

# Liquid Assets

Responsible Investment in Water Services





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# Contents

<b>Acknowledgements</b>	<b>6</b>
<b>List of Acronyms</b>	<b>7</b>
<b>Executive Summary</b>	
<b>Liquid Assets: Responsible Investment in Water Services</b>	<b>9</b>
<b>Introduction</b>	<b>12</b>
<b>1. Freshwater: The Environmental, Social and Governance Crises</b>	<b>15</b>
<b>2. The Human Right to Water: A Legal Risk for Investors in the Water Industry</b>	<b>24</b>
<b>3. The Water Services Sector</b>	<b>29</b>
<b>4. Opportunities for Investment in Water Services</b>	<b>34</b>
<b>5. Benchmarking Environmental, Social and Governance Performance</b>	<b>40</b>
<b>Bibliography</b>	<b>68</b>

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# List of Acronyms

<b>BCE</b> — Before Current Era	<b>INCA</b> — South African Infrastructure Finance Corporation
<b>CEDAW</b> — Convention on the Elimination of All Forms of Discrimination Against Women	<b>IPCC</b> — Intergovernmental Panel on Climate Change
<b>CGW</b> — Claymore S&P Global Water	<b>MDG</b> — Millennium Development Goals
<b>CRC</b> — Convention on the Rights of the Child	<b>MW</b> — Megawatt
<b>CSR</b> — Corporate Social Responsibility	<b>ODA</b> — Official Development Assistance
<b>DEFRA</b> — Department for Environment, Food, and Rural Affairs	<b>OECD</b> — Organisation for Economic Co-operation and Development
<b>EMS</b> — Environmental Management System	<b>OHCHR</b> — Office of the High Commissioner for Human Rights
<b>EPA</b> — Environmental Protection Agency	<b>PHO</b> — PowerShares Water Resources Fund
<b>ESCR</b> — Economic, Social and Cultural Rights	<b>PPP</b> — Public-Private Partnerships
<b>ESG</b> — Environmental, Social and Governance	<b>PRI</b> — Principles for Responsible Investment
<b>ETF</b> — Exchange Traded Funds	<b>SRI</b> — Socially Responsible Investment
<b>FIW</b> — First Trust ISE Water	<b>U.K.</b> — United Kingdom
<b>GDP</b> — Gross Domestic Product	<b>U.N.</b> — United Nations
<b>GRI</b> — Global Reporting Initiative	<b>U.S.</b> — United States
<b>GWP</b> — Global Water Partnership	<b>UNCAC</b> — United Nations Convention Against Corruption
<b>IBNET</b> — International Benchmarking Network on Water and Sanitation Utilities	<b>UNCITRAL</b> — United Nations Commission on International Trade Law
<b>ICCPR</b> — International Convention on Civil and Political Rights	<b>UNESCO</b> — United Nations Educational, Scientific and Cultural Organization
<b>ICCR</b> — Interfaith Center on Corporate Responsibility	<b>UUSC</b> — Unitarian Universalist Service Committee
<b>ICESCR</b> — International Convention on Economic, Social and Cultural Rights	<b>WBCSD</b> — World Business Council on Sustainable Development
<b>ICSID</b> — International Center for the Settlement of Investment Disputes	<b>WHO</b> — World Health Organization
<b>IFI</b> — International Financial Institutions	



# Executive Summary

Water is the world's third largest industry after oil and electric power. It is the most capital intensive of all utilities and the most essential. Although clean drinking water and sanitation are necessary for the health and development of individuals and communities, billions of people worldwide lack access to either. As a result, millions of people, mostly children, die each year of preventable diseases. In response to these concerns, the international community has set ambitious Millennium Development Goals (MDG) of providing clean water and improved sanitation to at least half of the people worldwide who now lack these services by 2015.

Meeting the MDGs for water services poses an enormous challenge requiring mobilization of global capital — natural, social and financial — and consensus on the best ways to allocate these resources. Even before the present turmoil in world financial markets reduced the availability of capital for repairing and expanding the water and sanitation infrastructure, the water services sector faced multiple problems: freshwater scarcity and growing demand; underinvestment in infrastructure in both developed and developing countries; corruption; and controversy over the appropriate roles of the public and private sectors in ownership of water resources and responsibility for service delivery.

This report examines the drinking water and sanitation services sector through the lens of Environmental, Social and Governance (ESG) criteria. It is intended to aid the growing number of responsible

