

# Finance Water Action Pathway

Introduction and Draft 1.0

March 2023



## Contents

Background .....	2
Purpose and ambition of the Pathway .....	3
Finance Water Action Pathway .....	5
Vision .....	5
System transformation summary .....	6
Levers of change .....	6
Key actors and their roles.....	8
Actions and milestones towards 2030 .....	11
Progress .....	15
Further developing the Pathway.....	16



# Background

In December 2022, CDP, the Organisation for Economic Cooperation and Development (OECD) and the Water Footprint Network (WFN) kicked-off a project, funded by the Dutch Government, dedicated to Catalyzing the Water Action Agenda for Finance, with the following goal:

**To align trillions in financial flows with the achievement of a water secure world.**

Leveraging expertise in the fields of environmental disclosure, financial regulation and governance, water footprinting and water security as well as their extensive networks, the Partners have developed a first-of-its-kind **Finance Water Action Pathway**.

The project was presented at the ninth meeting of the [Roundtable on Financing Water](#) in February 2022 where water experts, financiers, regulators and government representatives had the opportunity to comment and feed into the draft. The Pathway concept was launched and endorsed in New York, March 2023, at a dedicated side event of the UN 2023 Water Conference.

Given the many sustainability challenges the finance sector is facing, we strive to align our Finance Water Action Pathway with ongoing and related initiatives. Specifically, we based our draft pathway structure on the [UN's Climate Action Pathway for Finance](#). The Pathway thus consist of the following sections:

- ▼ **Vision statement** of how the sector should look in 2030.
- ▼ **System transformation overview** outlining the areas that can drive the transformation (levers of change) and the key actors and the role they can play.
- ▼ **Actions and milestones** for each actor that are specific, practical and science-informed.
- ▼ **Progress** that has already been made towards the goal.



## Purpose and ambition of the Pathway

Water, as an inseparable part of nature and economic stability, is an essential resource that needs to be considered by financial institutions (FIs) when making decisions about their financed activities. FIs have the power to influence or incentivize the transformation of whole sectors in ways that single governments cannot. There are two main avenues through which FIs can shape the future and drive the transition to a water secure world:

- 1) Mobilizing capital and scaling up: financing the water sector by investing in water infrastructure, water technology, sanitation services, data and monitoring systems, and other water-related projects necessary to supply and treat water for farmers, industries and households.
- 2) Reducing water-related impacts, dependencies and risks of financial beneficiaries by undertaking water-related due diligence and establishing and reporting water-related targets and covenants across all lending, investment, insurance and underwriting activities across multiple sectors.

As there already exists a number of dedicated work streams and global endeavors to advance the first avenue, this Pathway focuses on the second, nascent avenue.

Through their lending, investment, insurance and underwriting practices, FIs can drive the various water users to use water wisely, to not pollute it, and to promote its reuse. FIs can spur the development, upscaling and uptake of critical technologies, policies and practices through the adoption of bold commitments to water security and through their cascading influence on the entire economy via portfolio holdings, loan books and other assets. Each sends a strong signal from the private sector to governments in support of ambitious climate and water policy, serving to close the ambition loop.<sup>1</sup>

In order for financial decisions to deliver positively against our global water goals, impacts of a changing environment upon financial performance and the impacts of financial activities on water environments, are important and material considerations. In other words, a double-materiality approach should be adopted in all aspects of water-related assessments, data collection, tool developments, regulatory responses and standard development.

Under one materiality lens, changes in the availability and quality of freshwater pose a financial threat to the financial sector. As seen in CDP's report '[High and Dry: How Water Issues are Stranding Assets](#)' (May 2022), US\$13.5 billion has already been stranded as a result of water risks, and a further US\$2 billion is at risk on four major infrastructure projects in the gas, coal, mining and power generation sectors.

Risks like these are abundant: 69% of listed equities disclosing via CDP report exposure to physical or transition water risks that could cause a substantive business impact in the next three years. Despite the evidence that changes in the availability and quality of freshwater are material to the financial sector, one-third of listed financial institutions are not assessing the exposure of their activities to water risks. Our analysis indicates that substantial corporate value, topping out at US\$25 billion, may be at risk due to water insecurity.

Production could slow or halt. Disputes over water could lead to reputational damage. Assets in water-stressed regions could become stranded temporarily, or permanently, if assumptions made about water availability and access prove inaccurate, regulatory responses are unanticipated, or if risk mitigation and stewardship plans are not put in place. All financial actors are vulnerable to water-related, and more broadly nature-related financial risks, and the

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<sup>1</sup> [Water-Climate Action Pathways](#)

financial materiality of nature loss and degradation constitutes an urgent call to action, as stated by [NGFS](#) and the [Coalition of Finance Ministers for Climate Action](#).

