concerted action to reverse the present trends of over consumption, pollution, and rising threats from drought and floods”⁹ based on these four guiding Dublin Principles:

- Fresh water is a finite and vulnerable resource, essential to sustain life, development, and the environment.
- Water development and management should be based on a participatory approach, involving users, planners, and policy makers at all levels.
- Women play a central part in the provision, management, and safeguarding of water.
- Water has an economic value in all its competing uses and should be recognized as an economic good.

Thus, the ideological basis of IWRM consists of three pillars: equity, efficiency, and sustainability, placing it firmly as a delivery vehicle for sustainable development thinking and SWM in particular.

The World Summit on Sustainable Development in Johannesburg in 2002 set a target for all countries to have formulated IWRM plans by 2005 and the global commitment to IWRM was reasserted at the Third World Water Forum in Kyoto 2003 with ministerial declarations of support to “enable developing countries to develop IWRM.” IWRM now stands as the central tenet of much global water policy, and most multilateral and bilateral donors active in the water sector have placed their political and financial weight behind IWRM.

IWRM reforms in developing countries

Most developing countries have been through, or are undergoing, a process of reform toward the “model” provided by IWRM. This model or system of water resource management is now in place—at least on paper—across much of world. It vests ownership of the water resource in the state and with statutory controls on water abstractions and on wastewater discharges through a system of legal permitting. Where freshwater is to be extracted from the environment or wastewater introduced, the water user must secure a legal permission from a statutory authority that specifies the conditions under which that water resource “transaction” can take place.

Applications for these legal permissions are determined by weighing public interest factors, including impacts on existing water users, environmental needs, and strategic

⁹ GWP 2008, <http://www.gwpforum.org> GWP website accessed on 07/02/08

priorities for water use in a given basin. Such decisions are supported by the monitoring of water quality and quantity, which reveals the nature of the water available and its environmental setting and provides data for compliance and enforcement work. Breaches of these permissions, or “unconsented” water resource transactions constitute offenses, punishable by fine or even imprisonment.

An appointed authority, commonly with powers covering an area defined by a watershed, administers the regulatory system. Critically, the basin authority has the legal authority to charge application fees and annual use charges for these transactions. This revenue helps to fund the authority’s ongoing operations, such as monitoring, enforcement, and basin planning to make the system work.¹⁰

Participatory instruments are aimed at raising awareness of these regulatory controls among water users and involving stakeholders in implementation and decision-making. These participatory instruments include the formation of water user associations, and advisory “boards” of water users or other representatives at the sub-basin, basin, or national levels. Such platforms facilitate a two-way flow of information between the basin authority and water users, and in some instances possess devolved decision-making powers or an advisory role on policy, strategic, operational decisions, appointments, or water transaction determinations within the basin.

This regulatory approach is founded on the following principles: water resource “ownership” vested in the state that issues permits to use water resources under certain conditions, and the establishment of the offense of abstraction or discharge without a legal permission or non-compliance with a permit. These principles have often been in existence for many years. These same principles are analogous with water resource legislation in place in developed countries where it is demonstrating considerable success. Despite very different contexts for application, this regulatory model of IWRM is the basic blueprint for legislative and institutional reforms being rolled out across the developing world.

IWRM implementation

As part of an international drive for IWRM implementation, much effort is directed toward capacity building. Such activities target support to physical, financial, and human resources; managerial and conflict resolution capabilities; supportive policies

¹⁰ For example, this passage in the Tanzanian Water Strategy is typical: “In order to realize the recurrent funds necessary to support water resources management activities, the abstraction and use of water resources for economic purposes will be charged for, as will the discharge of effluents.” Section 5.3.3 pp 57

and legislation; and a better understanding of the water resource. Capacity for IWRM is required at various levels: by the individual, within organizations, and within the wider institutional context or “enabling environment.” In recognition of the multi-dimensional nature of these capacity needs, legislative and institutional reforms have swept throughout the developing world in an attempt to cast the water sector, its organizations, and the enabling environment in the mold provided by IWRM.

Training courses and external support agencies (consultancy companies, research organizations, NGOs, and offshoots of donor organizations like the GWP) have proliferated to support capacity building for IWRM. Capacity is further supported by very significant allocations of Official Development Assistance (ODA) funding toward the water sector—with the World Bank in particular responsible for disbursement for IWRM reforms.

Concerns about implementations and the private sector’s role

Although on paper reforms toward IWRM are going well, many quarters have put forth justifiable concerns that implementation is still piecemeal, and that the benefits that IWRM promises have yet to be delivered.

The reasons for this slow progress are many and varied and differ from country to country and basin to basin. In many countries, a lack of capacity, data, or technical infrastructure is cited as the problem. Undoubtedly the logistical challenge of managing very large river basins that are highly dynamic and populated by tens of thousands of disparate, unregulated water users is a genuine and significant challenge. However, while these challenges undoubtedly exist they may mask more deep-seated problems that need to be tackled before IWRM can unlock genuine public good benefits in the water sector. For example, the water sector, particularly water resource management officials, traditionally receives relatively small budget allocations from central government despite the importance of water to national economies. Further, the authorities or ministries responsible for water management may have little influence or power over larger government ministries, such as energy and agriculture, over which they need to exert control to be effective, or they may be in conflict with other agencies, such as environmental protection authorities or local government, who share an overlapping mandate. In addition, the water sector is prone to corruption and other forms of manipulation by powerful groups. While IWRM promises equitable water use for all water users, those powerful water users that benefit from inequitable water use sometimes derail progress.

