“Water, water, everywhere, nor any drop to drink.” This quote from Samuel Coleridge’s famous “Rime of the Ancient Mariner” refers to a ship on the high seas, but it could easily be applied to certain parts of the world where, in spite of water being in view, businesses and people do not have access to the water that they need because water sources are polluted, because there is not enough of it to go around or because they cannot afford to pay for it.

Apart from being essential for life on this planet, water is an important element in industry processes ranging from mining and agriculture to chemical production and energy generation. Yet many businesses, and indeed the financial institutions that finance those businesses, do not understand the interaction of water at an ecosystem or a footprint level and how it affects their business. WWF and DEG (Deutsche Investitions-und Entwicklungsgesellschaft mbH), the German development institution, developed the water risk filter tool in 2012 to help reduce this knowledge gap, by enabling users to plan and create strategies for their own company, suppliers or investments to drive down risk and become proactive in responding to water issues they face - and by doing so, become better water stewards.

Financial institutions can play an important role in guiding clients towards environmental stewardship, not for altruistic reasons but because good environmental stewardship often translates into better business management and, in turn, better repayment capacity or profitability.

This fourth edition of the Sustainable Finance newsletter highlights WWF-SA’s partnership with the Industrial Development Corporation of South Africa (IDC) that focused on the development of the IDC’s water stewardship strategy using findings from an analysis of the IDC's mining and agricultural portfolio using the WWF-DEG water risk filter tool. The newsletter contains an in-depth interview with the IDC Environment Health and Safety department, and commentary from WWF-SA’s Freshwater Programme Senior Manager, Christine Colvin.

The tool is available online at http://waterriskfilter.panda.org/

Malango Mughogho
Programme Manager: Sustainable Business WWF-SA
WWF interviewed IDC Environmental, Health and Safety department Head Alfred Netch and Senior Environmental Specialist Lisa Pearce to discuss the value of the WWF-DEG water risk filter tool.

What role does the IDC play from an investment and lending perspective?
IDC invests in industrial sectors under the mandate set by Government through the Industrial Policy Action Plan, or IPAP, and the New Growth Path. The sectors IDC invests in include textiles, manufacturing, chemicals, tourism, the green economy, mining, healthcare, ICT and agriculture.

What does water stewardship mean to the IDC?
The IDC Water Strategy recognises that water is a strategic resource for industrial growth and development. South Africa’s industries rely on abundant and affordable freshwater. It would be impossible to fulfil our mandate of creating jobs through sustainable industrial development without sufficient good quality and affordable freshwater. Industrial companies consume and pollute a significant proportion of the available freshwater from rivers, dams and underground aquifers. In response, IDC is pursuing water stewardship through our investments to promote and require responsible use and management of water resources by the industries we support. We do this by supporting clients with capacity building, performing water risk assessments for new investments and by setting water goals for our agriculture and mining investment portfolios.

Why did you decide to partner with WWF on a project looking at the application of the water risk tool related to some of the IDC’s existing investments?
IDC considered a number of water risk tools available in the international water stewardship community. The WWF-DEG Water Risk Assessment tool was selected for the reliable and practical information it is able to provide in a relatively short time without requiring much technical experience from the user. IDC chose to partner with WWF during an introductory phase to firstly demonstrate the wide applicability and usefulness of the tool for decision-making. Secondly, WWF as a partner gave the project credibility during the introductory phase and allowed IDC to benefit from their in-depth experience in the field.

What made you focus on your investments in the mining and agricultural sectors as a first step in the project?
It is well documented that agriculture is the largest consumer of freshwater in South Africa and that the mining sector is a significant and potentially long-term polluter of water resources. Not only are these two sectors extremely important for South Africa’s economy, they also constitute a significant proportion of IDC’s investments. IDC is focusing on these high-risk and strategic sectors first, and plans to expand the water stewardship focus to other sectors like chemical and metals manufacturing, textiles and tourism in future.
**WWF-SA TALKS WATER RISK**

Our partnership with the IDC’s environmental, mining and agribusiness teams is a first in terms of WWF engaging with a financial institution in South Africa to dive deeply into the risks that its clients face from water, using data generated from the WWF-DEG water risk filter tool.

“WWF highly commends the IDC for taking the step of being the first financial institution in South Africa to integrate the findings from applying the WWF-DEG water risk filter tool in its water stewardship strategy. Our partnership with the IDC demonstrates the significant role that financial institutions can play in catalysing sustainable finance that achieves positive outcomes from both business and the environment,” says Freshwater Programme Senior Manager Christine Colvin.

