

Stewardship at the Source

Driving water action across supply chains

March 2024



Table of contents

Commentary	03
Key findings	05
2023: Water in the spotlight	06
The case for supply chain action on water	11
From the inside out: Setting the stage for supply chain action	13
Cascading change: Mobilizing the power of many	18
Supply chain silence	26
Stories of transformation	28
Conclusion	31
Appendix I: Key metrics on water security in the supply chain	33
Appendix II: Report methodology	35



To read the 2023 company responses in full, please go to <https://www.cdp.net/en/responses>

Important Notice

The contents of this report may be used by anyone providing acknowledgment is given to CDP Worldwide (CDP). This does not represent a license to repackage or resell any of the data reported to CDP or the contributing authors and presented in this report. If you intend to repackage or resell any of the contents of this report, you need to obtain express permission from CDP before doing so. CDP has prepared the data and analysis in this report based on responses to the CDP 2022 information request. No representation or warranty (express or implied) is given by CDP as to the accuracy or completeness of the information and opinions contained in this report. You should not act upon the information contained in this publication without obtaining

specific professional advice. To the extent permitted by law, CDP does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this report or for any decision based on it. All information and views expressed herein by CDP is based on their judgment at the time of this report and are subject to change without notice due to economic, political, industry and firm-specific factors. Guest commentaries where included in this report reflect the views of their respective authors; their inclusion is not an endorsement of them. CDP, their affiliated member firms or companies, or their respective shareholders, members, partners, principals, directors, officers and/or employees,

may have a position in the securities of the companies discussed herein. The securities of the companies mentioned in this document may not be eligible for sale in some states or countries, nor suitable for all types of investors; their value and the income they produce may fluctuate and/or be adversely affected by exchange rates. 'CDP Worldwide' and 'CDP' refer to CDP Worldwide, a registered charity number 1122330 and a company limited by guarantee, registered in England number 05013650.

© 2024 CDP Worldwide. All rights reserved.

Norges Bank Investment Management Commentary



Carine Smith Ihenacho
Chief Governance and
Compliance Officer,
Norges Bank Investment
Management


Norges Bank Investment Management manages the assets of the Norwegian Government Pension Fund Global, currently amounting to around US\$1.6 trillion. We work to safeguard and build financial wealth for future generations.

Responsible investment is a core priority for the fund, supporting the long-term economic performance of our investments. Water scarcity, pollution and flooding represent a risk to companies: one-off events and long-term management issues alike may impact an individual company's profits. Moreover, as a broadly diversified investor, we consider the collective nature of water as a resource.

Many of our portfolio companies are directly or indirectly dependent on the same sources of water, through use of common basins or supply chains. This results in a complex, interconnected landscape of risk and opportunity. In this report, CDP illustrates how some companies are mobilizing to mitigate these risks, capitalize on opportunities, and drive impactful action throughout their supply chains. Beyond possible business benefits, these efforts help enable respondents to minimize their own water impacts, along with those of their suppliers, which can have positive consequences for communities and ecosystems.

We assess how companies manage their water-related risks and opportunities, and use this information to inform our company engagement, voting, risk management and investment decisions. We base these assessments on public disclosures, in many cases directly on responses to CDP's water security questionnaire – the most comprehensive repository of consistent and comparable corporate water data we know.

As the Lead Sponsor of CDP's work on water security since 2009 we have followed their progress in water-related disclosures with great interest. We are pleased to say that 2023 has seen 4,815 responders. We congratulate the team on a successful year, and we look forward to the next steps in 2024.



Freshwater availability is in decline at an alarming rate and scale. The destruction of our natural capital – water, wetlands, soil moisture, forests – spurs climate change, supercharging the atmosphere towards more and more destructive weather events, while destroying our carbon sinks and the natural resilience buffers. We must come together to reverse course, restoring, protecting and sustaining the global hydrological cycle, our pathway towards an equitable, resilient and sustainable future.

A systemic approach is necessary, tackling this challenge head on. In a context of contested narratives on water, bringing focus to water as a global common good is pivotal to rethinking its values and the economics of water. This will help us deliver a water secure future – one with greater economic opportunities for all, greater equity of access, sustainability of use, slowing biodiversity loss, and mitigating the impacts of climate change.

For years CDP has contributed to helping corporates understand their risks from water insecurity as well as their responsibility to act. Much remains to be done. Part of the transformation needed will build on the work initiated by CDP on disclosure and lie in harmonizing regulations, frameworks, and taxonomies; integrating financial and non-financial reporting regimes; and developing nuanced metrics that help identify operational issues and opportunities.

The Global Commission on the Economics of Water will continue to engage with corporates and regulators to accelerate transformation at scale, for a water secure world for all.



Henk Ovink

Executive Director of the
Global Commission on the
Economics of Water

Key findings



1 in 5 companies report supply chain water risks which could have a significant impact on their business

623 out of 3,163 companies reported US\$77 billion under threat because of water-related risks within their supply chain.

The number of companies disclosing supply chain water risks is increasing year-on-year as the global water crisis intensifies.



Companies integrating suppliers into risk assessments are 7x more likely to report supply chain risks

Many more supply chain risks would be reported if all companies included suppliers in their water risk assessments – an important step for companies yet to grasp the vulnerability and potential of their supply chain.



50% of buyers engage with their suppliers on water

1,542 companies across all sectors reported engaging their supply chains: setting water-related procurement requirements, collecting water data, and collaborating on innovation and education. These companies have a far greater chance of realizing the financial benefits of supply chain resilience than those not engaging.



Global brands are offering financial incentives to their leadership teams to achieve supply chain water goals

118 companies, such as Coca Cola, L'Oréal, and Kao Corporation, include water targets in the remuneration policies for their Chief Procurement Officer (CPO), incentivizing action on water throughout the supply chain.

2023: Water in the spotlight

Another year gone; another threshold smashed.

2023 brought with it the world's first year-long breach of a key benchmark: 1.5°C. This breach has yet to break the absolute goal of the landmark Paris Agreement, but it is a potent symbol that we are headed towards a hotter Earth.

Rising temperatures are accelerating the global water cycle, resulting in stronger and more frequent droughts and extreme rainfall events. The consequences for global trade are alarming and already being felt.

In 2023, parts of the river Rhine closed for shipping due to heavy rains, at the same time that the Panama Canal grappled with severe drought. Floods halted industrial production in Japan, while water scarcity in Taiwan threatened the global supply of semiconductors which underpin our digital economy.

These challenges call for a revolution in the way water is governed, overhauling decades of chronic mismanagement. For years the unsustainable use of freshwater has been propped up – by governments spending trillions of dollars on agriculture and water subsidies that fuel water insecurity – and our global system of trade [driving water crises and injustice](#).

The demand for unified and ambitious measures to address water issues is gaining momentum. The UN 2023 Water Conference marked a significant step with the launch of the Water Action Agenda – an extensive collection of voluntary commitments from the private sector, governments, multilateral institutions, civil society, and academia. The Global Commission for the Economics of Water is spurring global change among these state and non-state actors. COP28, where water resilience was included in the [negotiated text](#) on the Global Goal on Adaptation and the Global Stocktake, and the [European Blue Deal](#), are also signs that the tide is turning at the policy level.

The unifying trend between these dialogues is the need for proactive cooperation across all stakeholders, industries, and borders. Ambitious, collective action is needed to put water at the center of our economy, to address destructive subsidies and finance models, to champion solutions, mediate competing interests, and to resolve conflicts over water before they boil over. With industry collectively the single largest user and influencer of freshwater resources globally, the private sector has a critical role to play. But the window to act is closing fast.

¹ [New data reveals rich countries' shocking reliance on water beyond their borders - Fair Water Footprints](#)

² <https://turningthetide.watercommission.org/>

³ [Water Action Agenda | Sustainable Development \(un.org\)](#)

⁴ [Mandatory environmental disclosure - CDP](#)

The state of water in 2023



50%

of the water footprint of high-income economies is from areas of the Global South facing extreme water insecurity¹.



~US\$700 bn

every year goes to agriculture and water subsidies that often fuel excessive water consumption and other environmentally damaging practices².



841

commitments to accelerate progress towards global water goals³ were registered to the Water Action Agenda.



40%

of G20+ jurisdictions have introduced or are in the process of introducing water-related disclosure requirements⁴.



4,815

companies disclosed water-related data through CDP – the world's largest global water disclosure mechanism. This marks a 23% increase from 2022.

The water crisis is intensifying, policymakers are waking up, and mandatory disclosure on water is gaining momentum. CDP is helping the private sector keep up.

Private sector disclosure of comparable and consistent water information fosters accountability, underpins collaboration, and propels companies to act. This report showcases analysis from **3,163** large, listed companies that disclosed water-related data through CDP in 2023⁵. It focuses on a key partner with whom companies can effect impactful change and enhance resilience beyond their own operations – suppliers. The report aims to inspire companies across all sectors and geographies to assess, engage and cascade change throughout the upstream stages of the value chain.

⁵ For all CDP corporate questionnaires, there are two versions: full and minimum. Organizations disclosing in response to an investor request, with an annual revenue of more than EUR/US\$250 million, must complete the full version. These organizations, known as 'Full Tier' respondents, are the focus of this report.

