

## Private sector investment in water management

### Company forms and partnership models for inclusive development

**T**he private sector has a growing presence in discussions on water management in developing countries. Companies are reviewing their approaches to water use and evaluating ‘water risks’ in contexts of ‘scarcity’. Their aim is to safeguard supplies to business plants and premises, and to behave, and be seen to behave, responsibly towards neighbouring communities.

How far businesses have a responsibility to society is a contested issue. Company lawyers disagree on whether the purpose of a corporation is to serve the interests of shareholders to the exclusion of others (as long as the company operates within the law), or whether company directors should, or can, take account of other stakeholders, including local communities.

With its ‘Business works for Development – Development works for Business’ strapline, the United Nations Development Programme’s ‘Growing Inclusive Markets’ initiative challenges private companies to promote ‘more inclusive business models’ in developing countries. ‘Inclusive’ entails creating new opportunities for firms and individuals in economically and socially marginalised regions.

This briefing paper discusses the key role of private companies in reducing water use in their own plants and premises and their supply chains. As for private companies’ engagement in wider water management, it argues for care in the design of institutional arrangements. Alongside private involvement, the public and collective good characteristics of water must be secured.

#### Corporate and transactional design

Analysis of the internal ‘design’ of water-related investments by private companies and partner governments shows how far they are committed to inclusive business approaches.



**At the core of scarce water resources management: allocation between competing uses**

Companies are legal and social constructs, and their responsiveness to different stakeholders is determined by the way their corporate purposes are defined in their constitutions, within frameworks of company law (Newborne and Mason, 2012). Those norms shape business behaviour (UN, 2011).

Water specialists are accustomed to analysing the mandates of public institutions, but much less so the internal characteristics of corporations. Yet, companies are leading ‘institutions’ of the private sector, and their forms and their partnership transactions in water management deserve more attention, given the importance of water to lives/livelihoods, environments, and local and regional development.

#### Governments and water resources management

Whatever the capacity gaps in developing countries, governments are responsible for *setting* and *overseeing* the legislative and policy frameworks within which national systems of water resources management (WRM) function, across catchments and river-basins. The core of

#### Key points

- Many private companies are reducing their own water use; they need to extend that to their supply chains
- Current community water management partnerships, supported by the private sector, may give a false impression of companies’ priorities
- Alternative company forms and partnership designs in OECD countries should be tested and adapted to water management in developing countries, for greater sharing of the benefits of water use

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that public WRM role is water allocation for different, often competing, uses. Citizens expect that the State, through public authorities, will arbitrate on the allocation of public goods, including decisions on options and trade-offs around resource management.

In the Communiqué issued in June 2012 by 40 business leaders under the aegis of the UN Global Compact, heads of governments were urged to take ‘decisive action’ to strengthen the ‘enabling environment’ for WRM, to ‘make water sustainability a priority’ (UN, 2012).

### The private sector and water use

The 40 business leaders pledged to ‘expand and deepen’ their companies’ efforts ‘in support of more sustainable water management’. Their large multinational companies include high-profile brands, mostly based in OECD countries, but with operations elsewhere, in the drinks/beverages, brewing, foods, clothing, mining and other sectors.

The Communiqué noted that the companies endorsing the CEO Water Mandate under the Compact are already taking three types of action. First, ‘setting targets on water efficiency ... in our factories and operations’. Second, ‘working with suppliers to improve their water practices’. Third, ‘partnering’ with a range of actors, public and private, ‘on water-related projects and solutions’ including local stakeholders: ‘those living in the communities where we operate’.

Some (Nestlé, Coca-Cola, PepsiCo, SAB Miller) are members of the 2030 Water Resources Group. The WRG, formed in 2008, is, in its words, a ‘public-private-expert-civil society platform’ that is ‘neutral’, providing a ‘partnership’ to help government water officials, the private sector and other water sector specialists accelerate reforms to ‘ensure sustainable WRM’ (2030 WRG, 2012). The WRG has collaborated with aid agencies, an international environmental NGO and partner governments in, for example, China, India and Mexico. How do they see their roles in water management, and through what forms of partnership?

The findings of a recent review of companies’ activities in significant water-using sectors (Newborne, 2012) illustrate the three types of private sector approaches outlined above. The focus is on large multinational companies (MNCs), given their scale, resources and influence. Their presence in developing countries not only generates economic activity and jobs, but also places demands on natural resources. The findings question their current approach to ‘partnering’ in water-related investments.

### Water use in company plants and premises

Companies in the drinks/beverages and brewing sectors, which need reliable supplies of high-quality water, are leading evaluations of water use and starting to save water in their own factories and

operations. Coca-Cola, PepsiCo and SAB Miller, for example, are leaders in water-use efficiencies, i.e. the volume of water used to make one litre of their products. Meanwhile, review of international travel companies and organisations finds that efforts to evaluate and reduce water use in hotels and other tourism outlets are less advanced, despite initial steps by progressive international travel companies such as Kuoni.