Water risk comes in many guises and is often hidden in supply chains or in the quality of the water rather than more obvious quantity deficits. The water risk filter tool has been designed to be relevant to different industry sectors, and helps companies identify where a company’s greater water risks occur: in its operations or in the river basin – or catchment - where its operations are based. This is particularly important in South Africa where many of our catchments are under stress, which places significant pressure on the availability of water that is of the required quality and quantity for use by businesses and households. So a company invests time and effort on improving the water efficiency of its own operations, but could be exposed to greater water risk as a result of degraded and poorly maintained ecological water infrastructure such as a critical wetland, estuary, or grassland area in the catchment.

Water supply issues need to be addressed at an ecological and engineered infrastructure level. The Government has estimated that we will need R700 billion over the next decade to upgrade our engineered water infrastructure, with figures of the amount required to secure our ecological water infrastructure yet to be calculated.

**Ecological infrastructure solutions include** rehabilitating, maintaining and conserving the natural areas which make up our critical catchments and ‘water factories’ for the country, and in developing strategies that meet the needs of all water users within a particular catchment. All of these actions constitute good water stewardship.

At company level, water risks play out with production and reputational consequences, and the tangible and the intangible effects of water risk result in financial losses. This is how banks and financial institutions servicing a particular company can also be affected by water risk. The decision by the IDC to better understand the water related risks of its agriculture and mining clients is therefore a very important step in helping to address South Africa’s water challenges.

WWF applauds the IDC for working to understand the water related risks of its agriculture and mining clients, in developing relevant water goals, and deciding to work with the National Cleaner Production Centre on building capacity around water efficiency. WWF looks forward to continuing to work together with IDC to help secure the country’s water resources, as we make an important contribution together to sustainable development.

**Were there any results from the tool and the analysis that stood out?**

For us the most important result was that many clients in the mining and agriculture sectors are exposed to high levels of water risk. This result further supports the need for our water stewardship focus. Another critical observation is that industries in general do not yet understand the nature of water risks to which they are exposed, and may not be well equipped to respond to basin-related risks in particular.

**What plans does the IDC have for integrating the findings from the research and the tool itself into its operating processes?**

In response to the findings of the first water risk assessments IDC has set certain water goals for the agriculture and mining sectors investments, aimed at responsible use of water resources and minimising investment risk. We have also partnered with the National Cleaner Production Centre for capacity building around water efficiency. Future capacity building initiatives are planned for basin-related water risk assessment with WWF, and irrigation efficiency.

“The WWF-DEG water risk tool makes it possible for IDC to assess the water risks of our investments quickly and reliably, allowing us to facilitate water stewardship in our investment portfolios.”
RESPONSIBLE INVESTMENT FOR PENSION FUND TRUSTEES

This WWF briefing paper, written by Aimee Girdwood, is aimed at boards of trustees representing pension funds and aims to assist trustees in understanding and implementing responsible investment practices by providing guidance on the legal and industry-led environment for responsible investing in South Africa. It includes content on investment practices adopted by the Government Employee Pension Fund (GEPF) and the Metal Industries Benefit Fund Administrators (MIBFA): Responsible Investment for pension fund trustees.

COAL PLANT FINANCING BECOMES A HOT POTATO

WWF reflects on Obama’s recent statement and the EIB’s decision to phase out funding for coal fired power plants: WWF comment on Obama’s call for renewable transition and World’s largest public financial institution commits to phase out funding for coal power plants.

WWF REPORT SETS OUT FINANCIAL AND ETHICAL REASONS FOR DIVESTING FROM FOSSIL FUELS

WWF-New Zealand has released a new report that calls on New Zealand’s state investment funds to divest from fossils. The key take-out message from the report is that State-owned financial institutions, the NZ SuperFund and the Accident Compensation Corporation (ACC), are investing more than NZ$1 billion in the world’s biggest polluters when they should be transitioning away from the fossil fuel industry and investing in alternatives for a clean, safe future. The report sets out the financial and ethical reasons for doing so: WWF New Zealand fossil fuel report.

WE WELCOME YOUR FEEDBACK

Please send your feedback, comments or suggestions to mmughogho@wwf.org.za
For more information on WWF-SA’s Sustainable Business work, go to http://www.wwf.org.za/what_we_do/sustainable_business/