Figure 1: CDP investor signatories requesting water data against their combined asset value⁶

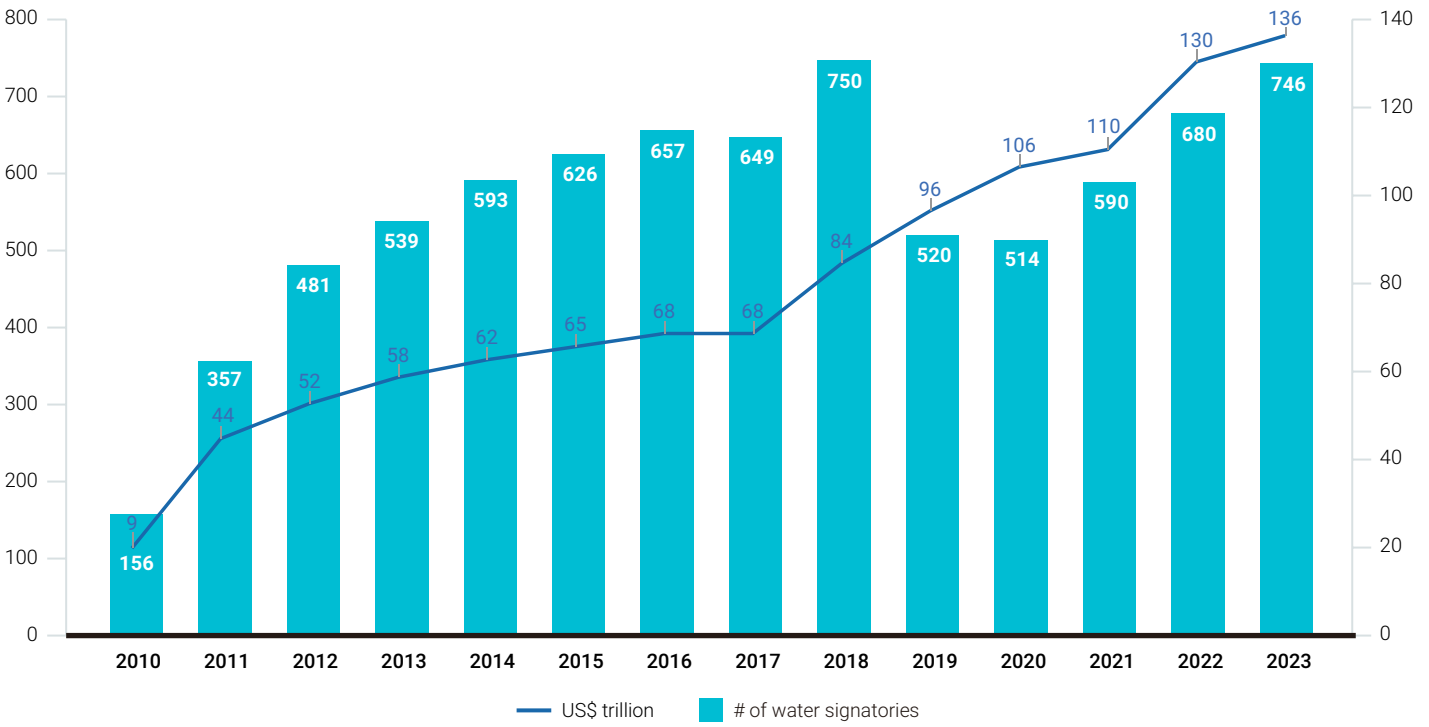
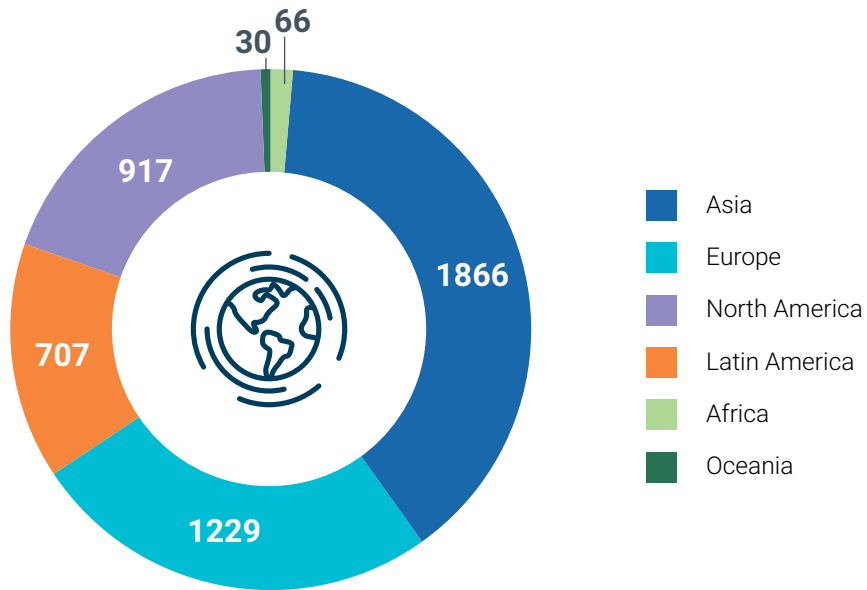


Figure 2: Disclosure per region in 2023



⁶ CDP introduced a fee for investor signatories in 2019, which led to the drop of many small and/or unengaged signatories. Importantly, despite the drop in numbers, assets under management, and therefore influence, remained high.

Figure 3: Disclosure response rate (2015 – 2023)

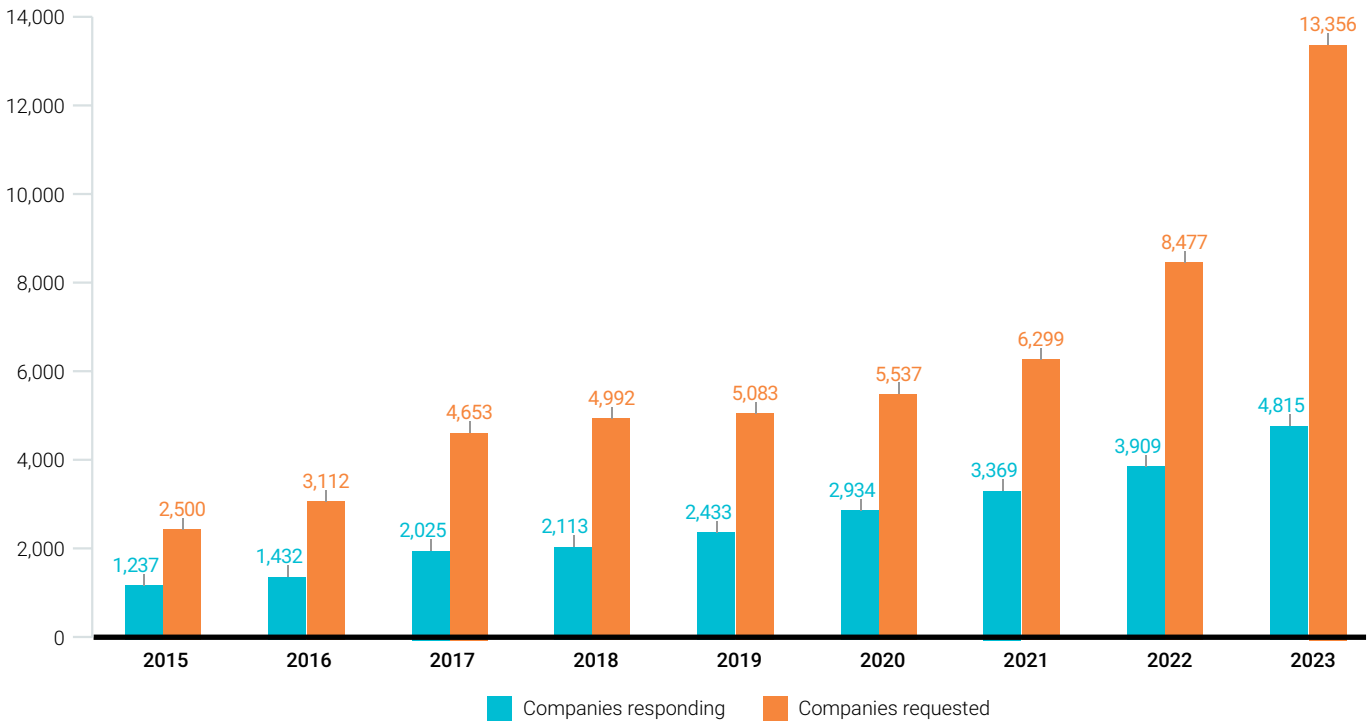
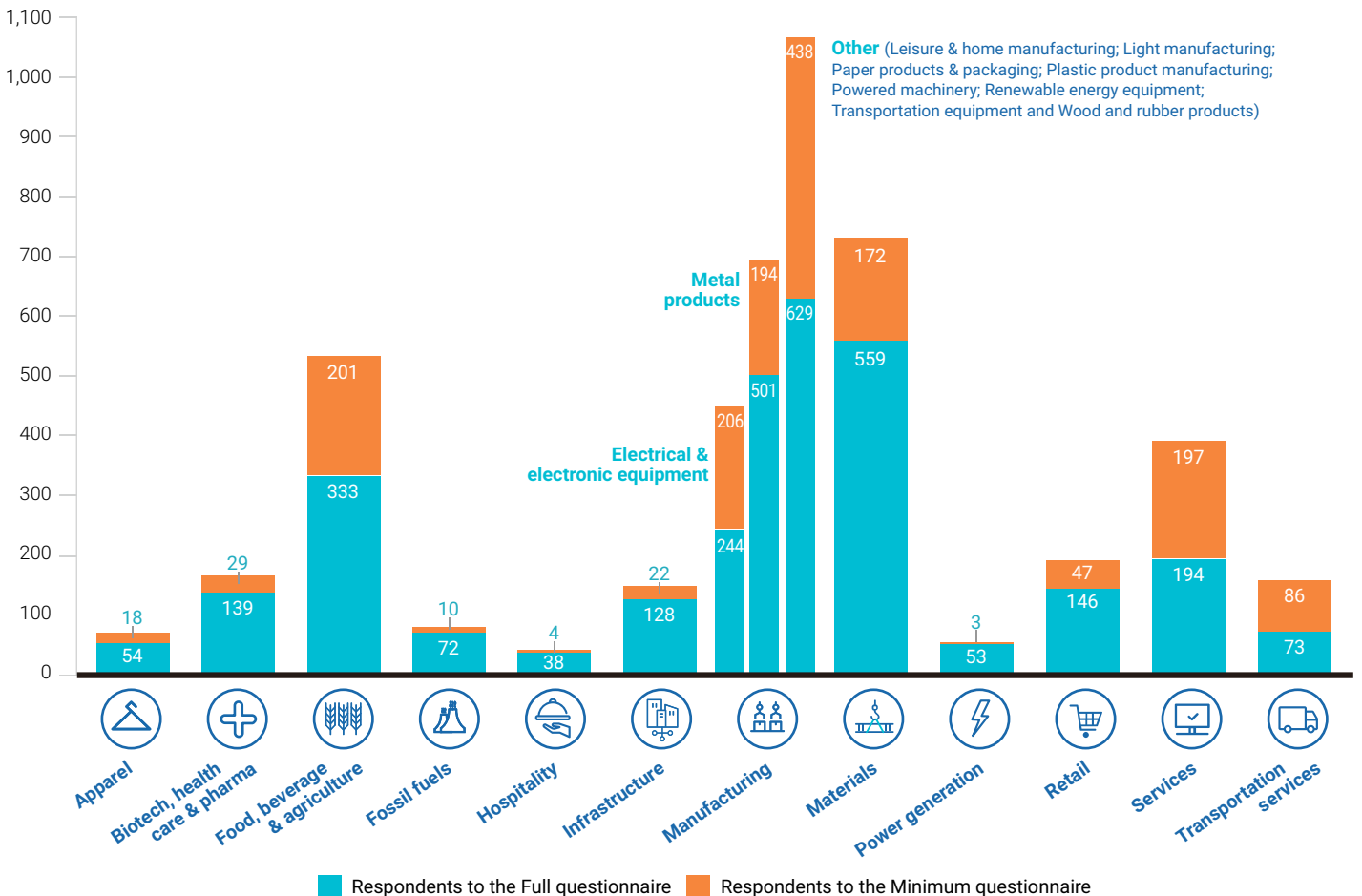


Figure 4: Disclosure breakdown by industry (2023)





The case for supply chain action on water

Water is vital to every industry, even in ways that may not seem obvious. Water is used for cooling or heating, in transport and cleaning. Many more industries are exposed to water risks through their supply chains, as they rely on energy and input from water-intensive industrial and agriculture sectors, or on rivers to transport goods.

