

## Water & Economy

# A recent WRC-funded project investigated corporate water risk in South Africa and its implications for economic growth and development.

### Increasing water risk within a growth and development context

There is increasing consensus in the international scientific and development communities that water scarcity will increase dramatically in many parts of the world in the next 20 to 30 years. As the demands on water systems increase and these systems, together with the social and economic systems they support, become more stressed, their behaviour and responses become more uncertain and unpredictable. They may also become less resilient to change, and more vulnerable as political, social and economic decisions contribute to unexpected consequences and negative feedback. This will have significant social, political, and economic consequences.

In South Africa, these factors increase the challenge of managing South Africa's limited water resources in a way which ensures that water will remain the development catalyst for sustainable economic growth, which is the premise on which the Water for Growth and Development (WfGD) strategy is based.

In recent years, the concept of WfGD has been explored as an important way of engaging the linkages between the water sector and other economic, social and environmental imperatives in South Africa. A major dimension is the relationship between water management by government and the manner in which water is used, and water-associated risks dealt with, by the private sector, the engine of the economy.

As a result of the increasing global risk around water, the private sector in South Africa, and also globally, has begun to actively engage with water risk and management through local interventions in operations and participation in the international debates. Large global corporations have encountered significant and variable water-related risk, which has prompted this engagement, further motivated by operational crises, supply

chain failures, brand management, and broader corporate social responsibility. The concept of shared risk has emerged from such engagements, in recognition of the number of commonalities in the exposure of government and private sector to water-related risks.

### Scoping and investigating shared water risk between public and private sectors

Corporate engagement of water risk has specific characteristics in the South African context due to the nature of the institutional framework and infrastructure base for water management, as well as challenges associated with redressing historical inequalities. It has consequently been important to scope and investigate aspects of shared risk between the private and public sectors and to frame the synergies and opportunities for cooperative engagement or partnerships in mitigating these risks, within the context of water for growth and development.

The first step has been to explore the ways in which different private sector organisations engage water risk. This engagement stems primarily from the amount of water used, the intensity of water usage for operations, and the access to policy makers that control water supply. Several companies important in various sectors of the South African economy, including Woolworths, TSB, SAB-Miller, Anglo-American, Sasol, Eskom, Standard Bank, have been interviewed, focusing on their approaches to water risk management and the various ways in which they engage the water sector.

From the large-corporate experiences revealed during these interviews, it is clear that the different corporations have begun to engage water risk in different ways and to varying degrees beyond their own operations. The mode of engagement is based on the extent of the risk, the reputation of the company, the impact on operations, and the corporate resources

available. A framework for engagement has emerged which is instructive in understanding the different modes of corporate engagement with the public sector and stakeholders, in the interests of mitigating water-related risk.

## Water risk: modes of public-private sector engagement

The private sector engages water risk and management in different ways and at different scales as follows:

- **Operations and Supply Chain Management** is the initial focal point for every corporation to manage water risk. The private sector exercises the greatest amount of control in these areas and therefore focuses the majority of its efforts initially on maximising the efficiency of its internal operations and supply chain. Only once it becomes clear that keeping one's own "house in order" is insufficient to manage water risk, does the private sector begin engaging local communities and public institutions.
- **Local Level Engagement** focuses on interaction between individual companies and local government or communities, largely around access to adequate clean water. The object is to secure an adequate water supply for ongoing operations and sustained production by ensuring the functioning of local infrastructure and local institutions such as municipal water agencies and water user associations.
- **Basin Level Engagement** becomes necessary when individual action or local engagement is not sufficient to address the increasing primary or secondary water scarcity. Companies engage with water managers and civil society, typically through multi-stakeholder platforms, or individually in the case of large corporations. The focus is on improving governance and allocation of water and addressing environmental concerns, thus ensuring their own and other users' sustainable access to water supplies and the control of waste discharges at the catchment scale.
- **Country Level Engagement** proceeds if local and basin level engagement does not adequately address the degree of water-related risk that a company faces, because the enabling framework constrains or inappropriately incentivises basin or local water management. Engagement at this level is largely around water policy and strategy development, and its linkages to food and energy. This tends to be the least well developed aspect of engagement, except in a traditional negotiation or lobbying sense through business associations, but would be required for effective engagement around water for growth and development.
- **Global Level Engagement** proceeds through international (typically representative) bodies, largely around the paradigm of water management and possibilities to influence national governments. These actions fall under the auspices of corporate social responsibility and often provide intangible benefits to the private sector, including improved employee satisfaction, strong brand loyalty, and learning

international best practices for water risk management and public engagement. These processes are also important in framing the evolving metrics, disclosure requirements and rules of engagement for companies at the national, basin and local levels. Several South African companies are currently involved in the international arena.

## Challenges and opportunities for government

This increased engagement of large companies in the water sector presents many challenges for government. Extensive engagement by corporates in the water sector may, for example, result in corporate capture, whereby planning and development processes are co-opted by a more resourced and capacitated private sector. This could, if not managed, result in neglect of the needs of the poor, as the primary goal of the private sector is to ensure that its operations are profitable and sustainable.

Notwithstanding the challenges, government is presented with valuable opportunities arising from private sector engagement within a WfGD framework. These include:

- The opportunity to introduce a more comprehensive economic and social development focus into water planning
- The opportunity to create stakeholder platforms with a view to understanding the potential synergies and challenges presented by engagement with the private sector
- The opportunity to capitalise on shared risk opportunities through strategic partnerships with the private sector
- The opportunity to develop a framework to manage corporate engagement within the water sector.

## In conclusion ....

South Africa is currently not far advanced in the corporate water risk debate, possibly due to past government assumptions regarding the role of the private sector and mistrust born out of mixed experiences with the private sector in the past. Government should nevertheless seize the opportunities presented by the increasing level of engagement by the private sector and build upon foundations already laid. Corporate engagement should be viewed as one of the tools for achieving an integrated approach to managing water risk in the interests of growth and development.

### Further reading:

To obtain the report, *Corporate Water Risk in South Africa – Implications for Growth and Development* (Report No: KV 265/10) contact Publications at Tel: (012) 330-0340; Fax: (012) 331-2565; E-mail: [orders@wrc.org.za](mailto:orders@wrc.org.za); or Visit: [www.wrc.org.za](http://www.wrc.org.za)