



MARKET INSIGHT

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An aerial photograph of a tropical beach. The water is a vibrant turquoise color, transitioning to a lighter, sandy hue as it meets the white sand beach. The beach curves along the coastline, with dark green hills in the background under a bright blue sky with scattered white clouds. A large, semi-transparent white circle is overlaid on the bottom right corner of the image.

SUCCESS. TOGETHER.



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WATER ACCESS: CRITICAL AND UNAVOIDABLE INVESTMENTS

Global warming is exacerbating water stress. The UN projects that by 2030, at least one in four people will be affected by recurring water shortages. This issue will inevitably cause conflicts, wars, and exodus and migration by extension, with all of the social consequences those entail.

The investments required to address this issue are colossal, which is why the private and financial sectors have a duty to take on part of the responsibility and provide innovative financial solutions.

WHAT INVESTMENTS ARE REQUIRED?

The sixth UN Sustainable Development Goal (SDG) is to “ensure availability and sustainable management of water and sanitation for all”. Achieving this goal by 2030 requires investment in essential infrastructures, including water treatment facilities, wastewater treatment and desalination plants, water kiosks, farm irrigation systems and better maintenance for water supply networks. These investments will provide basic services to over 800 million people currently living without them and improve access to water services for over two billion people.

Investments can be made directly or through funds comprised of listed companies that contribute to this goal. One such example is Xylem, a US-based water-management company with a turnover in 2020 of over \$5 billion and a market capitalisation of \$18 billion. Xylem's market capitalisation grew more than 28% in 2020, while many impact investment funds partially invested in listed corporations with ties to the water sector made gains of over 15% in 2020.

Another option would be to invest in unlisted companies that offer high-impact products and services such as Swiss Fresh Water, which manufactures kiosks that purify water through reverse osmosis¹. These kiosks are sold to entrepreneurs living in places where the need is greatest, such as Senegal. It is easier to invest in these kinds of businesses through private debt or private equity funds however, these kinds of investments are subject to two problems: risk and liquidity.

The risk can be mitigated by using a blended finance model which combines both public and private funds. The eight-to-ten-year investment horizon is problematic for many private individuals, which is why it would be beneficial to improve this liquidity. This could be achieved by creating a secondary market on which unit holders could buy and sell, for example.

Lastly, financing could be facilitated by creating a legitimate water-bond market with blue bonds much like the existing market for their green counterparts. The green bond index posted an attractive performance of 4.8%² in 2020.

HOW CAN THE RESULTS OF THESE INVESTMENTS BE MEASURED?

The UN SDGs are an excellent benchmark for the financial sector and feature specific KPIs. Furthermore, many organisations have established rules for impact investing, including the World Bank and the Global Impact Investing Network (GIIN).

To measure the impact companies have on water access, the impact data they provide must be audited in the same manner as an annual financial report.

According to the United Nations, there are certain criteria to comply with, such as ensuring that the water supply is “sufficient, safe, acceptable, physically accessible and affordable³”.

However, not all investments in water will have a positive impact, even if they follow these rules. An independent organisation will be required to check and ensure that each fund does in fact have a positive impact. It is therefore critical to set up an impact label under the auspices of the United Nations with an independent committee comprised of renowned economists, such as Abhijit V. Banerjee and Esther Duflo - winners of the 2019 Nobel Prize in Economics, and representatives from target countries.

We must acknowledge that our investment decisions can spur companies to become an impetus for social welfare. The challenges of sustainable development - including water access, climate change, clean energy infrastructure, pollution and critical investments in human rights and human dignity - must revolutionise the way we invest while generating attractive returns.

¹ Developed by NASA so that its astronauts could recycle used water, reverse osmosis is a very powerful water filtering system.

² Bloomberg Barclays MSCI Global Green Bond Index, EUR unhedged.

³ UN Resolution 64/292 on “The human right to water and sanitation” adopted in 2010.



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