Since the shock of COVID-19, companies are shaking up their supply chains to become more resilient and collaborative. Sustainability has emerged as a cornerstone of strong supply chains, and the urgency for change is ever more critical in the face of water-related risks. The rivers Rhine, Mississippi, Amazon and Yangtze are four vital trade routes being squeezed by drought, underscoring the global significance of water scarcity⁷.

In light of this, a new wave of proposed due diligence and mandatory reporting requirements⁸ is emerging, aimed at tackling supply chain

environmental risks and impacts. CDP has built a platform to launch from – for nearly 15 years companies have disclosed water risks associated with their supply chains through CDP.

CDP identified 2,414 companies which have disclosed each year for the last three years. In 2021, 16% of this group reported supply chain risks, rising to 20% in 2023.

Figure 5: Potential financial impact and frequency per risk

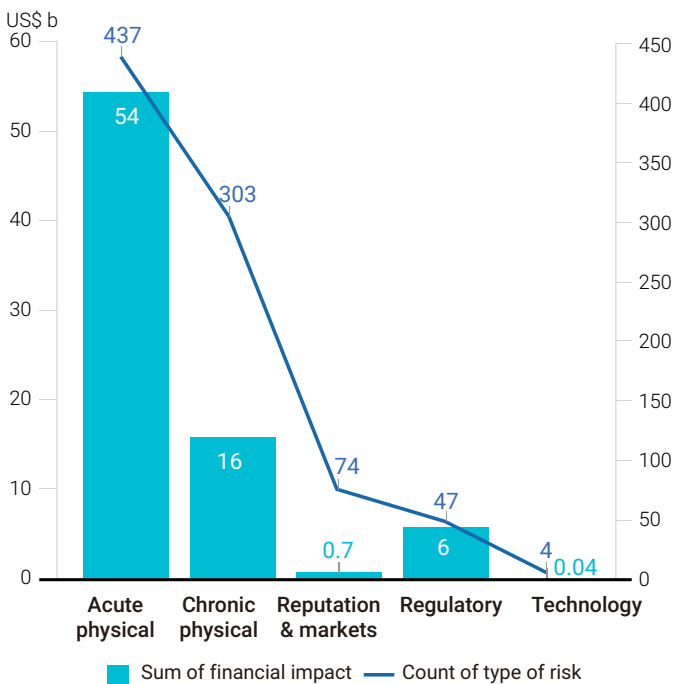
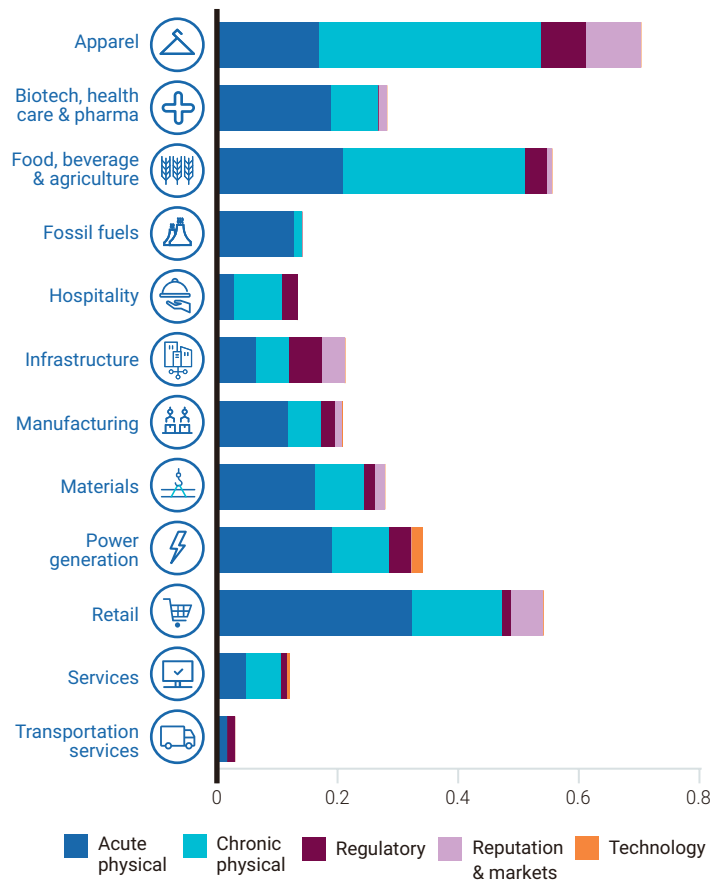


Figure 6: Average number of risk types per sector⁹



⁷ <https://www.weforum.org/agenda/2023/10/drought-trade-rivers-supply-chain/>
⁸ For example, the proposal on Corporate Sustainability Due Diligence Directive (CSDD)
⁹ Refer to [page 34](#) for detailed sector insights on water in the supply chain.



20%

of companies disclosing annually reported supply chain water risks in 2023, rising from 16% in 2021.

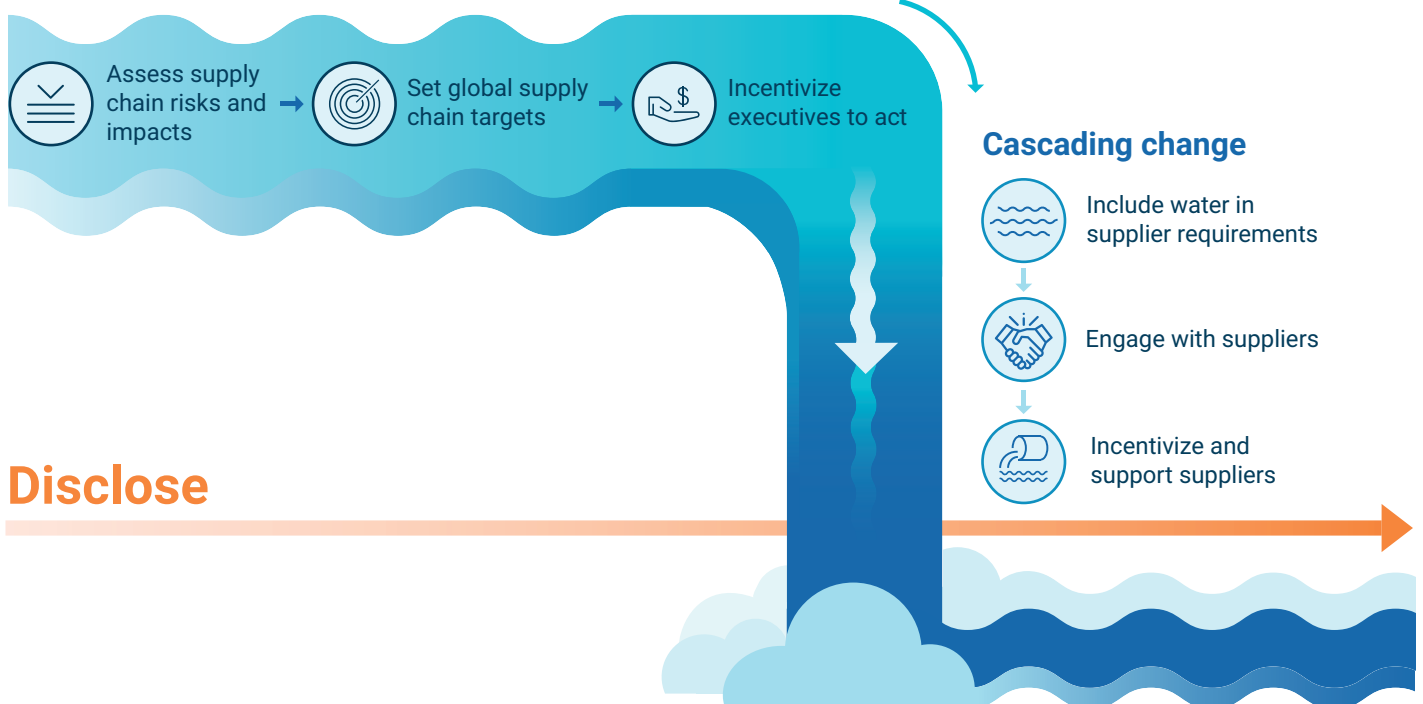
Last year, 623 companies disclosed 865 supply chain risks that could pose a substantive financial or strategic impact on their business. The potential economic damage arising from these risks totals US\$77 billion, equivalent to an indicative US\$124 million per company. Almost US\$7 billion is at immediate risk, with 79 organizations including Honda, LVMH and Vale SA currently grappling with water scarcity, flood, regulatory and reputational risks in the upstream stages of their value chains.

The early parts of a company’s value chain can account for as much as 90% of the water use in production¹⁰ and this water often stems from unsustainable sources¹¹. Clearly, credible action means addressing the material risks and impacts on water across the entire supply chain. **This is an opportunity for business: the cost of mitigating supply chain water risk is almost three times cheaper than the cost of impact.** Collective action between suppliers and buyers can lead to closer relationships, opening the door to improved products and innovative solutions.

Drawing on CDP analysis of supply chain water metrics, six enablers can help unlock these opportunities and accelerate action. This report will dive into each in turn.

Figure 7: Six CDP indicators driving supply chain action

Setting the stage



¹⁰ https://www.mckinsey.com/~/media/mckinsey/dotcom/client_service/sustainability/pdfs/report_large_water_users.aspx
¹¹ https://static1.squarespace.com/static/5baa3175bfa3e44386d68a5/1/6418884abd3cae57ce8be632/1679329357074/Towards+Fair+Water+Footprints+-+a+briefing+note+on+the+updated+global+WF+analysis+for+2000-2020_FINAL.pdf

From the inside out: setting the stage for supply chain action



40%

of companies
(1,281/3,163)
assess risks in their
supply chain.