The private sector can help unlock some of these problems. As large water users in river basins across the world, companies have a legitimate right, and it can be argued—a duty—to demand that water is managed more effectively, equitably, efficiently, and transparently. Engagement among the corporate sector, civil society, and government to help identify and meet these challenges of IWRM implementation and SWM delivery promises much—particularly through support for research and data collection and analysis, participation on water management decision-making forums (such as Basin or National Water Boards), capacity building and coaching, and support for accountability and performance monitoring. This Guide is very much targeted at on-the-ground actions that can help to realize that potential.

THE “SOFT PATH” TO WATER MANAGEMENT

The past century was dominated by the construction of large water infrastructure projects in the form of dams, aqueducts, pipelines, and complex centralized treatment plants, funded with a limited set of financial tools. This “hard path” approach has been incredibly beneficial in many respects; however it also had substantial, often unanticipated social, economic, and environmental implications. An emerging, alternative water management paradigm is the “soft path,” which continues to rely on carefully planned and managed centralized infrastructure but complements it with small-scale decentralized facilities and innovative management approaches. Some key principles of soft path management:

- *Treating water as a service:* Changing the concept of water as an ends to a means is critical to liberate water planners and managers from the constraints of merely supplying more water to supplying water services. This shift in perspective allows for an increased range of options to reduce water use while maintaining the desired water services.
- *Ensuring ecological sustainability:* In many situations, leaving water in its natural state may be more beneficial to society than extracting it. Thus, important environmental constraints are acknowledged from the start to limit water extraction from natural sources.
- *Matching the quality of water to its use:* Water policies and planning efforts are designed to match the quality of water to that required by the final use. The goal is to create circular systems so that the wastewater from one use becomes an input to others.
- *Beneficiary-pays:* Water pricing should reflect the value of water and incentivize efficient uses. Further, those that benefit the most from certain improvements should bear a proportionate amount of the costs through user-based fees and polluter-pays principles.
- *Planning with the future in mind:* A longer time horizon for water planning allows for the consideration of new norms of behavior, impacts of climate change, and preferred policy interventions.

These concepts can help inform a business's policy engagement strategy by providing practical steps that advance sustainable and efficient water management. Since these solutions are generally more cost-effective, have less impact, and incorporate stakeholder participation, they help ensure that both the process and outcomes of engagement minimize risk.

For a more comprehensive discussion of soft path solutions, see the work of the Polis Project on Ecological Governance at: www.waterdsm.org/softpath, and the Pacific Institute at: www.pacinst.org/topics/water_and_sustainability/soft_path/index.htm.

Appendix G: Understanding and Avoiding Barriers to Effective Engagement



The main body of this report focused on policy capture as a key barrier to responsible and effective policy engagement. However, other key issues such as a lack of legitimacy, a lack of political will, a lack of leverage, conflicting interests, and unintended consequences and impacts can prevent companies from realizing their engagement objectives. The list of issues below describes which companies and contexts might be particularly susceptible to each, as well as strategies for avoiding them.

Lack of political will

Engagement will prove difficult in contexts where public agencies are uninterested in receiving corporate help or striving toward SWM goals. Where political will is low, the corporate sponsor of an intervention will have greater exposure to risk, often with little benefit. Therefore, success depends on assessing potential partners' interest. Where the capacity and will on the government side is low, the company might want to realign its engagement strategy to one of advocacy and support with governments and direct intervention with communities, as opposed to higher risk interventions. A company could, of course, face more severe risks when it intervenes that it would have if it had not (because of costs, commitment, or stakeholder perceptions), but each situation requires a weighing of options and clear articulation of intent.

Lack of legitimacy

Legitimacy in the eyes of its stakeholders and potential public partners is a vital attribute for corporate interventions and action on water policy. It refers to the ways in which company processes, policies, actions, and agents are validated and empowered. In water management, legitimacy is not assured and is volatile, particularly for corporate entities that might be seen by some as “bad actors” or as “having no business getting involved with water policy.” Companies can gain legitimacy through demonstrable achievement and by partnering with those who already have legitimacy, particularly NGOs and aid organizations. There is a real opportunity within corporate engagement on water for companies to add their voice and resources to those civil society voices that have long been campaigning and advocating for improved water management.

Conflicting interests and confused debates

Though water issues create risk for governments and companies alike, corporate and public interests cannot be assumed to align in all cases. Further, while companies and other stakeholders may agree on the source of shared risk, they may fundamentally differ in their preferred method for addressing these issues. For instance, while some water-intensive companies may never advocate for conservation water pricing that make the cost of operation prohibitive, community water users may find this approach effective at reducing demand and protecting ecosystems. Situations such as these, of course, pose significant obstacles to effective engagement.