The second materiality lens, reveals the financial sector as one with a critical impact on the world's rivers, lakes, aquifers and streams. Financial institutions are polluting and deteriorating water systems through the business activities that they finance and enable ([CDP, 2021](#)), and thus further exacerbating the water crisis. [Water Watch, CDP's Water Impact Index](#), details the negative impacts that various industries and sectors have on water resources, which are enabled by the financial sector. This includes enabling agribusinesses to pump ever increasing amounts of non-renewable groundwater, tailings dams to be constructed at the heads of free-flowing rivers and chemical, apparel and pharmaceutical companies to release toxic pollution, much of which is carcinogenic; posing a real and present danger to human health. These impacts are multiple, not just environmental, but also social and economic in nature.

The impact that financial institutions have on the world's finite supply of freshwater resources has an economic cost for society at large, which leads to social inequality and a financial burden for taxpayers. As such, impacts that companies have upon freshwater resources are important, material considerations.

Clearly, it is in the interest of financial institutions to avoid and/or mitigate adverse water-related impacts associated with their financial practices. This Pathway establishes clearly defined actions for FIs and other systemically important actors that can realize the transformation of private lending, underwriting, insurance and investing, while creating new opportunities for the financial sector itself.



# Finance Water Action Pathway

Draft 1.0

## Vision

It is 2030. Business, trade and financial decisions from both the public and private sectors prioritize and align with the protection and sustainable use of freshwater resources and ecosystems. The financial sector at large has transitioned away from financing and enabling activities and businesses fueling the global water crisis, towards facilitating sustainable, water-smart economies and societies that guarantee water security for all. Catalyzed by the financial sector's bold commitment to water, economies across continents now operate within the planetary boundary for water and water-related Sustainable Development Goals (SDGs) are successfully achieved.

By now, financial institutions (FIs) are aware that entire portfolios and/or loan books – and thus business models and profitability – materially depend on stable supplies of clean freshwater. They also recognize that those same water resources were simultaneously being threatened by activities and businesses that they used to finance. Understanding the double materiality of water-related risks, the financial sector now takes water into account in every financial decision.

From due diligence processes and short, medium and long-term portfolio management to regulation and oversight, all are aligned with shared principles of doing no significant water-related harm, valuing water adequately, and embedding the true cost of negative water-related externalities in balance sheets and scenario analyses.

Having woken up to the interconnectedness of the natural world, water, climate and biodiversity strategies are treated holistically to maximize the resilience of assets and Earth's natural capital in support of both current and future generations. Financial institutions, supported by the civil society, are leveraging and developing science-based tools, metrics and indicators to assess and drive progress. It is now a common practice for them to measure and disclose the water consumption and pollution of their full range of assets and liabilities. FIs actively address adverse impacts of portfolio water footprints in their appropriate geographical context – not just those impacts that directly affect local water systems but also those water-related impacts that spill over into climate, society and the environment.

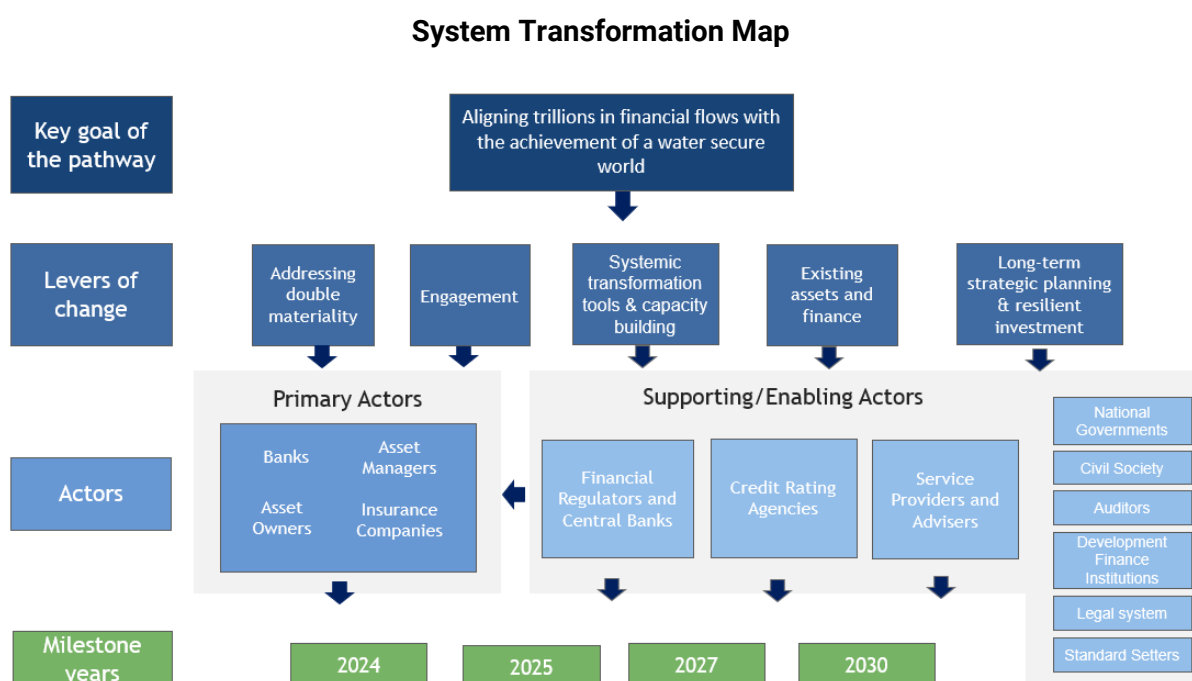
The finance sector's broader sustainability performance, including water performance, is made transparent and measurable through harmonized sustainability reporting and disclosure guidelines informed by effective taxonomies. As a result, both the harmful impacts the finance sector was having on freshwater systems, climate, and biodiversity and the impact water had on financial performance through posing disruptive nature-related financial risks, including water-related stranded assets, are now features of the past.