Risk and impact assessments

Without a comprehensive grasp of the water-related risks facing their supply chain, and an understanding of how their supply chain activities contribute to water insecurity, companies will be ill-equipped to anticipate potential disruptions, manage reputational risks, and capitalize on opportunities for action. Risk and impact assessments are a foundational component of supply chain management, as well as a key entry point to engage with suppliers through the collection of water-related data.

Out of 3,163 companies, 40% (1,281) assess risks in their supply chain. **Companies that include their supply chain in their risk assessments are seven times more likely to report water-related supply chains (risk)**, and therefore more likely to put in place proactive measures to mitigate them. These assessments prompt companies to use risk assessment tools like WRI's Aqueduct, WWF's Water Risk Filter and Waterplan, and to integrate contextual factors, such as the status of ecosystems and the interests of local stakeholders. Almost 25% of companies (729), including BMW, Keurig Dr Pepper and Arvind Ltd are also actively evaluating their supplier's impact on water, with an additional 312 planning to do so in the next two years.

Fresh momentum is being created by global initiatives that recognize the importance of supply chains in addressing nature-related impacts, such as the Taskforce on Nature-related Financial Disclosures (TNFD) and Science-based Targets for Nature (SBTN).

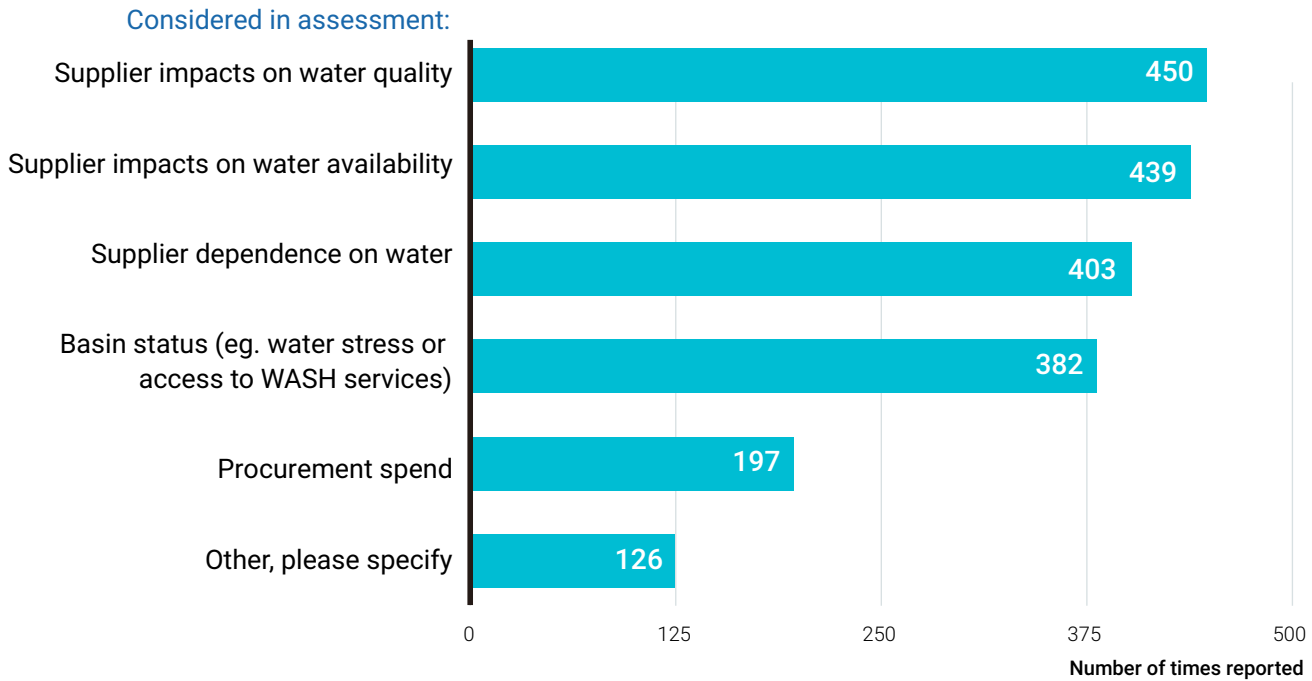
Evaluating impact on water is more intricate than assessing climate impact. Water pollution, water withdrawals, as well as status of the basin in which a supplier operates (in terms of water stress and the availability of water, sanitation and hygiene services (WASH) services) are all aspects to be considered which companies factor into their assessments.



We have mapped our fresh supply chains and a number of key commodities using the WWF Water Risk Filter to understand which supply chains are most dependent on water and where our biggest impacts and risk areas are. This is informing our landscape-scale engagement and potential future alignment to Taskforce on Nature-Related Financial Disclosures and Science-Based Targets for Nature.



Figure 8: Indicators companies include in supplier impact assessments



Only

4%

(131) of companies are setting global water-related targets for their supply chain

Supply chain water targets

Once companies grasp the water-related risks and impacts within their global supply chains, they will be well-equipped to establish targets for improvement. Targets help set a direction to aim for and serve as benchmarks for evaluating performance. They can facilitate buy-in from senior management and mobilize resources and motivation across the organization.

In 2023, only 4% (131) of 3,163 companies set water-related targets for their supply chain. It’s clear: more companies need to step up. The apparel sector leads the charge, with over a quarter of disclosing companies in the industry setting goals (26%). Notable players like Burberry Group, Capri Holdings, Levi Strauss, Kering and LVMH are already on board, assisted by initiatives like the Roadmap to Zero Programme by ZDHC – underlining the significance of multi-stakeholder, sectoral commitments to champion supply chain change. As the TNFD and SBTN gain momentum, alongside the potential rise of mandatory supply chain due diligence regulations, such as the [CSDD](#), we anticipate seeing a gradual increase in supply chain targets for water.

Encouragingly, **nearly 70% of companies that have set water-related supply chain targets are on track to achieve them.** All companies need to elevate efforts in setting, disclosing and reaching these targets to avoid being left behind.

Table 1: Examples of supply chain targets

Company Bloomberg Ticker	Country	Global quantitative metric	Target completion year	Status	Details
LVMH Luggage & bags MC FP	France	Reduce water withdrawal by 30% from LVMH Scope 3	2030	Underway	Reducing supplier withdrawals in key activities including vineyard irrigation, cotton cultivation, leather, and wool production and processing and precious metal extraction and processing.
Burberry Group Apparel design & manufacturing BRBY LN	UK	Reduction of hazardous substance use	2023	Achieved	Implementing the ZDHC Supplier to Zero program across its value chain to ensure rigorous chemical management practices are in place.
Mars Other food processing Private company (no ticker)	US	100% compliance in pollutant management practices	2025	Underway	Requesting compliance against good practices defined by the Sustainable Rice Platform to reduce pollution of water run-off from the use of fertilizers and pesticides. As of 2022, 99% of farmers demonstrated compliance.
Klabin S/A Paper packaging KLBN4 BZ	Brazil	Evaluate and monitor the sustainability performance of all critical suppliers	2030	Underway	Assessing critical suppliers by the sustainable supply chain management program. As of 2022, 70% of 473 critical suppliers were assessed for their sustainability performance.
Aritzia Inc Apparel stores ATZ CN	Canada	Measure environmental performance of manufacturing suppliers	2026	New	Expanding the adoption of the sustainability assessment tool (Higg FEM) into its supply chain for 80% of fabric and trim suppliers.
AUO Corporation Electronic components 2409 TT	Taiwan	Reduce the uncertainty caused by water shortages on future operations	2022	Achieved	Implementing supply chain water conservation programs, saving 8,200 cubic meters per day in 2022.



14%

of companies reported via CDP that they have C-suite or board-level incentives in place for the management of supply chain water-related issues.



The consideration of ESG targets in variable remuneration underlines the desire for excellent economic performance as well as environmentally and socially responsible conduct. The variable pay is linked with water targets and KPIs set out in the [company's] sustainability commitments.

Heidelberg
Materials



Incentivizing executive action

For decades, companies have successfully linked executive compensation to ESG metrics and now 60% of FTSE 100 companies have an ESG measure in executive pay¹². Incentives can be a powerful motivator for employees to propel the achievement of water-related targets and goals.

In 2023, **14% (443) of companies reported via CDP that they have C-suite or board-level incentives in place for the management of supply chain water-related issues**. These incentives encompass ensuring access to WASH, improving wastewater quality and reducing overall water use.

4% (136) of companies directly incentivize their Chief Procurement Officer (CPO) – often the highest-ranking person in the company responsible for overseeing and managing an organization's procurement and supply chain engagement. The majority (118), including Coca Cola, Kao, Wistron Corp and L'Oréal, offer financial incentives.

Interestingly, the apparel industry, despite being most likely to set supply chain targets, is one of the sectors least likely to have CPO incentives – highlighting an opportunity to instil supply chain water action at the top.

Company snapshot: L'Oréal

L'Oréal's Remuneration Committee evaluates performance based on various quantitative criteria, established by the targets set by the company at the beginning of the year. Success is determined by progress made towards these targets, with environmental targets contributing up to 40% of the total annual variable remuneration for corporate criteria.

Water-related supply chain performance indicators includes progress against L'Oréal's target that all strategic suppliers will use water sustainability in the areas where they operate by 2030.

¹² <https://www.pwc.co.uk/human-resource-services/pdf/esg-in-executive-pay-the-evolving-landscape.pdf>





Companies engaging with suppliers are

14x

more likely to report opportunities.



HP expects suppliers to comply with a range of water-related requirements including compliance with regulation, but also includes requirements that go beyond regulations in contracts with suppliers. HP reviews supplier compliance with these requirements through supplier self-assessments and third-party audits.

HP Inc



Cascading change: Mobilizing the power of many

With the stage set, companies will be ready to cascade action across their supply chains.

Last year, nearly half of companies engaged with their supply chain to collect water-related information, set purchasing requirements, mitigate risks, or achieve water targets, with significant potential benefits. **Companies engaging with suppliers are 14 times more likely to report opportunities to enhance supply chain resilience, unlocking financial rewards.**

WWF's report '[Advancing water stewardship through supplier collaboration](#)' is a valuable guide to furthering supply chain engagement. It can help companies identify where within a supply chain potential pathways for cooperation would be best deployed, and the possible benefits for water, the company and the suppliers that could be derived from each pathway.