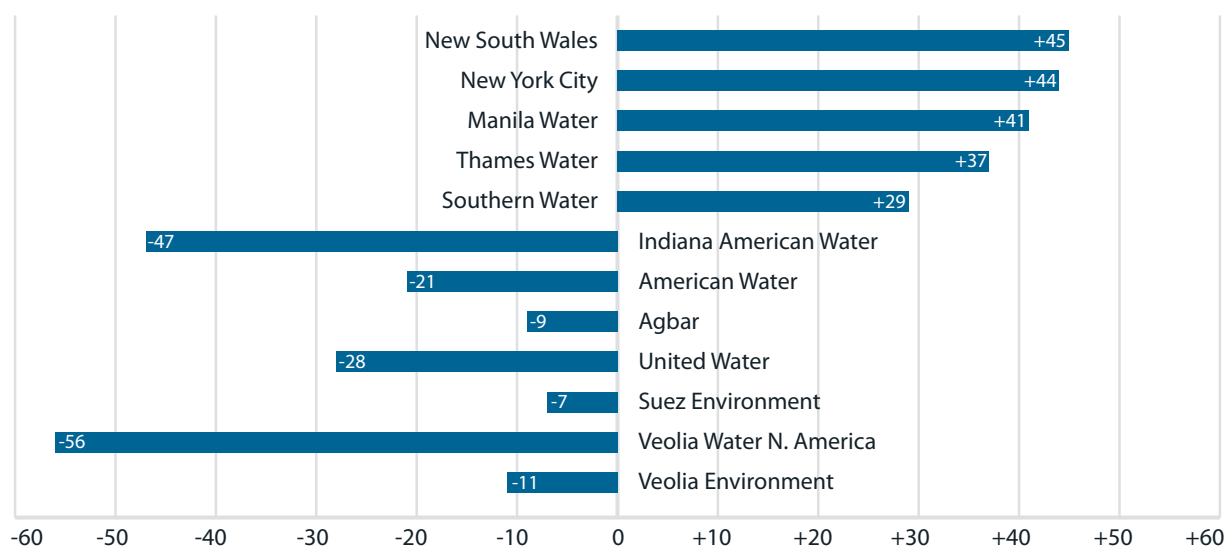
investors — institutions and individuals — concerned about the impacts and long-term sustainability of investments in this vital but controversial sector.

Water is both a public good and an economic good. It is part of the natural commons yet provision of water services is a natural monopoly requiring major capital investments to bring water to urban and rural populations. Proponents of market-based solutions contend that putting a price on water and allowing the private sector to deliver water services will conserve water resources, improve efficiency and bring new capital to the sector. Advocates of water as a public good emphasize the unique characteristics of water, the human right to water and the failure of markets to deliver service to the poor or to account for the ecological and non-economic values of water.

It is not the purpose of this report to debate the merits of private versus public ownership of water service utilities. The question for responsible investors is not one of ownership but of performance: how to identify water utilities that are financially sound and have demonstrated success in building natural, social and moral capital, whether they be government- or investor-owned.

To answer this question, a survey was undertaken of the information publicly reported via the Internet on the ESG performance of local water utilities. In most of the developing world and emerging market countries, water utilities report core indicators on the website of the International Benchmarking Network for Water and Sanitation Utilities (IBNET) which is maintained

## Environmental, Social, Governance Content of Reports



This figure shows the score of each of the 12 water utilities surveyed for this report for the environmental, social and governance content of their Internet-based disclosures. (For survey methodology and results for each utility, see *Benchmarking Environmental, Social and Governance Performance*, page 40.)

by the World Bank. However, very few public or private utilities in developed countries do so. The Interfaith Center on Corporate Responsibility (ICCR) survey examined ESG disclosures for government-owned and operated water utilities in New South Wales, Australia, and New York City, and ten investor-owned utilities operating in the United Kingdom (U.K.), the United States (U.S.) and the Philippines. The Web sites of the local water utilities, their holding companies or, in the case of New South Wales, their regulatory agency were reviewed, in addition to a variety of reports published on these sites.

The Web-based disclosures were evaluated to determine the quality and availability of ESG performance data for local water and sanitation utilities reported by the investor-owned companies or their subsidiaries, and by the public entities. Twenty-one indicators related to the material ESG challenges discussed in this report were used to assess: (1) management’s perception of and response to non-financial risks; (2) evidence that effective management systems for data collection are used to monitor and benchmark local utility performance; (3) whether the ESG performance data were consistent, comparable and comprehensive; and (4) whether the information was clearly presented and easily accessible.

The survey found wide disparities and significant information gaps in the reporting, particularly for the local utilities owned by the largest water companies. The performance monitoring report issued by the regulatory authority in New South Wales, covering 111 water and sanitation utilities, was far and away the best in both content and presentation. New York City came closest to the “gold standard” set by New South Wales. With the exception of Manila Water and the two U.K. water services companies, none of the privately owned companies reported basic ESG performance data in a comprehensive, consistent, or comparable manner for their local water utilities. Very little performance information was disclosed for the investor-owned utilities operating in the U.S. apart from the water quality reports mandated by regulatory authorities; and, in some instances, even that information was lacking.

The absence of essential information needed to benchmark ESG performance is a serious impediment to investment and policy decisions. As one World Bank economist observed about infrastructure utilities in general:

“[. . .] the data gaps are so large that they impede an effective monitoring of the evolution of performance

in terms of access, efficiency, equity or fiscal costs for most sub-sectors. As a consequence, there is less global accountability in this sector than in health or education.”

This observation is especially true for the water services sector. The failure to provide essential performance data on water utilities cannot be attributed to the lack of reporting or analytical tools. The New South Wales report shows that comprehensive data can be gathered, analyzed and reported for a large number of operating utilities.

The challenges of preserving water resources from overuse and pollution, and of providing water for all can only be met if all stakeholders — that is to say, all members of society — are engaged in water gov-

ernance. Creation of a “data commons” is essential for protection of the water commons. The Internet makes a data commons possible and the IBNET offers a comprehensive, Web-based reporting template that can be used by companies, consumers, regulators and investors.

Responsible investors, and particularly institutional investors that are signatories of the Principles for Responsible Investment (PRI), have an obligation to use their considerable financial power to help build the data commons for water by requiring better ESG reporting from the water utilities they invest in so that capital may be rationally allocated to those enterprises — whether public or private — most capable of meeting the extraordinary water challenges.