Indeed, water-related issues, problems, and debates are complex, dynamic, and nuanced, and water policy can be a “challenge-rich environment” where consensus is difficult to achieve. Within these spheres are differing policy and legal regimes, investment requirements, financial instruments, stakeholder groupings, personalities, priorities, and perceptions. Consider also the potentially polarizing debates around water as a human right; water service privatization and pricing; water used for food production, biofuels, and bottled water—what emerges is a myriad of possible positions, unexpected consequences, and ample room for confusion and misperceptions. These positions can sometimes reflect dogma or wider political worldviews that can obscure technically rational solutions and conspire against consensus.

Responsible business engagement, by definition, entails that broad stakeholder support must be reached for companies to attempt to support water policy. As such, proposed engagements that are met with widespread resistance from stakeholders must be

eliminated or changed so that they better integrate the range of needs. When stakeholder opinions on the proposed engagement vary, companies deliberate in catchment-level water boards or other stakeholder forums to compromise among different interests. This strategy is essential in mitigating reputational risk and will likely lead to better results by means of a highly iterative, inclusive planning process.

Unintended negative consequences

Engagement activities, while effective and beneficial in certain ways, can also have unintended negative consequences on certain stakeholders or policy elements. Such negative consequences can lead to great reputational risk, regardless of intentions. For this reason, a company should conduct comprehensive analyses of the impacts of proposed actions on different groups of people.¹¹ Attention to the equity of both intended and unintended consequences can enhance trust and lead to more opportunities for community engagement and partnerships.

¹¹ Reflexivity is a concept and process from the social sciences that requires policy actors in developing countries to place themselves, their assumptions, and their practices under scrutiny, acknowledging the ethical dilemmas that permeate their engagement and that may impinge on the achievement of established policy goals. Reflexivity promotes careful self-scrutiny of actions, methods, values, biases, decisions, and sensitivity to cultural, social, and political contexts. As a concept for improving the quality and ethical footprint of corporate engagement, reflexivity may help avoid negative unforeseen outcomes of well-meaning efforts. Companies can operationalize this concept into their internal operations, as well as their engagement opportunities, through regular impact assessments, employee consultations, community engagement processes, and disclosure of practices and data to the general public.



About the Pacific Institute

The Pacific Institute is one of the world's leading nonprofit research and policy organizations working to create a healthier planet and sustainable communities. Based in Oakland, California, it conducts interdisciplinary research and partners with stakeholders to produce real-world solutions that advance environmental protection, economic development, and social equity—in California, nationally, and internationally. Since its founding in 1987, the Pacific Institute has become a locus for independent, innovative thinking that cuts across traditional areas of study, helping make connections and bring opposing groups together. The result is effective, actionable solutions addressing issues in the fields of freshwater resources, climate change, environmental justice, and globalization. www.pacinst.org



About WWF

With a global network covering more than 100 countries and nearly 50 years of conservation work behind us, WWF is one of the most experienced environmental organizations in the world, actively contributing to delivering freshwater projects and programs around the world. www.panda.org



About Water Witness International

Water Witness International is a research and advocacy charity working for the equitable, sustainable, and accountable management of water resources in developing countries. Poor management of rivers, lakes, and aquifers affects all water users, holding back economic growth, poverty reduction, and biodiversity conservation. A changing climate is exacerbating the many management challenges. To broker consensus-based solutions, build broad coalitions, and inform the evidence-based advocacy required to unlock progress, Water Witness International carries out high-quality interdisciplinary research to understand the social, political, economic, and environmental causes and consequences of water problems and conflict. www.waterwitness.org



About Pegasys Strategy & Development

Pegasys is a specialist institutional, management and strategy consultancy, providing tailored solutions in the public and private sector through partnership with its clients. www.pegasys.co.za



The CEO Water Mandate is a special initiative of the UN Secretary-General and the UN Global Compact, providing a multi-stakeholder platform for the development, implementation, and disclosure of corporate water sustainability policies and practices. The UN Global Compact is the world's largest corporate sustainability initiative with over 7000 corporate participants and other stakeholders from more than 140 countries. The UN Global Compact is based on ten principles in the areas of human rights, labour standards, the environment, and anti-corruption.

The CEO Water Mandate's six core elements:

DIRECT OPERATIONS

Mandate endorsers measure and reduce their water use and wastewater discharge and develop strategies for eliminating their impacts on communities and ecosystems.

SUPPLY CHAIN AND WATERSHED MANAGEMENT

Mandate endorsers seek avenues through which to encourage improved water management among their suppliers and public water managers alike.

COLLECTIVE ACTION

Mandate endorsers look to participate in collective efforts with civil society, intergovernmental organizations, affected communities, and other businesses to advance water sustainability.

PUBLIC POLICY

Mandate endorsers seek ways to facilitate the development and implementation of sustainable, equitable, and coherent water policy and regulatory frameworks.

COMMUNITY ENGAGEMENT

Mandate endorsers seek ways to improve community water efficiency, protect watersheds, and increase access to water services as a way of promoting sustainable water management and reducing risks.

TRANSPARENCY

Mandate endorsers are committed to transparency and disclosure in order to hold themselves accountable and meet the expectations of their stakeholders.