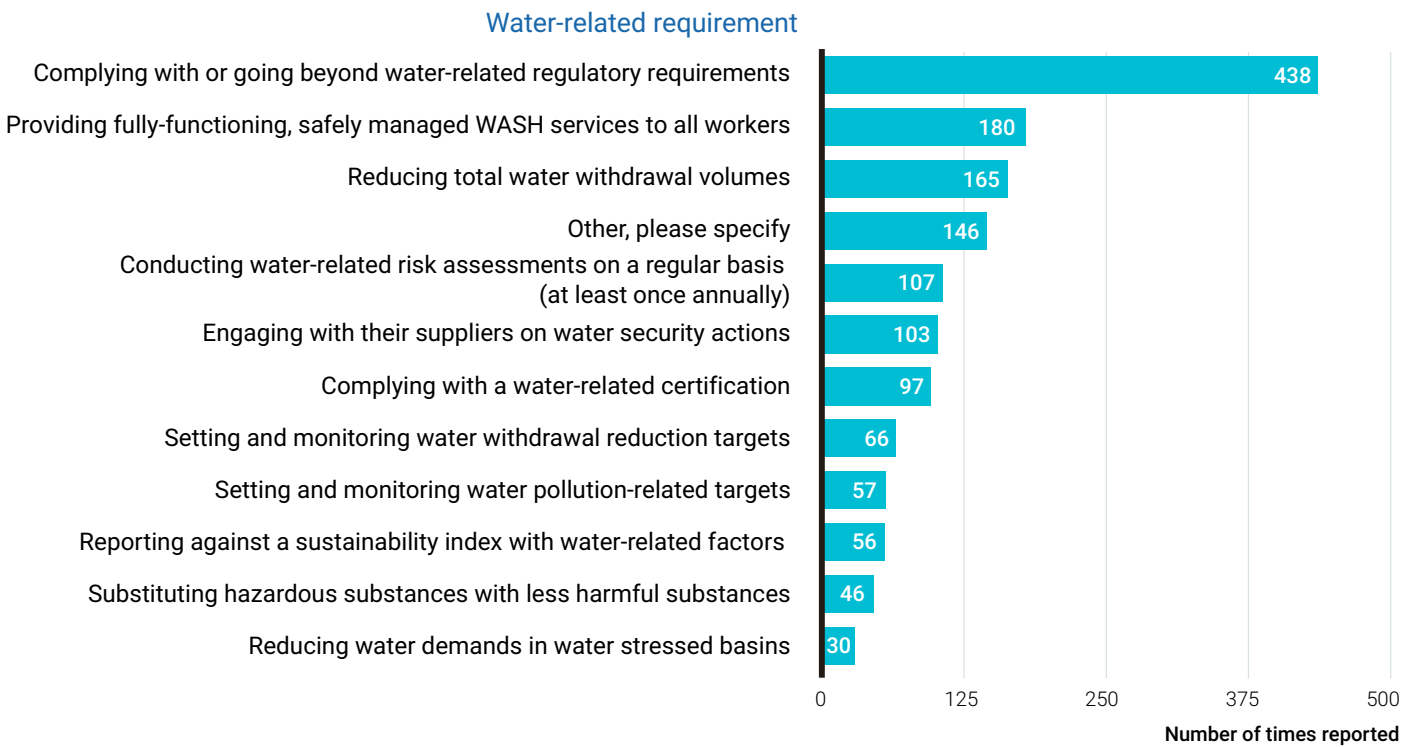
The power of purchasing

Increasingly, companies are integrating environmental and ethical criteria into sourcing strategies. In 2023, a third of companies (1,047) reported that their suppliers must meet water-related requirements as part of their organization's purchasing process, demonstrating a strategic commitment to water action. For 569 companies, these requirements were included in supplier contracts. 478 companies stop short of including water requirements as contractual obligations.

Astra Zeneca, Burberry, Johnson & Johnson, Georg Fischer, Global Wafers Co. Ltd, Heineken NV, Unilever and Sony Group Corporation are just some of the companies integrating water into codes of conduct which apply to all suppliers, with compliance monitored through regular assessment and audit programmes.

The majority of water requirements relate to compliance with water-related regulatory requirements. **This shows that mandatory mechanisms – raising the bar through regulation – are a powerful lever in changing corporate behavior, yet also the power of corporations to act as partners in the enforcement of national legislation.** As environmental principles become integrated into 'business as usual' in purchasing practices, the need for industry alignment deepens to prevent suppliers having to navigate requirements that keep changing and vary from buyer to buyer.

Figure 9: Water-related requirements suppliers must meet as part of purchasing processes



Exclusion or engagement in the case of non-compliance

Among the companies actively establishing and overseeing water-related requirements in their supply chains, 63% (656) opt for retraining and engagement in the case of supplier non-compliance. A notable 16% (171) choose to temporarily suspend the relationship but continue to engage on improving water performance, while nine percent (95) took the more drastic step of exclusion.



Hermès works to a very large extent with historical suppliers, with whom it has long-lasting relationships. Therefore, we favor engaging with our suppliers and supporting them in case of non-compliance. Nevertheless, an immediate termination clause allows us to halt all negotiations and/or the commercial relationship in case of non-compliance with immediate effect upon notification, especially if the supplier has not organized access to WASH services to all workers.



Excluding low-performing, high-impact or high-risk suppliers from the supply base may provide a quick short-term solution but limits the benefits of collaboration and may have very negative consequences for the suppliers which are excluded. Guides to responsible sourcing¹³ encourage companies to prioritize engagement and support to suppliers to improve practices. This is particularly important to ensure that action on water generates opportunities for developing countries, instead of presenting further obstacles for progress towards the just water security transition.

If suppliers are unwilling to engage or continue to not meet requirements, it is important to establish a transparent process for exclusion as a last resort. This communicates a firm commitment to sustainability and reassures suppliers and producers striving for compliance that their efforts are worthwhile.



12%

of respondents reported that they engage with their supply chain through education and innovation.

Innovation and collaboration

With the rise of environmental criteria in sourcing requirements, sustainability is emerging as a clear differentiator among suppliers, and awareness of the importance of water action for competitive advantage is growing¹⁴. However, some actions to improve water security can be unachievable for suppliers, especially small and medium-sized enterprises (SMEs) which may struggle to raise the capital required to invest¹⁵.

Large buyers play a critical role in enabling suppliers to act, so it is encouraging that 12% of respondents (379) reported that they engage with their supply chain through education and innovation, and to involve suppliers championing for basin-level, and policy or regulatory change.

Education

186 companies are educating suppliers about water stewardship and collaboration. Nestlé, for instance, with funding from the Swiss Agency for Development and Cooperation, has trained around 50,000 farmers on best irrigation practices in Vietnam, resulting in 50 million m³ of water saved annually and generating more than US\$8 million in the local economy of smallholder coffee growers. Training suppliers on regenerative agriculture is a particular area of interest for many big buyers operating in the food, beverage, and agriculture sector, including LVMH, General Mills, Heineken, Hormel Foods, and Unilever.

¹³ <https://www.pwc.co.uk/human-resource-services/pdf/esg-in-executive-pay-the-evolving-landscape.pdf>

¹⁴ <https://www.cdp.net/en/research/global-reports/global-water-report-2022>

¹⁵ <https://www.supplychaindive.com/news/who-will-pay-to-decarbonize-the-supply-chain/690631/#~:text=For%20CFOs%2C%20E2%80%9Cone%20of%20the.super%20interesting%2C%20E2%80%9D%20Geale%20said.>



Environmental sustainability is becoming a major issue of focus for politicians and officials. Our operation in Richard Bay located in the uMhlathuze Municipal is involved in the uMhlathuze Water Stewardship Partnership (UWASP), a river basin collaboration of business, governments and civil society partners addressing water security challenges in the region.

Hulamin Operations



Innovation in products and services

Suppliers play a key role in lessening the water impact of the design and production process, so it is encouraging that **186 companies are driving innovation to reduce water impacts in products and services**. Ecolab co-innovates with suppliers which in turn reduces their own operating costs and environmental footprint. Eni SpA has formed 'EniSpace' to involve its supplier base in sustainable development initiatives. EniSpace includes a channel called Match, entirely dedicated to the competition of innovative ideas and solutions. Meanwhile, Coca-Cola, Colgate-Palmolive, Anheuser-Busch InBev, and Unilever are co-sponsoring the 100+ Accelerator to fund and pilot sustainable innovation in supply chains.

Collaboration at the basin level

Through engagement, buyers can also promote collective action with other stakeholders at the basin level. **73 respondents engage with their suppliers to work collaboratively with other users in their river basins towards sustainable water management**. The [Alliance for Water Stewardship](#) (AWS) framework is an important enabler here – offering a comprehensive framework for collaborating with suppliers and other stakeholders in the watershed¹⁶. Johnson & Johnson and VST Industries are two companies operating in line with the requirements of AWS. Collaboration activities are included in each site's action plan to achieve the AWS Standard certification.

Policy and regulatory change

Lastly, a small, but powerful subset of companies (41), including Hulamin in South Africa, are engaging with their suppliers to advocate for policy or regulatory change to address water availability, pollution, or WASH challenges. In turn this can help to improve or enhance the operating environment in which the suppliers operate. The Glasgow Declaration for Fair Water Footprints plays a critical role in this space, calling companies to advocate for, contribute to and engage in governance initiatives to achieve fair water footprints and SDG 6 by 2030.

[The Glasgow Partnership for Fair Water Footprints](#)

Launched at COP26 in November 2021, this initiative is a unique partnership comprised of government, the private sector, financial institutions and civil society. By harnessing the power of trade, enterprise, and communities, it aims to help deliver sustainable water and sanitation for all by 2030.

A fair water footprint means zero water pollution, sustainable and equitable withdrawal and water use, full access to WASH, protecting nature and planning for climate resilience.

¹⁶ AWS Impact Accelerator - Alliance for Water Stewardship (a4ws.org)



147

(5%) companies incentivize their suppliers to act.

The importance of incentivization and financial activation

A supply chain works well if its companies’ incentives are aligned – distributing the risks, costs, and rewards of water action evenly across the network. **This report has explored the role of employee incentives to motivate supply chain action within the buyer organization, but incentives are also a necessary tool to enable suppliers to make progress on environmental goals.** Financial incentives are particularly important to enable the ability of suppliers to access finance and capital, to activate improvements in practices or infrastructure and bridge the resource gap between buyers and suppliers. CDP is a key player in this space, through its Sustainable Finance Program.

5% (147) of companies incentivize their suppliers to act. The table on [page 23](#) captures some of the novel ways buyers are incentivizing and enabling suppliers to act on water – from legal provisions to support funds, supplier bonuses to price premiums.



Considering the steep interest increase in Korea, financial incentives like interest reduction programs for suppliers through cooperation with banks, could be effective to improve ESG performance, reduce supply chain risks and help fund water resource protection activities.

SKC



CDP's Sustainable Finance Program

Accessing and acting on reliable data is the biggest challenge faced by sustainable finance. CDP's Sustainable Finance Program provides a framework to help banks effectively engage clients and their supply chains, leveraging finance to drive resilience, while maintaining financial returns.