It is 2030. Through their lending, investment, insurance, credit rating, stock launches, bond issuances and underwriting practices, the financial sector wields its power to engage with their clients on good water stewardship. Financial institutions actively help clients seize and scale opportunities and reward those that successfully contribute to water security. Financial institutions are providing resources and incentives to implement sustainable and resilient water management, sustainable water provision and allocation, and protection of people and places. Credible and transparent engagement with clients and governments is improving water justice and equity, especially to the benefit of the most vulnerable, and boosting the financial sector's social license to operate.

Thanks to the strong signals that the financial sector, with the support of a vibrant and well-resourced civil society, has sent to governments, via adoption of bold commitments to water security and strong influence on the entire economy, governments have prioritized water governance at the highest levels, putting in place effective cross sectoral institutional, legal, and regulatory frameworks. Prioritizing the protection, sustainable use and reuse of freshwater resources and ecosystems boosts the creation of green jobs, market signals and incentives that continue to drive the innovation required for further water transformation and achieve SDG6.

## System transformation summary

To deliver our 2030 vision, it is essential that finance and the power of markets are harnessed in the service of delivering a just and smooth transition to a water-secure global economy that accounts for the water impacts of its activities. If we transform finance to value water in every business decision, then the financial system will become a potent enabler of the transition to a water-secure future.



## Levers of change

The first step of a system transformation is to define the areas in which the various actors could or should have an impact. The Pathway identifies the following five **levers of change** that the financial sector can pull to make the transformation happen.

- 1) Addressing double materiality** through assessing and disclosing water-related impacts, dependencies and risks. Enhanced dialogue and collaboration between the water, regulatory and financial community on financial impacts of water security as well as the impact the financial sector has on water will start bridging the existing materiality gaps. Science-based water-related scenarios need to be developed and/or integrate science-based water-related forecasts into existing scenarios. There is a need to develop the appropriate taxonomies, standards and globally-agreed definitions that will address and tackle both sides of double materiality.