Questions arise on the actual *impact* of such reductions in water use. Whether or not this reduces pressure on water resources depends on how the water saved is reallocated. PepsiCo, for example, won an award during World Water Week in August 2012 for its 20% reduction in water use per unit of plant production. The next day the company announced its plans to expand in Africa, pledging to ‘operate responsibly’ and ‘maintain sustainable development’. However, will not expansion increase its overall use of water, despite *unit* water use efficiencies? The public water authorities that allocate licensing will wish to know how such changes in ‘efficiency’ can be translated into permanent reductions in water withdrawals, the key benchmark from a basin and WRM systems perspective. Where pressure on water resources is already intense, allocation of water rights to new plants may not be justifiable. In the environmental screening process under the World Bank’s Operating Policy 4.01, such a scenario is called the ‘without-project’ option.

### Reducing water use in the supply chain

Companies are less advanced in achieving efficiencies in water use along supply chains.

Coca-Cola’s ‘foot-printing’ studies on water use in, for example, beet sugar production for orange juice, found that the farm, not the factory, had the greatest share of the product water footprint: up to 99%. The company has also tried to quantify the *impacts* of its water footprint in different supply chain locations, acknowledging that this matters, but is not yet, it seems, setting specific supply chain targets.

As for tourism, under the Travelife Sustainability System established by ABTA/The Travel Association, hotels win awards for measures to reduce environmental impact and provide extra benefit for local communities. According to the Travelife website, the awards are an ‘additional marketing opportunity’. Kuoni had prioritised 300 partner hotels in 15 locations for Travelife audits, although quantifiable targets had not been specified.

There are good business reasons for companies to determine water-related risks. They may also show their commitment to sustainability by reducing the water embedded in their products and services, applying the contractual leverage of their own supply chains or acting through trade associations.

## Partnerships in water management: business or charity?

How are companies partnering with local stakeholders? Industry specialists say that corporate management of water risks includes satisfactory relations with populations living near business premises. Companies are entering into voluntary agreements to support community water projects, while securing their own access to water. The funding is often provided as an act of charity by not-for-profit companies or philanthropic foundations. Typically, these are owned by the founding companies (or groups) with the resulting philanthropic activities boosting their brand. The not-for-profits are, however, special legal vehicles with distinct corporate purposes: principally to make donations. The amounts donated to community water projects may appear substantial, but are typically modest when compared with the profits of the commercial company/group, especially of MNCs, that go to *external* stakeholders somewhere else. In 2012, for example, Coca-Cola reported donations over five years of \$247 million to ‘community water partnership’ (CWP) projects – an average of around \$50 million per year (Coca-Cola, 2012). This compares with \$8.6 billion in net income attributable to shareowners of the company in the financial year to December 2011: a ratio of 1:172.

Philanthropic actions are often designed by companies as a reputational ‘buffer’, while offering limited benefits to a group of local people. The risk is that these (ancillary) not-for-profit agendas, operating side-by-side with (primary) for-profit ones, generate mixed messages and confused roles, giving a false impression of how public-minded commercial companies really are. For example, it is unclear to third parties how Coca-Cola’s CWP projects relate to the ‘source water protection planning’ carried out by bottling plants under its ‘stewardship and replenish’ initiative.

The outcomes of private-sector funded community water projects need independent evaluation to see how far they contribute to enhanced water sustainability at scale, and whether they create new opportunities for local firms and individuals. ‘Inclusive’ business ventures means more than involving local people as recipients of philanthropic donations or as participants in social responsibility initiatives focused on securing corporate reputations. In the private sector ‘institutions’ that MNCs typically deploy for water management there is a big design gap between, on the one hand, the conventional model of the for-profit company with its predominantly external loyalties determined by company constitutions and framed in company law, and, on the other, the not-for profit company with narrowly focused philanthropic spending.

As for the 2030 Water Resources Group, it aims to go beyond the focused actions of individual corporations at local/small catchment levels, to play a part in WRM at the basin scale to support ‘water security’ (not just their own). The WRG members appear to believe

that convening and decision-making around WRM, including allocation trade-offs, is no longer the sole preserve of public water authorities. If so, this reinforces the need to review what forms of company and partnership are best for water investments that are privately funded/driven, whilst also publicly responsive.

## Inclusive water partnerships

Two recent projects by public and private companies in Canada illustrate what characterises a partnership between a company and local stakeholders that is inclusive, supporting local and regional development: the *Wuskwatim* project in north Manitoba, (Box 1) and the *Kokish River* project on Vancouver Island in British Columbia (Box 2). They are striking for their integration into the regional economy. In each case, in addition to opportunities to obtain employment and win supply/services contracts, local communities are entitled to acquire a financial stake in the partnership owning the project. Local firms and individuals may participate in the core business venture (with a vote and voice), instead of as recipients of charity via ancillary projects. The partnerships are progressive in the way they share water use benefits.

Where competition for water resources intensifies in economically and socially marginalised regions, companies’ ‘licences to operate’ will surely depend, increasingly, on such innovations in transactional design for benefit-sharing.