As part of this program, CDP has joined forces with [Citi and Vodafone](#), HSBC and Walmart, and Santander and Cellnex, to incentivize supplier sustainability – unlocking preferential supply chain financing rates to suppliers that score highly against environmental performance criteria. To encourage industry-wide adoption of the model, CDP is persuading even more suppliers to report on environmental performance and reduce carbon emissions. There are plans to have a similar framework available for water.

Examples of how buyers are incentivizing and enabling suppliers to act on water

<p>Price premiums</p> <p>Tesco engages with its Sustainable Farming Groups on environmental criteria including water-related criteria. If suppliers meet the requirements, they receive price premiums for their products.</p> <p>Tesco, UK</p>	<p>Legal provisions</p> <p>The POSCO Honoured Partner is selected among suppliers that have received excellent environmental ratings, providing various preferential benefits such as negotiation rights and exemption from contract-related deposit payments.</p> <p>POSCO, Republic of Korea</p>	<p>Recognition</p> <p>Annual Supplier Sustainability Awards celebrate suppliers which exhibit improved environmental and social performance. Reduced water consumption is one of the award criteria.</p> <p>Mahindra & Mahindra, India</p>
<p>Bonus schemes</p> <p>MB production units have contracts in which there are bonus schemes with certain chemical suppliers. The bonus is tied to water usage and quality by optimizing chemical dosage and chemical type. If suppliers are able to optimize water volume and quality by a smaller chemical dose, they gain more profit, which is shared between the supplier and MB.</p> <p>Metsa Board Corporation, Finland</p>	<p>Supplier support funds</p> <p>Through its social innovation platforms (the Ecosystem Fund, and the Livelihoods Fund for family farming), Danone provides financial incentives to support projects that help empower farmers and them build resilient agricultural models that respect and preserve natural resources.</p> <p>Danone, France</p>	<p>Loan support and interest reduction</p> <p>SKC Korea operates a Shared Growth Fund in partnership with a Korean bank. This was expanded to include suppliers of subsidiaries in 2022, providing an average of KRW2.1 billion (US\$1.5 million) per month in loan support and interest reduction to improve ESG management, including water resource protection.</p> <p>SKC, Republic of Korea</p>
<p>Monetary awards</p> <p>Since 2005, CDL has been incentivizing builders to uphold high EHS standards through the CDL-5 Star EHS Awards. It incentivizes builders by providing a monetary reward. Water reduction and efficiency components comprise up to 16% of the total score for CDL's 5 Star EHS Assessment.</p> <p>City Developments Limited, Singapore</p>	<p>Certification</p> <p>LVMH implements water management certification programs to engage suppliers in winegrowing, cotton growing, leather and cashmere supply chains. It collaborates closely with suppliers, training and helping finance the costs of first certification.</p> <p>LVMH, France</p>	<p>Supplier support funds</p> <p>Eni SpA's Basket Bond program is aimed at all companies in the integrated energy supply chain, with a particular focus on SMEs. Companies adhering to the program have access to financial resources at favorable conditions based on their current and expected sustainability profile. These can be used in projects and investments to achieve the UN Sustainable Development Goals, including SGD 6.</p> <p>Eni SpA, Italy</p>



Supply chain silence



Encouragingly, several non-engaging companies, including Danfoss, Ciech SA and Yinson Holdings BHD, have plans to integrate water into wider supplier circularity or decarbonization agendas.

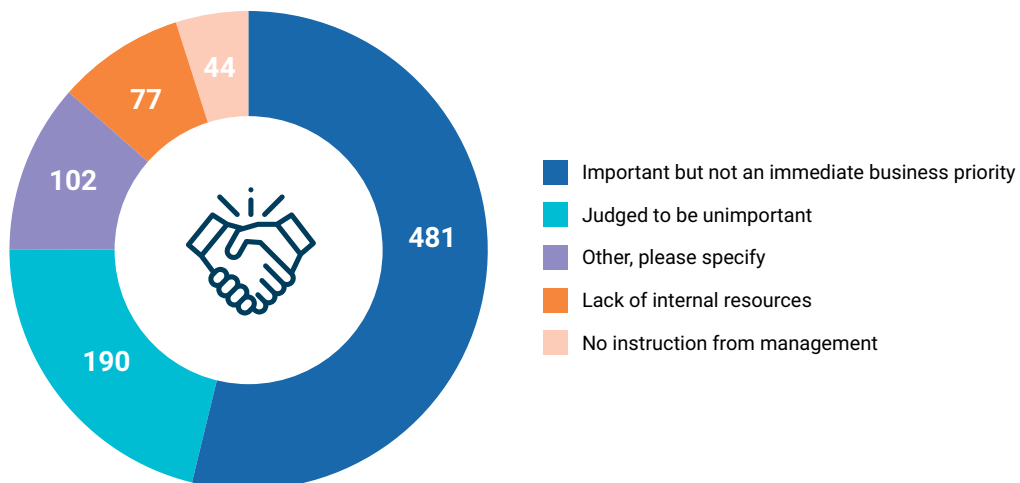
In 2023, 894 companies (28%) reported that they do not engage with their supply chain and that they will not do so in the next two years. These companies, spanning every sector, fall short in crucial areas – neglecting to gather water-related data from suppliers, overlooking the integration of water requirements in purchasing decisions, and failing to incentivize innovation or foster collaboration among suppliers.

Concerningly, 21% of non-engaging companies judge supply chain engagement to be unimportant, despite the majority operating in very high or critical water impact activities¹⁷. It would be wise, for instance, for semiconductor companies such as Dongjin Semichen Co., Ltd and Coherent Corp to start incorporating water into supply chain programs.

For most non-engaging companies (481) though, water is noted as important but not an immediate business priority. Encouragingly, several companies in this subset, including Danfoss, Ciech SA and Yinson Holdings BHD, have plans to integrate water into wider supplier circularity or decarbonization agendas.

For companies yet to embark on this essential journey, they can draw on this report for inspiration, learning from companies that have successfully navigated supply chain challenges and participating in global initiatives that can support action. CDP’s Supply Chain Program is a good place to start. They will start to reap rewards – reducing risks in their supply chain and seizing opportunities.

Figure 10: Reasons why respondents are not engaging with suppliers on water



¹⁷ According to CDP’s [Water Watch](#)

CDP's Supply Chain Program

Since 2007, CDP has worked with large listed companies to trigger transformational change across supply chains. The Supply Chain Program helps companies pinpoint risks, identify opportunities, and engage their suppliers. There are 64 Supply Chain members globally (up from 18 in 2015), including L'Oréal, Microsoft and TSMC who work with CDP to request key suppliers to report water-related data through CDP's questionnaire. CDP supports the members and their suppliers throughout the entire disclosure process, sharing supplier engagement strategies and resources. As a result of Supply Chain Member engagement, 201 supply chain companies are now implementing water projects in collaboration with their requesting buyer in 2023.

Stories of transformation

A water-secure world is one in which citizens, industry and nature all have the water they need for a thriving, sustainable economy.

By engaging with suppliers on their water risks and impacts, companies are taking a first step towards the collective action needed to secure our water resources for the future. Companies have the power to influence their supply chains through direct engagement, financial incentives and co-developing solutions that could help them to both reach water goals and magnify efforts to reduce their environmental impact.

For Firmenich, United Microelectronics Corporation and Ecolab – three large, listed companies on CDP’s Water A List – the supply chain is central to how they are tackling and mitigating water risk and impacts. These companies show that engaging their supply chain can yield multiple business benefits, both environmentally and financially.



Firmenich

Firmenich (now DSM-Firmenich) is a fragrance and flavor company established in Switzerland over 125 years ago. Some of its recent innovations include flavors that mimic animal fat for vegan meat alternatives. Firmenich has been disclosing water data through CDP since 2014.

Goal: To reduce total water use globally, with a vision to reach water neutrality by 2030.

Driver: Shifting demands from a more environmentally conscious customer base for sustainable products.

Supply chain engagement: Firmenich is a member of CDP’s Supply Chain Program. In 2023, it set a company-wide target for 75% of its suppliers disclosing via CDP to have water reduction targets. This required direct engagement with suppliers to measure and monitor water footprints. As of 2023, it reported that 82% of its suppliers that responded through CDP have set water reduction targets.

Potential financial benefit: Acknowledging that end-consumers are willing to pay a premium for more sustainable products, Firmenich developed the EcoScent Compass™, a digital assessment tool, that allows customers to access environmental data, including water and supply chain data, on perfume ingredients and formulations.

Scaling up: Firmenich has extended this initiative to its flavoring business and has begun generating the first results for its EcoFood Compass™ tool.

Enablers: Firmenich signed the Global Compact’s CEO Water Mandate in 2008 where action on water in the supply chain is listed as a commitment area.



United Microelectronics Corporation (UMC)

United Microelectronics Corporation (UMC) is a semiconductor foundry that was founded as Taiwan's first semiconductor company over 40 years ago. The company has been disclosing water data through CDP since 2017.

Goal: To increase the rate of recycled water used in its operations to 40% by 2030.

Driver: Risk of disruption to operations if sufficient fresh water supplies become unavailable.

Supply chain engagement: UMC has formulated a Supplier Code of Conduct that mandates for suppliers to undertake water risk assessments, monitor withdrawals and discharges, and provide information on and implement water resources management plans for procurement contracts to proceed. UMC also has a 'Corrective Action Plan' to help suppliers better comply with their requirements.

Potential financial benefit: UMC has estimated that the risk of not engaging with its suppliers would cost them 24x more than the investments made.

Scaling up: UMC has been expanding in-house water recycling facilities and has been working collaboratively with the government and other industries within Taiwan, many of which are its suppliers situated within the same vicinity, to develop solutions to reduce water withdrawals from municipalities.

Enablers: UMC's ESG Steering Committee has recently approved several companywide strategies to increase funding for water conservation projects. UMC also links executive remuneration to progress against supply chain water management objectives.



Ecolab Inc.

Ecolab Inc. is a US company that develops and offers water, hygiene and infection prevention solutions used primarily in the food and beverage and healthcare sectors. It began disclosing water data through CDP in 2010.

Goal: To help customers conserve 300 billion gallons of water per year by 2030.

Driver: Increased risks to water availability and quality due to climate change impacts driving up manufacturing costs.

Supply chain engagement: Ecolab has a 'Strategic Supplier Initiative' to evaluate water risks to its suppliers and explore opportunities to co-innovate water efficient solutions to reduce both its operating costs and environmental footprint. For example, Ecolab engaged with suppliers, Dow, and BASF, to deploy its 3D TRASAR technology for cooling water systems, reducing the water footprint for the associated purchased goods by 71%.