- 2) **Engagement** with clients, investees, service providers, policy makers and regulatory bodies should be guided by the shared desire to achieve the vision of a water secure world by 2030. Through adopting and using a clear set of water-related requirements towards institutions – whether public or private – they work with or plan to engage with, the financial sector will drive a change in water practices across a range of sectors and will require companies with a large water footprint to value and act on water as a financial risk. Making water-related criteria and requirements an inseparable part of the decision-making process of FIs will drive the necessary large-scale change to better protect water systems. In addition to this, FIs can use their position as a key stakeholder to engage with policy makers and regulatory bodies and advocate for stronger water-related regulation and enforcement policies that enable and drive the sector transformation in the real economy.
- 3) **System transformation tools and capacity building** are essential to the transition. For the financial sector to succeed in this transformation, new market norms that address FIs' water-related impacts, dependencies and risks, more taxonomies that reflect the objectives of the EU taxonomy, scenarios, mechanisms and tools for water security and resilience need to be set in place. New policies that enable the generation, disclosure and distribution of material, consistent and comparable water-related data are urgently required. So too governance, oversight and/or coordination mechanisms to promote integrity, accountability and harmonization of water-related targets, commitments, and standards across financial systems. Systems and sector alliances to foster the sharing of best practices, understanding of possible water-related risks, solutions, and opportunities, and lifting of barriers to progress.
- 4) **Existing assets and finance** must be used as leverage in transforming the system. There is a need to create and maintain incentives for performance and management of existing water impacts, dependencies and risks, as opposed to divestment practices only. This could happen through putting pressure on companies to improve timely asset management to reduce operational inefficiency, sound capital expenditure (CAPEX) planning and seizing opportunities to improve economies of scale. FIs, through their relationship with companies, with the help of regulation and the right tools can exercise their power on existing assets and liabilities, to transform them in line with the water security goals.
- 5) **Long-term strategic planning & resilient investments**, informed by water-related data and scenario analysis, will optimize future investments and will ensure that assets deliver anticipated benefits over their operational lifetime and avoid premature obsolescence or costly retrofitting in the future, while tackling the issue of short-termism. Such an approach would also help to secure a stable flow of opportunities for new investments, innovation and development of new products and services, resulting in increased returns for investors, as the OECD's [Financing a Water Secure Future](#) policy highlights.



## Key actors and their roles

The actors involved in the system transformation have been divided into two groups – Primary actors (direct providers of capital to companies) and supporting/enabling actors:

### Primary actors

- ▼ Banks
- ▼ Insurance companies
- ▼ Asset managers
- ▼ Asset owners (and private investors)

### Supporting/enabling actors

- ▼ Policy makers
- ▼ Central banks
- ▼ Credit rating agencies
- ▼ Standard setters
- ▼ Service providers and advisers
- ▼ Auditors
- ▼ Civil society
- ▼ Disclosure system
- ▼ Development financial institutions

**The primary actors** can start the transformation internally via capacity building, education and understanding of water-related risks, opportunities and how to manage them, starting from the top-levels of stakeholders in the organization, to their teams and portfolio managers, all the way down to the assets and companies they lent to, invest or insure. These financial institutions need to adopt appropriate governance structures to oversee and manage water-related risks and opportunities while also managing how their business activities impact either positively or negatively to water security. Only then will FIs be in a position to take meaningful action to transform their financial activities. Considering water-related information about clients/investees in the initial phases of risk assessment, and/or as part of due diligence processes is important for understanding risk exposure. FIs should undertake portfolio-wide screening and stress-testing of water-related risks and opportunities to guide and inform strategic management decisions. It is crucial for FIs to include water-related requirements for client/investees and set targets for water-secure portfolio activities moving forward. By taking these steps transparently, and ensuring their companies and assets are compliant with all water requirements, FIs will send a strong signal to the whole industry and governments that action is not just expected from everyone, it is necessary.

**Policy makers**, such as financial regulators and national governments, have the power to strengthen enabling conditions for financial institutions to better address their water impacts, dependencies and risks while taking advantage of the opportunities. To support FIs in understanding and managing the impacts, dependencies and risks, regulation should set expectations for companies' water-related disclosure in line with the upcoming Task Force on Nature-related Financial Disclosures (TNFD) recommendations, building on existing and upcoming equivalent mandatory disclosures in line with the Taskforce on Climate-related Disclosure and shaped by voluntary mechanisms such as those offered by CDP, as also [recommended by the Global Commission on the Economics of Water<sup>2</sup>](#). Public disclosure frameworks would increase the amount of data on water-related risks and opportunities

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<sup>2</sup> Transparency is key in channeling resources, both credit and investments, towards activities that enhance rather than degrade the water ecosystem. As in green and transition finance at large, we must build on current initiatives to develop water accounts, high-integrity data on water footprints and frameworks for disclosure of risks and impacts of water insecurity on economic activities. Governments should work towards adopting mandatory water disclosure requirements that are consistent and aligned with international best practices, including Target 15 of the new Global Biodiversity Framework. We must at the same time generate momentum through high-impact, voluntary actions by coalitions involving the private sector and civil society organizations such as CDP.

available in the public realm to shape decision-making and enhance accountability. Policy makers should design economic and financial instruments to influence the behavior of FIs, for instance through pricing the costs or benefits that different actors incur from using water services and polluting or abstracting water resources (OECD, 2022). These can include both regulations such as tariffs, charges, or fiscal transfers, or market instruments for trading water entitlements of pollution permits. To address the expected large shift in asset prices and catastrophic losses that water insecurity may cause, prudential regulation in the insurance sector and investment regulation should adapt to recognize systematic water risk and require financial institutions to incorporate water risk scenarios into stress testing, to better understand exposure to water-related impacts, dependencies and risks both in the short and long term. Impact and risk management frameworks should be designed to address those through mitigation and investment strategies. This would allow regulators to better understand how FIs are addressing water stress risks and impacts, and to act if they believe these risks and impacts are not adequately managed.

