

Water management Expectations of companies



Norges Bank Investment Management manages the assets of the Norwegian Government Pension Fund Global. We work to safeguard and build financial wealth for future generations. As a long-term and global financial investor, we are dependent on sustainable development, well-functioning markets and good corporate governance.

Our expectation documents set out how we expect companies to manage various environmental and social matters. Our expectations are based on internationally recognised principles such as the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the G20/OECD Principles of Corporate Governance, the OECD Guidelines for Multinational Enterprises and other topic-specific standards. This document serves as a starting point for our interaction with companies on human capital management. We expect companies to address this topic in a manner meaningful to their business model and wish to support them in their efforts.

Our expectations are primarily directed at company boards. Boards should understand the broader environmental and social consequences of company operations, taking into account the interests of relevant stakeholders. They must set their own priorities and account for the associated outcomes. Companies should pursue relevant opportunities and address significant risks. They should report financially material information to investors, and broader impacts as appropriate. Boards should effectively guide and review company management in these efforts.

Water management

Water scarcity and pollution may pose business risks to companies. How these are managed may drive long-term returns for the fund as a shareholder. Externalities from unsustainable water use may also affect other companies and the fund's long-term value. Companies in sectors which are highly polluting or dependent on water, or with operations and value chains in water-scarce regions, should seek to manage water sustainably. They should integrate water management into their corporate strategy, risk management and reporting.

Achieving sustainable water use is among the foremost global economic, social and environmental challenges. Economic and population growth are expected to increase water demand from agriculture, households and industry. This may put water resources under increasing stress. Water pollution and climate change may introduce additional challenges.

The fund holds a diversified portfolio across industries and markets, and externalities from unsustainable water use may affect its long-term performance. We have a general interest in sustainable water management and efficient water regulation. Water withdrawals and consumption for industry are rarely priced to reflect scarcity value.

Water is an input in a number of processes for many sectors. Companies depend on water in their direct operations or through their supply chains or products' lifecycle. Water stress stemming from overuse of water resources, pollution, droughts or floods may affect business profitability. For instance, it can lead to operational disruptions, reduced product life, loss of market access or capital expenditure risks. It may also change the competitive landscape or market demand. Demand for water-efficient products and technologies may increase. Providing solutions to water challenges could prove a strategic advantage. Companies with the best governance, systems and technologies to deal with water challenges could be better positioned to mitigate water risks and identify new market opportunities.

Our expectations are directed at companies with operations or value chains in sectors with high water dependency and in regions exposed to water scarcity, water pollution and other water-associated risks. Companies can seek guidance from relevant international principles, guidelines or industry initiatives, and UN Sustainable Development Goal 6 (Clean Water and Sanitation). Unilateral water management has limitations and may present companies with dilemmas. Collective impact assessments and action from multiple water users in a basin may play an important role in reducing risks.

As an investor, we expect companies to be transparent about the topics raised in this document. For selected companies, we use such information to assess their water risk exposure, management and performance.

A. Integrate water management into policies and strategy

- Companies should recognise their dependency and impact on water resources, integrate commitments to sustainable water management into their policies, and, where relevant, have a clear water management strategy.
- Companies should take a long-term approach and understand the potential business, social and environmental implications of evolving corporate water needs, including in supply chains and products' life cycles.
- Companies should incorporate relevant water challenges, opportunities and sustainability considerations into investment planning and consider the sensitivity of their long-term business strategy to water stress and regulation, for example through scenario analysis. Analyses should reflect that water stress is region- and often asset-specific, and include local hydrological, environmental, social, economic and regulatory factors where appropriate.
- Companies should, where relevant, consider research and development to reduce company water dependency, use or discharge, improve water quality, or deliver new processes, products and services.
- Companies should regularly consider whether their organisational structure, incentive systems, training programmes and wider company culture integrate sustainable business practices appropriately. Employees and contractors should be engaged in these efforts and made aware of company policies and practices.
- Companies could consider putting in place a mechanism for third-party expert input into their water management strategy.

B. Integrate material water risks into risk management

- Companies should identify and incorporate water risk in a robust and integrated framework. Risk management efforts should include appropriate systems for prioritising, mitigating, monitoring and reporting on physical, regulatory and reputational risks.
- Companies should quantify the financial impacts of water risk. Applying a shadow price – reflecting underlying cost dimensions – for water may aid in the integration of certain water risks with financial risk metrics or into scenario analysis.
- Companies should monitor water withdrawals, consumption and quality, and identify and consider relevant adaptation and mitigation measures to avoid or reduce risks. This could include improved water efficiency in production processes, improved environmental quality of discharge, increased water recycling practices, or reduction of products' life cycle water dependency.
- Companies should adopt, where relevant, industry standards and best practices in sustainable water management.
- Companies should identify and monitor water risks in their supply chains, including in agriculture, implement relevant procurement policies for products and services, engage with relevant strategic suppliers, and share best practices in sustainable water management.

C. Disclose material water management information

- Companies should disclose their water management strategy, risks, responses and opportunities.
- Companies should report in accordance with relevant sustainability disclosure standards.
- Company reporting should reflect that water risks are region- and often asset-specific, and include co-ordinates of key installations and basin-level hydrological, environmental, social, economic and regulatory information where appropriate. They should report proportions of total water withdrawals and consumption in regions with high water stress.
- Companies should, where relevant, develop a framework to monitor and set relevant benchmarks, key performance indicators and targets, for direct and indirect company water withdrawals, consumption, recycling, discharge and environmental quality. They should report on indicators and progress against targets at a sufficient level of detail, including at the asset level where relevant.
- Companies should report sufficiently granular data to internationally recognised reporting initiatives. Companies should be transparent on data reported to regulators and strive to report such data across operations.
- Companies should strive to report relevant data for supply chains and products and services.

D. Engage transparently and responsibly on water management

- Companies should, where relevant, have policies or guidelines for engaging with policy makers, regulators and relevant stakeholders on water management and be transparent about associated spending, activities and trade association memberships. They should assess whether the advocacy positions of trade associations align with their own positions.
- If they engage with regulators, companies should publicly outline their position on specific water regulation relevant to their business and outlook. Companies should consider promotion of policies supporting the efficient use of water.
- Companies should understand their social and environmental impact on, and the associated needs of, the communities surrounding their direct operations and supply chains, as well as on the users of their products and services. They should seek to contribute to local populations retaining necessary access to water.
- Companies should consider engaging in collective river basin management efforts and, where appropriate, collaborate with communities, NGOs and other relevant organisations on procuring necessary data and building on-the-ground water sustainability programmes.

See our website www.nbim.no for a full and updated list of our expectations on sustainability topics. We also regularly publish our perspectives on issues such as sustainability reporting and the UN Sustainable Development Goals.


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