Potential financial benefit: The 'Strategic Supplier Initiative' contributes to >10% of Ecolab's research and development pipeline that leads to the sale of new products.

Scaling up: Ecolab has identified global opportunities to expand its existing portfolio of water efficient technologies in emerging markets and has invested in two tools, the Water Risk Monetizer and the Smart Water Navigator, to help customers identify operational water risks.

Enablers: Ecolab has a documented company policy that includes commitments to collaborate and engage with strategic suppliers recognizing their potential to be co-innovators and customers of its solutions.



Conclusion



Patricia Calderon
Global Head of Water
CDP

Ensuring supply chains can build resilience, reduce water risks, and keep our economies going, is within reach.



Supply chains are the knots that tie our global economy together and allow it to operate as it does.

In recent years those knots have become more complex and fragile. Major trade routes can be held up by conflict, politics, or simply a container ship running aground. The world is deeply dependent on pinch points functioning with high volumes of traffic and little to no barriers. Below that level exist smaller, more intricate threads which have built up over time, across borders and through river basins.

The fragility now baked into the system is, in part, a result of our changing climate and the unsustainable nature of supply chains. Building resilience within supply chains to adapt to frequent extreme weather events is now crucial. Lessening their environmental impact is part of the same equation.























This report has looked at some of the tools currently being used by responsible companies – financial incentives, stricter contracts, and closer engagement are key. Buyers and suppliers need to collaborate to ensure sustainability is a business norm. Recognizing it as a key differentiator among suppliers will be essential going forward. If we fail to address these issues the mounting financial impact of water risks will become all too apparent.

Ensuring supply chains can build resilience, reduce water risks, and keep our economies going is within reach. But to do so quickly and comprehensively we need to go beyond voluntary measures. The bar should be raised much higher in order to close the gap between where we are now and need to be.

Stronger regulation for mandatory disclosure and transparent reporting mechanisms are imperative to drive progress. This requires a combined approach with government policy, industry standards, and stakeholder engagement all playing a role.



Appendix I Key metrics on water security in the supply chain

Sector		 Apparel	 Biotech, health care & pharma	 Food, beverage & agriculture	 Fossil fuels	 Hospitality	 Infrastructure	 Manufacturing	 Materials	 Power generation	 Retail	 Services	 Transportation services
Average supply chain impact score ¹⁸		6	4.6	5.8	6	6	4.6	4.9	5.2	5.1	5	2.2	4.9
Total responders by sector		54	139	333	72	38	128	1374	559	53	146	194	73
	# Number reporting supply chain risks	19	32	119	9	5	20	218	127	13	42	17	2
	% Percentage of sector respondents reporting supply chain risks	35	23	36	13	13	16	16	23	25	29	9	3
	# Number conducting risk assessments	29	73	159	29	25	70	497	237	38	63	56	5
	% Percentage of sector respondents conducting risk assessments	54	53	48	40	66	55	36	42	72	43	29	7
	# Number assessing supply chain impact	24	45	95	17	12	39	242	157	22	43	32	1
	% Percentage of sector respondents assessing supply chain impact	44	32	29	24	32	30	18	28	42	29	16	1
	# Number with CPO monetary incentives	1	8	16	1	2	10	40	25	3	10	1	1
	% Percentage of sector respondents with CPO incentives	2	6	5	1	5	8	3	4	6	7	1	1
	# Number with SC targets	14	9	24	1	3	7	36	13	2	13	8	1
	% Percentage of sector respondents with SC targets	26	6	7	1	8	5	3	2	4	9	4	1
	# Number engaging with suppliers	38	87	187	37	28	72	589	288	41	77	77	21
	% Percentage of sector respondents engaging with suppliers	70	63	56	51	74	56	43	52	77	53	40	29
	# Number with purchasing requirements	32	67	129	22	20	57	404	182	24	57	45	8
	% Percentage of sector respondents with purchasing requirements	59	48	39	31	53	45	29	33	45	39	23	11
	# Number incentivizing suppliers	9	7	19	5	6	5	52	30	3	7	3	1
	% Proportion incentivizing suppliers	17	5	6	7	16	4	4	5	6	5	2	1
	# Number not engaging with suppliers and not planning to do so in next two years	9	25	60	15	5	37	440	149	5	43	70	36
	% Percentage of sector respondents not engaging with suppliers and not planning to do so for next two years	17	18	18	21	13	29	32	27	9	29	36	49
	# Number judging supplier engagement as unimportant	1	2	7	3	0	8	91	31	2	9	26	10
	% Percentage of sector respondents judging supplier engagement as unimportant	2	1	2	4	0	6	7	6	4	6	13	14

¹⁸ CDP's Water Watch tool ranks 218 business activities according to their potential impact on water resources. It helps companies assess the relative impact of their activities from their direct operations, supply chain and product-use phase on water availability and water quality. The 'average supply chain impact score' is out of '6'.

Sector insights

Transportation services

Respondents from the **transportation services** sector, spanning air, marine, rail, and road transport, show poor supply chain performance. They are least likely to assess supplier risks, set targets or enforce water-related requirements, and are most likely to state that supply chain engagement is unimportant. Yet this is misjudged. The sector's supply chain heavily relies on the transportation of goods, at risk from declining river levels in droughts. It demands materials for vehicle manufacturing, entailing water-intensive processes and fuel. Additionally, food and beverage services in passenger airlines, cruise lines and ferries could face risks due to high agriculture dependence on water concerns. If more companies in this sector included suppliers in their risk assessments, the number of supply chain risks reported would be sure to increase.

Hospitality and power generation

Hospitality and power generation companies lead in conducting risk assessments and fostering supplier engagement, integrating water requirements into supply chain procurement. This is crucial given their significant water usage, especially in hospitality for food, beverage, and linen production, and in power generation for mining, particularly in nuclear, coal, and renewable energy sectors such as solar power¹⁹. Mining these materials heavily impacts freshwater supplies so it is positive that power generation companies have a good rate of assessing the water impact of their suppliers. However, target-setting and disclosure remain low in these sectors, as in transportation services, warranting a call for increased transparency and goal setting.

Apparel and food, beverage & agriculture

Firms in the **apparel and food, beverage & agriculture sectors** are most likely to be setting targets for the supply chain and integrating suppliers into water risk assessments. This is important as these sectors report high numbers of supply chain risks – reliant on thirsty agricultural crops such as cotton or coffee, sugar, and rice. Apparel companies are most likely to incentivize their suppliers, although they are least likely to have incentives in place for CPOs.

Services

The **services sector** is the lowest ranking sector by supply chain water impact, according to CDP's Water Watch, as water risks and impacts in the supply chain are less direct compared to sectors such as manufacturing or agriculture. This may explain why companies in this sector report low levels of water requirements and why they have a high rate of companies reporting that they do not engage with their suppliers. However, water risks, dependencies, and opportunities persist in the supply chains for sectors such as printing services, publishing, media, telecommunications, and data center operations. These industries rely on water-intensive processes such as paper production, printing, and electronic device manufacturing. Additionally, the construction of infrastructure requires significant water usage. Energy consumption in these sectors also necessitates water for power generation. Water scarcity in key locations amplifies supply chain risks related to water, emphasizing the importance of sustainable practices and water stewardship throughout these industries.

¹⁹ <https://www.cdp.net/en/articles/media/new-data-highlights-water-security-vital-to-energy-transition>

Appendix II

Report methodology

Overview

In 2023, 13,356 companies were asked to provide data about their efforts to manage and govern freshwater resources through CDP. In total, 4,815 responded to the water security questionnaire. 1,652 companies with an annual revenue of less than EUR/US\$250 million and responding in response to a request from a **customer** (ie CDP Supply Chain members) answered a reduced set of questions. 3,163 disclosed to the complete set of questions in the Full Tier questionnaire. These 3,163 have an annual revenue of more than EUR/US\$250 million and disclosed in response to a request from an **investor**. These companies are the focus of the report.

For the purposes of this report, respondents to CDP's 2023 water questionnaire are divided into 12 sectors, defined by CDP's Activity Classification System, which categorizes companies by the diverse activities from which they derive revenue, and associates these activities with how they impact on water security.

Key findings

1 in 5 companies report supply chain water risks which could have a significant impact on their business

- The count of the number of companies selecting 'Suppliers' in response to W4.2a *Provide details of risks identified within your value chain (beyond direct operations) with the potential to have a substantive financial or strategic impact on your business, and your response to those risks is 623, 20% of the total number of Full Tier respondents of 3,163 (1 in 5).*

Companies integrating suppliers into risk assessments are 7x likely to report supply chain risks

- Company responses to both 'Supply chain' in W3.3a *Select the options that best describe your procedures for identifying and assessing water-related risks and 'Suppliers' in W4.2a Provide details of risks identified within your value chain (beyond direct operations) with the potential to have a substantive financial or strategic impact on your business, and your response to those risks were assessed.*

- Companies not integrating suppliers into their risk assessments report 0.08 risks per company, while companies that are report 0.57 risks. $0.57/0.08 = 7.1$, therefore companies that integrate suppliers into risk assessments are seven times more likely to report supply chain risks.

50% of large buyers engage with their suppliers on water

- The number of organizations responding with 'Yes' for 'Suppliers' in W1.5 *Do you engage with your value chain on water-related issues was counted (1,542).*
- The percentage is calculated as proportion of the 3,163 Full Tier respondents (49%).

118 companies include water targets in the remuneration policies for their Chief Procurement Officer (CPO)

- The number of companies selecting 'Chief Procurement Officer' or 'Chief Purchasing Officer' and 'monetary incentives' was counted (118) in response to W6.4a *What incentives are provided to C-suite employees or board members for the management of water-related issues?*

The state of water in 2023

23% increase in disclose since 2022

- ▶ In 2022, 3,909 companies (including Full and Minimum Tier respondents) responded to the CDP water questionnaire compared to 4,815 in 2023, an increase of 23%.

Disclosure per country in 2023

- ▶ Calculated the number of companies responding to the CDP water questionnaire in each region in 2023.

Disclosure response rate 2015-2023

- ▶ Based on CDP's historic data on disclosure numbers as reported in previous Global Water Reports.
- ▶ The total number of companies responding for each year between 2015 and 2023 is presented.

Disclosure breakdown by industry (2023)

- ▶ Calculated the number of companies requested and submitting a response to the Full or Minimum version of the water questionnaire in 2023 per industry.
- ▶ Two manufacturing subsectors (Electronic and Electrical equipment and Metal products manufacturing) have been split out. For all other stats relating to the manufacturing sector, all subsectors are combined.