**Central banks** need first to build internal institutional water-related capacity to fulfill the supervisory role they play in the transformation. As central banks move towards developing frameworks to conceptualize the materiality of climate risks, they should broaden these to also consider water-related risks and strengthen the application of water-related scenario analysis and stress testing to identify portfolio exposures and data gaps, inform the adequacy of risk management approaches, and to evaluate the financial sector's financial position under severe but plausible scenarios. Taking these steps will require partnerships and engagement with a range of stakeholders to bring expertise and facilitate a collective understanding of the materiality of water. Central banks should seek to improve disclosure from the financial sector and increase transparency in the processes used by the central bank to identify, assess and manage water-related impacts, dependencies and risks.

**Credit rating agencies** should review their rating criteria, to include more stringent criteria consideration around water security and the prevention of water-related impacts, dependencies and risks (with a forward-looking perspective). As suggested by the independent review commissioned by the G20 on multilateral development banks' (MDBs) capital adequacy frameworks, credit rating agencies could also review their rating criteria for MDBs, taking more account of callable capital and the implications of water risks. This would allow MDBs to have less conservative approaches to capital adequacy and risk management, and to free up capital. MDBs could then have more stringent policies regarding the integration of water-related risks in investment decisions / planning.

**Standard setters**, along with regulators, have a fundamental role in strengthening the availability of data on water risks and opportunities. Existing initiatives aim to converge disclosure and reporting frameworks towards more standardized approaches. This is still very much in early stages, and water-related risks are just one small part of these reporting frameworks. Lack of standardization in how climate and environmental risks, and particularly water-related risks, are defined, assessed, reported, and integrated into financial decisions remains a significant barrier. Progress towards developing meaningful and comparable reporting and disclosure standards for water is paramount to determining the financial materiality of water-related risks. At the same time, the development of meaningful water indicators and improving disclosure standards would enable water risks and opportunities to be integrated into financial analysis and improve understanding, leading to increased capital allocation towards those companies and other players valuing water.

**Service providers and advisers** can meet increasing demand for industry tools to help FIs assess water-related risks, opportunities and impacts and understand the gap between what is being paid for water, its value for operations and the potential costs of water risks. Other tools tailored for banks, investors and insurers, are needed to equip them with information and resources to assess the financial materiality of water, the impact corporations have on water and how to integrate such information into their investment decisions. Dedicated tools which increase both corporates' and investors' understanding of water impact, dependencies and risks can have an important role engaging and stimulating collective action from investors, insurers, banks and corporates to mitigate water-related risks and impacts, develop strategies at local level and take advantage of the opportunities arising from the transition to a water-secure economy.

**Civil society** needs to play an important role of advocacy in the system transformation. It can contribute to the alignment of financial flows with the goal of a water-secure world via voluntary mechanisms and strong alliances with the finance industry, aligning all areas of government, business and human settlements. In addition to the valuable expertise that the civil society can provide, it also has the power to hold all involved actors accountable and urge for the translation of raising ambition into meaningful and measurable action.



## Actions and milestones towards 2030

Actor	2023/2024	2025	2027	2030
<p><b>Banks</b></p> <p><b>Asset managers</b></p> <p><b>Asset owners</b></p> <p><b>Insurers</b></p>	<p>Improve organizations' understanding of and approach to water-related risks and opportunities starting from the board level.</p> <p>Water-related issues are integrated into the mechanisms used by the board to oversee the company.</p> <p>Include water-related risks and opportunities in performance reporting to shareholders.</p> <p>DFIs ask investment funds in their portfolios to report on water-related risks and to integrate water-related risks in their investment decisions.</p> <p>When evaluating exposure to water-related risks, consider the impact on financial portfolios including banking, investment and/or insurance underwriting activities on water.</p> <p>Water-related information about clients/investees influences decision making.</p> <p>Conduct scenario analysis to inform business strategy.</p> <p>Set and progress targets for water secure lending, investing and/or insuring.</p> <p>Investors influence their investee companies on water-related issues by exercising their voting rights.</p> <p>Engage with policy makers to ensure a water secure world.</p> <p>Push regulators for setting standards and legal requirements to unify disclosure criteria.</p>	<p>Align business strategy and policies with water security goals; and monitor progress against targets and goals.</p> <p>Allocate management responsibility for water-related issues to senior roles.</p> <p>Quantitatively assess portfolios' exposure to water-related risks and opportunities.</p> <p>Considering water-related information about clients/investees in the initial phases of risk assessment, and/or as part of due diligence processes.</p> <p>Demonstrate forward-looking strategies and financial decisions that are driven by future market opportunities, public policy objectives and corporate responsibilities and invest in companies that have that too.</p> <p>Water risk and opportunity assessment is a mandatory component of banks' due-diligence and investment decisions.</p> <p>FIs actively engage with their clients/investees on water-related issues to reduce negative impact.</p>	<p>All FIs' policy frameworks for portfolio activities include water-related requirements for clients/investees.</p> <p>Water-related risks and opportunities are considered for each product or investment strategy, across all sectors.</p> <p>Providing financial products and services to meet water-related investment challenges.</p> <p>Banks influence their clients through requirements within the terms of financing agreements, and with the option of a default being triggered should there be strong alliances, work to establish water metrics and share best practices.</p>	<p>No financing activities contribute to water pollution or depletion, or otherwise have a negative impact on water.</p> <p>All clients and investees are compliant with all policies including water-related requirements.</p>