### Alternative models for inclusive water management

As alternatives to conventional, private, for-profit company vehicles and their charitable *alter egos*, hybrid company forms have been developed. Figure 1 places different corporate entities and partnerships on a spectrum between private and public goals, including models expressly serving both (darker colours, in the centre). One example is

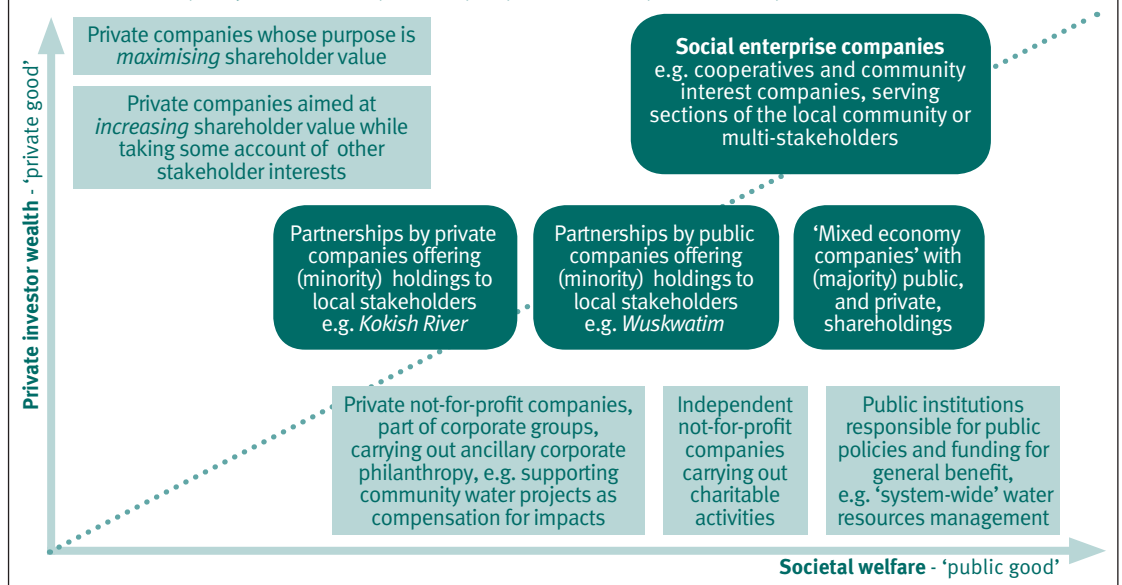
#### Box 1: The *Wuskwatim* hydropower project

This is a partnership between Manitoba Hydro (MH) and ‘first nation’ aboriginal communities. MH is a wholly-owned public body that aims to provide electricity to its customers at competitive rates. Local communities may take an equity holding (up to 33%) financed, largely, by preferential loans from MH and also with own funds. The size of the stake depends on communities’ interest in participating in the commercial venture. Assuming the plant (200 megawatts, soon in service) produces electricity at a net profit, any community investment will yield a profit-share, subject to loan repayments. As for governance, the communities are represented at partnership board meetings regardless of the size of their capital ownership, although their voting rights remain those of a minority partner.

#### Box 2. The *Kokish River* project

This joint venture between local communities and a private company, Brookfield Renewable Energy Partners, will be a 45 megawatt ‘run-of-river’ hydropower facility (river diversion, without storage reservoir). The plant will be owned and operated by ‘Kwagis Power Limited Partnership’ in which the Namgis First Nation has a 25% equity stake. The Namgis are, according to their chief, ‘proud co-owners’ in the project, which is part of their efforts in regional development.

**Figure 1: Company forms, corporate purposes, and partnership designs**



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‘mixed economy’ companies or *sociétés d’économie mixte* (SEM), with boards composed of business and public representatives. Some SEMs are managing water resources as part of local/regional development in France, with the model likely to be adopted in Morocco. And social enterprise companies, such as cooperatives and collective/community interest companies, exist in many countries (OECD, 2009).

Although their legal forms vary, their common defining characteristics are: first, the clear, mandatory corporate purpose to benefit a different set of priority stakeholders – such as the members of a cooperative or a community – from conventional for-profit companies with their predominantly external loyalties; second, a clear voice for those local stakeholders in decision-making.

**Conclusion**

The design of private sector ‘institutions’ for water management in developing countries presents a potential water management opportunity and a serious water risk.

Governments contemplating private sector engagement in water management in catchments/basins (beyond companies’ plants/premises and supply chains) should be wary of accepting conventional for-profit company forms, especially in

contexts of increasing pressure on water resources where allocation trade-offs are likely to be common. Their prioritisation of external shareholders and stakeholders makes them inappropriate corporate vehicles for locally-inclusive water investments, the risk being that they occupy local water rights more than they create local development benefits.

Corporate designs that are more local development-friendly do exist, as outlined above. Governments should look to those in their dealings with the private sector – MNCs and local counterparts – instead of trying to ‘regulate’ the conventional model into becoming something it fundamentally is not (Newborne and Mason, 2012).

Such alternative corporate designs from OECD countries should be tried and tested in developing countries, together with progressive partnership designs that accord an equity share to local firms and individuals. Each will need to be adapted to national contexts, but these corporate and transactional tools could tackle the current design gap in the private sector’s contribution to ‘making water sustainability a priority’.

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