The case for supply chain action on water

Number of consistently reporting organisations reporting supply chain risks

The number of companies consistently disclosing supply chain water risks through CDP between 2021 and 2023 was identified (2,414)

- ▶ In 2021 15.9% of these companies disclosed supply chain risks in response to question W4.2a *Provide details of risks identified within your value chain (beyond direct operations) with the potential to have a substantive financial or strategic impact on your business, and your response to those risks.*
- ▶ In 2023 this had risen to 19.9%, representing a 24% increase in the absolute number of risks being reported.

Economic damage of supply chain risks

- ▶ To calculate the sum of financial impact of reported supply chain risks, values reported by companies under 'Supply chain' option and 'Potential financial impact' in response to question W4.2a *Provide details of risks identified within your value chain (beyond direct operations) with the potential to have a substantive financial or strategic impact on your business, and your response to those risks* were converted to USD. Where possible, duplicated, and unsubstantiated values in the top fifth percentile were removed. The maximum of the range of values was then summed, equalling US\$76,824,866,291 from 865 risks.
- ▶ The average financial impact of all reported water-related supply chain risks was calculated to be US\$123,595,505 (US\$76,824,866,291 / 623).
- ▶ To calculate the sum of financial impact of immediate supply chain water risks, the total amount was filtered by values reported against the 'Current up to one year' option under 'Timeframe'.

Potential financial impact and frequency per risk

- ▶ To calculate the sum financial impact of reported risks, values reported by companies under the 'Supply chain' option in response to question W4.2a *Provide details of risks identified within*

your value chain (beyond direct operations) with the potential to have a substantive financial or strategic impact on your business, and your response to those risks were converted to USD. Where possible, duplicated, and unsubstantiated values in the top fifth percentile were removed. The maximum of the range of values was summed for each risk type.

- For frequency, a count of risks reported by risk type was then calculated.

Average number of supply chain risks disclosed by sector

- The number of risks reported by companies under the 'Supply chain' option by risk type and per industry reported through question W4.2a *Provide details of risks identified within your value chain (beyond direct operations) with the potential to have a substantive financial or strategic impact on your business, and your response to those risks* was calculated.
- These numbers were then divided by the total number of disclosures per industry.

Cost of managing vs financial impact of supply chain water risk

- To calculate the cost of mitigating supply chain water risks, values reported by companies under 'Cost of response' in response to question W4.2a *Provide details of risks identified within your value chain (beyond direct operations) with the potential to have a substantive financial or strategic impact on your business, and your response to those risks* were converted to USD. Where possible, duplicated, and unsubstantiated values in the top fifth percentile were removed. The maximum of the range of values was then summed, equalling US\$ 27,299,279,020.
- US\$76,824,866,291 / US\$ 27,299,279,020 = 2.8.

From the inside out: setting the stage for action

Risk and impact assessments

Proportion assessing water risks in their supply chain

- The number of companies selecting 'Supply chain' in W3.3a *Select the options that best describe your procedures for identifying and assessing water-related risks* was counted (1,281).
- The percentage is calculated a proportion of the 3,163 Full Tier respondents (49%).

Proportion assessing the water impacts of their supply chain

- The number of companies selecting 'Yes, we assess the impact of our suppliers' in W1.5a *Do you assess your suppliers according to their impact on water security* was counted (729).
- The percentage is calculated as a proportion of the 3,163 Full Tier respondents (23%).

Indicators companies are considering when assessing supplier impact

- The number of responses for each option under 'Considered in assessment' was counted in response to W1.5a *Do you assess your suppliers according to their impact on water security*.

Supply chain water targets

Proportion of companies setting water-related targets for their supply chain

- The number of companies selecting 'Suppliers' under 'Target coverage' and 'Supplier engagement' under any 'Target coverage' category other than 'Suppliers' in W8.1b *Provide details of your water-related targets and the process made* was counted (131).

- ▶ The percentage is calculated as a proportion of the 3,163 Full Tier respondents (4%).

Proportion of companies on track to achieve supply chain water-related targets for their supply chain

- ▶ The number of companies disclosing targets in W8.1b *Provide details of your water-related targets and the progress made* was counted.
- ▶ 68.5% of these companies reported under ‘% of target achieved relative to base year’ that they had achieved a percentage of the target equal or greater than the percentage of the target timeline elapsed.

Incentivising C-suite action

Proportion of companies with supply chain water-related incentives for their C-suite or board members

- ▶ The number of companies selecting supply chain ‘Performance indicators’ in W6.4a *What incentives are provided to C-suite employees or board members for the management of water-related issues?* was counted and summed against the number of companies with incentives for their Chief Procurement/Purchasing Officer for all options other than supply chain ‘Performance indicators’ (such as ‘Company performance against a sustainability index with water-related factors’ or ‘Implementation of a water-related community project’) (443).
- ▶ The percentage is calculated as a proportion of the 3,163 Full Tier respondents (14%).

Proportion of companies with supply chain water-related incentives for their CPO

- ▶ The number of companies selecting ‘Chief Procurement Officer’ or ‘Chief Purchasing Officer’ was counted (136).
- ▶ The percentage is calculated as a proportion of the 3,163 Full Tier respondents (4%).

Cascading change: mobilising the power of many

Proportion of companies consistently disclosing to CDP engaging their suppliers

- ▶ The number of companies consistently disclosing ‘Suppliers’ in W1.5 *Do you engage your value chain on water-related issues* between 2021 and 2023 was identified (1,222).
- ▶ In 2021 57% (697) of these companies reported that they were engaging their suppliers.
- ▶ In 2023 this had risen to 72.8% (890).

Companies engaging with suppliers are 14 times more likely to report water opportunities to enhance supply chain resilience

- ▶ Company responses to both ‘Suppliers’ in W1.5 *Do you engage your value chain on water-related issues* and ‘Increased supply chain resilience’ in W4.3a *Provide details of opportunities being realized that could have a substantive financial or strategic impact on your business* were counted.
- ▶ 4.2% companies engaging with their suppliers reported the opportunity of ‘Increased supply chain resilience’. This dropped to 0.3% for companies not engaging.

The power of purchasing

Proportion of companies with water-related requirements that suppliers have to meet

- ▶ The number of companies selecting ‘Yes, water-related requirements are included in our supplier contracts’ in W1.5b *Do your suppliers have to meet water-related requirements as part of your organization’s purchasing process* was counted (1,047).
- ▶ The percentage is calculated as a proportion of the 3,163 Full Tier respondents (33%).

Water-related requirements

- ▶ The number of responses for each option under 'Water-related requirement' was counted in response to W1.5c *Provide details of the water-related requirements that suppliers have to meet as part of your organization's purchasing process, and the compliance measures in place.*

Exclusion or engagement in the case of supplier non-compliance

Proportion of companies engaging with suppliers in the case of supplier non-compliance

- ▶ The number of companies selecting 'Retain and engage' under 'Response to supplier non-compliance with this water-related requirement' in W1.5c *Provide details of the water-related requirements that suppliers have to meet as part of your organization's purchasing process, and the compliance measures in place* was counted (656).
- ▶ The percentage is calculated as a proportion of the 1,047 companies with water-related supplier requirements (62%).
- ▶ The same process was followed for the 'Exclude' and 'Suspend and engage' options.

Innovation and collaboration

Proportion of companies innovating and collaborating with their suppliers

- ▶ The number of companies selecting 'Innovation and collaboration' under 'Type of engagement' in W1.5d *Provide details of any other water-related supplier engagement activity* was counted (379).
- ▶ The percentage is calculated as a proportion of the 3,163 Full Tier respondents (12%).

The importance of incentivization and financial activation

Proportion of companies incentivizing their suppliers to act

- ▶ The number of companies selecting 'Incentivization' under 'Type of engagement' in W1.5d *Provide details of any other water-related supplier engagement activity* was counted (147).
- ▶ The percentage is calculated as a proportion of the 3,163 Full Tier respondents (5%).

Supply chain silence

Proportion of companies not engaging with their supply chain on water and not planning on doing so in the next two years

- ▶ The number of companies selecting 'No' under engagement for 'Suppliers' in W1.5 *Do you engage with your value chain on water-related issues* was counted (1,332).
- ▶ Subtracted from this total was the number of companies selecting 'We are planning to do so in the next two years' under 'Primary reason for no engagement' in W1.5 *Do you engage with your value chain on water-related issues* (438).
- ▶ $1,332 - 438 = 894$.
- ▶ The percentage is calculated as 894 as a percentage of the 3,163 Full Tier respondents (28%).

Companies judging supply chain engagement as unimportant

- ▶ The number of companies selecting 'Judged to be unimportant' under 'Primary reason for no engagement' was counted in W1.5 *Do you engage with your value chain on water-related issues* (190).
- ▶ The percentage was calculated as a proportion of the 894 companies not engaging with their suppliers (21%).
- ▶ The same process was followed for the 'Lack of internal resources' and 'Important but not an immediate business priority' options.

Authors

Miriam Denis Le Sève
Senior Manager,
Thought Leadership

Erica de Souza
Regional Manager,
Water Security

With thanks to the contributions of:

Carine Smith Ihenacho
Chief Governance and
Compliance Officer, Norges Bank
Investment Management

Henk Ovink
Executive Director of the Global
Commission on the Economics
of Water

Water Team enquires

water@cdp.net

Acknowledgements and contributions

Patricia Calderon
Global Head of Water

Cate Lamb
Strategic Adviser, Water Security

Adam Wentworth
Communications Manager

Aidan Rowell
Senior Analyst, Water & Forests

Akanksha Aggarwal
Senior Analyst, Water Security

Dorian Fougères
Senior Nature Lead

Marco Sanchez
Policy Analyst

Henry Fogarty
Senior Content and Brand Manager

Sapna Shah
Communications Manager

James Chamberlayne
Director, Sustainable Finance Program

About CDP

CDP is a global non-profit that runs the world's environmental disclosure system for companies, cities, states, and regions. Founded in 2000 and working with over 700 financial institutions representing more than US\$142 trillion in assets. CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests. Over 24,000 organizations around the world disclosed data through CDP in 2023, including more than 23,000 companies worth two thirds global market capitalization, and over 1,100 cities, states, and regions. Fully TCFD aligned, CDP holds the largest environmental database in the world, and CDP scores are widely used to drive investment and procurement decisions towards a zero carbon, sustainable and resilient economy. CDP is a founding member of the Science Based Targets initiative, We Mean Business Coalition, The Investor Agenda, and the Net Zero Asset Managers initiative. Visit cdp.net or follow us @CDP to find out more.