<p><b>Policy markers</b></p>	<p>Existing prudential framework, such as the Solvency II Directive, re-assessed to determine appropriateness for water-related risks.</p> <p>Adopt policies mandating water risk assessment and disclosure for physical, transition and liability risks, impacts and dependencies by companies and investors, inclusive of public pension funds, in line with the recommendations of the TNFD.</p> <p>National governments and prudential authorities adopt policies requiring accountants to develop guidance on accounting for water-related risks.</p> <p>Drive integration of ambitious water related criteria in green taxonomies globally and ensure prioritization of water objectives in harmonization and interoperability efforts of taxonomies across borders.</p> <p>Identify national insurance coverage gaps for water related risks.</p> <p>Public procurement includes strong water criteria.</p> <p>Require financial institutions to incorporate water risk scenarios into stress testing, to better understand exposure to water-related impacts, dependencies and risks.</p>	<p>Commission economic analysis to assess extent to which material water-related risks are integrated into markets; modify policies to address any lingering gaps.</p> <p>Perverse, direct &amp; indirect fossil fuel, energy and agricultural subsidies have been identified and alternative options identified associated with energy resources, water infrastructure and agricultural practices aligned with water security.</p> <p>Adopt policies placing a meaningful price on water with the pricing set in accordance with best available scientific and economic analysis regarding levels sufficient to drive transition consistent with achieving water security for all by the 2030s.</p>	<p>All G20 governments monitor and enforce mandatory water-related risk, impact and dependency disclosures for physical, transition and liability risks.</p> <p>Perverse, direct &amp; indirect fossil fuel, energy and agricultural subsidies have been phased out and/or redirected to energy resources, water infrastructure and agricultural practices aligned with water security.</p> <p>Implement effective mechanisms for pricing water.</p> <p>Modify trade policies as needed to ensure equitable and effective approaches to avoid off-shoring of freshwater impacts.</p> <p>Water-related criteria is included as a key performance indicator in MDB shareholder reports.</p> <p>Implement nationally suitable approaches to addressing protection gaps, by coordinating amongst insurers, re-insurers, public authorities and other stakeholders to exchange best practices.</p>	<p>Commission updated economic analysis to assess extent to which material water-related risks are integrated into markets; modify policies to address any lingering gaps.</p>
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<p><b>Central banks</b></p>	<p>Exercise supervisory/prudential authority to require financial institutions to assess and disclose material water-related financial risk exposures consistent with TNFD recommendations</p> <p>Commit and take immediate action to integrate water-related risks into monetary frameworks and models to account for water impacts on macroeconomic outcomes.</p> <p>Account for value of water-related impacts, risks and dependencies in all lending, refinancing and asset purchase activity.</p> <p>Assess the need and availability of data and identify partnerships and collaborations to strengthen institutional capacity.</p>	<p>Align all lending, refinancing and asset purchase activity with achieving water security by the 2030s.</p> <p>Require annual water risk stress tests of financial institutions under supervisory/prudential authority.</p> <p>Undertake water risk stress tests for jurisdictional banking and insurance sectors under a range of water pricing scenarios.</p> <p>Assess and provide recommendations on suitability of current prudential framework (Basel III) with regards to water-related risks.</p> <p>In prudential regulatory and supervisory requirements to banks, ensure that governance structures are in place to manage water-related risks.</p>	<p>Continue to require and review annual water risk stress tests of jurisdictional financial institutions under supervisory/prudential authority.</p> <p>Provide guidance on regular identification and assessment of the impact of water-related risk drivers on bank risk profiles.</p>	<p>Exercise supervisory and prudential authority to ensure financial institutions are pursuing all necessary measures to align with water security goals by the end of this decade.</p>
<p><b>Credit rating agencies</b></p>	<p>Regulations make it mandatory to share any water-related risk data publicly.</p> <p>Disclose how water impacts, dependencies and risks are integrated into methodology.</p>	<p>Systematically include stringent rating criteria on water security and prevention of water-related risks (with a forward-looking perspective)</p>	<p>The credit rating of the world's most impactful companies is based upon corporate efforts to improve water security and prevent water/climate-risk- related conflict.</p>	<p>Credit ratings now integrate water impact, dependencies and risks. Any laggard issuers finding ratings either poor or not provided were disclosure or planning inadequate.</p> <p>Exchanges signal intention to delist securities related to assets and infrastructure (eg REITs, Airports) that are not aligned with water security criteria.</p>
<p><b>Standard setters</b></p>	<p>Call for greater voluntary corporate disclosure of water-related risks and opportunities exposure.</p> <p>Strengthen and standardize water criteria in disclosure (consistent methodology for reporting across supply chain, operations and product use/end of life).</p> <p>Develop/strengthen common indicators for water.</p>	<p>Scoring methodologies provide a snapshot of companies' disclosure and environmental performance and give adequate weight to water criteria.</p>		

<p><b>Service providers and advisors</b></p>	<p>Voluntary alignment with green taxonomies.</p> <p>Seek to provide increased transparency on assessment of companies and products' water-related credentials.</p> <p>Build capacity to provide assurance on water reporting.</p> <p>Incorporate water impacts, dependencies and risk considerations into investment advice to clients.</p>	<p>Science-based targets for water are being set across their portfolios.</p>	<p>Investments in sustainable development enterprises are fully integrated into landscape initiatives that enhance water resiliency and restore wetland ecosystems alongside restoring agricultural productivity.</p> <p>World's most significant stock exchanges include corporate water disclosure in listing requirements.</p>	<p>Financial flows are redirected to reduce exposure and vulnerability to water-related risks, as well as impacts on water resources.</p> <p>Consultants are now able to provide advice on water impacts, dependencies and risks and the best methods to make a transition to water-secure finance, as well as the most appropriate investment strategies to do so.</p>
<p><b>Civil Society</b></p>	<p>Civil Society calls on policymakers, including all G20 governments, to monitor and enforce mandatory water-related risk, impact and dependency disclosures for physical, transition and liability risks.</p> <p>Continue providing research, data and facts to policymakers, market participants and citizens to encourage informed decision making.</p> <p>Civil Society calls on policymakers to adopt ambitious water-related criteria in green taxonomies globally and ensure prioritization of water objectives in harmonization and interoperability efforts of taxonomies across borders.</p> <p>Citizens, consumers, individual investors and pensioners call on corporations and institutional investors to fully assess and disclose material water-related risks and impacts.</p> <p>Social movements call out corporations and investors that derive profits via practices that harm water, people and planet.</p> <p>Civil society drives deployment of independent benchmarking of corporate and investor performance toward aligning financial flows with the goal of a water secure world.</p>	<p>Citizens, consumers, individual investors and pensioners call on institutional investors to manage water-related impacts, dependencies and risks in line with achieving the water security goal.</p> <p>Social movements call for policies placing a meaningful price on water with the pricing set in accordance with best available scientific and economic analysis regarding levels sufficient to drive transition consistent with achieving water security for all by the 2030s.</p> <p>Call for the implementation of effective mechanisms for pricing water.</p> <p>Civil Society organizations bring more frequent litigation seeking damages for water-related impacts, and call on policymakers, credit rating agencies and institutional investors to incorporate water-related liability risks into investment valuations.</p>	<p>Civil Society continues to engage with policymakers to ensure adoption and implementation of trade policies as needed to ensure equitable and effective approaches to avoid off-shoring of freshwater impacts.</p> <p>Civil Society calls for updates to economic analysis to assess extent to which material water-related risks are integrated into markets; and call for modification of policies to address any lingering gaps.</p> <p>Call out and push laggards to align their action with the water-security goals.</p> <p>The public is engaged with financial institutions, pushing for ever increasing action, and providing oversight of delivery on promises.</p>	<p>Citizens, consumers, individual investors and pensioners continue to press for transparency, water-competent governance and avoidance of green/ bluewashing by FIs.</p>

## Progress

The vision for the financial sector is impressive, all-encompassing and complex, but progress is underway. Even if the financial sector hasn't been as ambitious and active on water security issues as it has been on climate, progress can be seen and is driven by regulators and financial institutions alike.

A number of regulatory and voluntary environmental, social and governance (ESG) reporting frameworks, whose Environmental component initially focused solely on CO<sub>2</sub> emissions, have recently expanded or replicated to include water indicators and metrics. Such initiatives include the comprehensive but voluntary Climate Disclosure Standards Board (CDSB) technical guidance on water disclosures released in 2021 (CDSB is now defunct but soon to be superseded by the IFRS Sustainability Disclosure Standards issued by ISSB), and the mandatory EU environmental disclosure for corporations (Corporate Sustainability Reporting Directive, CSRD, in force since January 2023) and for finance institutions (Sustainable Finance Disclosure Regulation, SFDR, in force since March 2021).

Other reporting frameworks and standards targeted at FIs or corporates such as the Principles for Responsible Investment (PRI), Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB), to name a few, all recommend reporting on water indicators to some extent but lack the depth and teeth of the EU regulations. Since 2021, the TNFD has been developing a risk management and disclosure framework which will support financial institutions and companies to understand how nature-related risks can affect financial performance and how their impact on nature can lead to long-term risk. The final version put up for market adoption is expected in September 2023. It is likely that the work on nature carried out by TNFD will set the tone for future water-related risk assessments and disclosures as well.

In 2023, [746 FIs worth over US\\$136 trillion](#) in assets signed CDP's letter, requesting environmental information from more than 15,000 companies worldwide, in line with the TCFD recommendations. CDP's annual disclosure request has created the most consistent, comprehensive and measurable global environmental dataset, covering water security issues, available to financial institutions. Looking at how FIs are valuing water, in 2022, CDP asked 1,226 FIs for the first time to disclose data on whether and if so, how, they are considering and managing water risks and impacts across their portfolios and loan books. 275 responded, including some of the world's largest banks, asset managers, and insurers. Their responses provide a wealth of new data on how the private finance sector perceives water issues ([see disclosure highlights](#)).

In parallel with the regulatory and disclosure push, there are also promising signs of progress coming from financial institutions. In February 2023, a group of more than 30 investors with combined assets topping US\$3 trillion signed [an open letter to governments](#) drawing attention to the global water crisis, its impact on the economy, and the crucial role private financial institutions and governments have in taking bold and swift action. Another investor-driven initiative, coordinated by the non-profit CERES, is the [Valuing Water Finance Initiative](#) which gathers 64 international investors and pension funds totaling an investment portfolio of US\$9.8 trillion. The aim of this investor collaboration initiative is to engage with 72 of their investees representing some of the world's largest corporate water users and polluters and to guide them in valuing and managing water as a financial risk.



Water is not only a financial risk, but also an opportunity increasingly recognized by the financial sector. 23 FI respondents to CDP's questionnaire alone put a potential value on those opportunities at US\$203 billion. Examples in this area are FIs such as BN Paribas, Morgan Stanley and Santander, who are pioneering innovative financial instruments such as blue bonds, the water-focused equivalent of the more established green bonds. Another insufficiently tapped opportunity is the incentivization of freshwater resource protection by conditioning loans and investments based on water-use reduction targets, such as BBVA and Iberdrola have done with their global launch of the 'water footprint' loan. Pioneering initiatives like these must be replicated and rolled-out at scale to ensure that the transition FIs are expected to make is supported by the necessary financial instruments.

## **Further developing the Pathway**

The finance sector is complex and dispersed. We therefore need to keep developing the key actions and milestones to be met by each actor involved in the transformation of the financial sector.

We will continue our engagement with the financial sector and other relevant stakeholders to consult and make sure the pathway gives clear, vetted and timebound guidelines for all of the involved actors.

**If you would like to comment on this draft or share any thoughts and suggestions for further development of the pathway, please do not hesitate to reach out to Teodora Kaeva, the leading manager of this project, at [Teodora.kaeva@cdp.net](mailto:Teodora.kaeva@cdp.net).**

### **Lead Author**

Teodora Kaeva, Technical Manager, Financial Services, CDP

### **Co-Authors**

Cate Lamb, Global Director of Water, CDP

Rick Hogeboom, Executive Director, Water Footprint Network (WFN)

Ioana Dobrescu, Managing Director, Water Footprint Implementation (WFI)

Xavier Leflaive, Principal Administrator, Environmental Directorate, OECD

Aude Farnault, Policy Analyst, OECD

Lylah Davies, Policy Analyst, OECD

